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May a preliminary injunction be replaced with a bond?

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One of the most controversial provisions of the Spanish Patents Act is article 137.2, which states “Where the measures requested involve restrictions on the defendant’s industrial or commercial activity, the judge shall, when deciding with respect thereto, fix the amount of the security by which the said defendant may at any time substitute the effectiveness of the said restrictive measures ordered”.

After the Patents Act came into force in 1986, in some cases this article was interpreted by some Courts of First Instance as imposing an obligation on the Judge to always fix a “substitute bond” in all cases where a preliminary injunction would restrict the industrial or commercial activities of the defendant. These decisions were criticized, quite rightly, on the grounds that a literal interpretation of the provision would mean that preliminary injunctions should always be replaced with a bond. This is because it would be difficult to envisage a preliminary injunction that would not restrict the industrial or commercial activities of the defendant in some way.

Shortly after the new Civil Procedure Law came into force in 2001, the Court of Appeal of Las Palmas de Gran Canaria (Canary Islands) handed down a landmark judgment that marked a turning point in the interpretation of article 137.2 of the Patents Act. After interpreting this provision in the context of article 746 of the new Civil Procedure Law, which contains a similar provision, the Court came to the conclusion that the literal interpretation of article 137.2 would be contrary to article 24 of the Spanish Constitution, since it would amount to a denial of the constitutional right to effective judicial protection. Although the case dealt with a preliminary injunction ordered in a case involving trademark infringement, the legal grounds are equally applicable to patent cases, since the procedural rules of the Patents Act apply both to patents and trademarks. In particular, the Court reached the following conclusion “Indeed, allowing a substitute bond renders the pre-emptive interim injunction void of content, because it defers the effective protection of the holder of the trademark and allows the infringer to continue causing him injury. The bond makes it possible to achieve precisely what the interim protection seeks to avoid, the continuity of the unlawful activity of the infringer and represents, in practice, what some authors describe as a kind of obligatory grant of a licence to exploit to the alleged infringer. Allowing the bond renders the right to effective judicial protection provisionally void of content, by means of the interim procedure followed, thwarting the expectations of the trademark holder and authorised entity with regard to the immediate suspension of the infringement of their exclusive rights and unfair competition. As such, if an interim injunction consisting of the cessation of the infringing activity is ordered, it is inappropriate to then allow the same to continue by granting a legal licence to the infringer by setting a substitute bond, regardless of the amount of the same.”.

Since then, other Courts of Appeal have followed the same path. For example, the Court of Appeal of Madrid (Section 28), in its judgment of 31 October 2008, highlighted that the automatic

replacement of a preliminary injunction with a bond is not sustainable “in a system that pursues the protection of patent rights and not the mere compensation for the impossibility to protect them.” The Court of Appeal of Barcelona (Section 15) also discussed this issue thoroughly in its judgment of 17 June 2010, where the Court rejected the option of replacing a preliminary injunction with a bond on the following grounds: “For this reason the precept cannot be interpreted in such a way that it ignores the exclusive right granted by the patent (*ius prohibendi* in accordance with Article 50 of the Patent Act, taking the form of the cessation or prohibition of the infringing act) and entails the power or right to satisfy it in advance via interim channels, without converting it into a monetary equivalent because this content (that of compensation) is derived and can under no circumstances entail the exhaustion of the exclusive right. Moreover, the complaint may not include an action for indemnification, meaning that the substitute bond (which would be no more than a guarantee intended to ensure the compensation of the rightholder, according to Article 9.1.a of Directive 2004/48/EC of 29 April) would be pointless.

Therefore, the appropriate interpretation should be one which grants full effect to the pre-emptive interim protection consisting of cessation or prohibition, in accordance with the parameters and criteria set out in Article 746 of the Civil Procedure Law. Several Courts of Appeal have supported this position, which we share, and it entails limiting the expression “restrictions on the defendant’s industrial or commercial activity” used in Article 137.2 of the Patent Act, to those cases in which the order to abstain takes the form, in practice, of a serious, disproportionate restriction of the defendant’s economic activity, with regard to the security that said measure would represent for the applicant. These would be cases in which the measure or its effectiveness or security exceeds the suspension of the specific infringing act and involves an impediment to the economic activity of the defendant (for example, the manufacture and/or marketing of other products, or the development of another activity other than the one considered unlawful), and note should be taken, when accepting the bond, of the grounds for the application for interim injunctions, the nature and content of the plea entered and any favourable legal grounds that the defendant’s opposition may appear to have.”.

The conclusion that transpires from these cases is that a preliminary injunction may only be replaced with a bond in exceptional cases where the restriction that the preliminary injunction would cause the defendant is disproportionate to the protection afforded to the patent owner.

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