

EXHAUSTION OF PATENT RIGHTS & DIRECT INFRINGEMENT RE- EVALUATED: THE MPEG LA / DPH CASE

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The German Federal Court of Justice (Bundesgerichtshof) with its decision X 2r 33/10, announced on August 21, 2012, rejects claims for infringement of MPEG-2 video coding patents by a Greek DVD manufacturer: The DVD, as such, is NOT a means of infringement of the patent claim in dispute.

On August 21, 2012 the German Federal Court of Justice heard the appeal by the defendant, a Greek DVD manufacturer, in a patent infringement proceeding, and decided that the case in hand was part of a series of actions encompassing several proceedings (indeed nine actions with the same contents were filed against the defendant by nine members of the MPEG Patent pool).

In the case at issue, the plaintiff was the holder of a European process patent for the coding, transfer and decoding of video signals used when producing and playing of DVDs, under the MPEG 2 standard. The defendant, who is a major Greek DVD producer had no business relationship with the plaintiff, as he did not agree to enter into the worldwide standard pool and in particular had no license agreement with the plaintiff in effect. Mpeg La did, in fact, deny the defendant the option of signing a limited – per country-pool licence and then, along with other patent holders, placed a joint test order with the defendant from Germany in 2007. For this purpose, the placer of the test order sent a DVD master to the defendant, who produced – via a conventional process, in which the data are initially burned into a glass master, and thereon a stamper mold is made with which the optically readable data structure is pressed on blank DVDs – the requested 500 DVDs from it and sent these to the tester in Germany. The plaintiff sued, asking not only for an injunction but also for damages and information about the defendant's distribution channels. The Regional Court of Düsseldorf decided in favour of the action, and the Higher Regional Court denied the defendant's appeal.

Upon the defendant's appeal, the 10th Civil Division of the German Supreme Court which is competent for, among other things, patent disputes, has dismissed the action, to the extent that the defendant was sued for damages and patent-infringing actions. In this case, the Court held that the DVDs produced by the Greek DVD Producer were products that had been generated directly by a method relating to a coding process according to the patent, within the meaning of Sec. 9 Clause 2 No. 3 Patent Act. According to the German Supreme Court, the defendant, by doing so, did not infringe the European patent in question when he manufactured the DVDs, since the DVD master, which was supplied to the defendant (by the plaintiff, as part of the test order), was marketed with the consent of the plaintiff and the patent right in this respect had been exhausted.

On this point, the Court explicitly found that “it was sufficient for a finding of exhaustion that the plaintiff consented to placing the master tape into circulation for the production of the DVD containing the data sequence encoded, in accordance with the method of the invention”. Precisely because the DVD master, like any other DVD manufactured on this basis, embodies one and the same direct product of a process, no differentiation can be made, as far as the exhaustion of the patent right is concerned between the supply of the master tape (with the plaintiff's consent) and the sending (back) of the DVD (without the plaintiff's consent). Finally, the Federal Court of Justice, contrary to the view of the Higher Regional Court decided that the delivery of the DVDs produced by the defendant did not constitute “indirect infringement” of another claim of the patent in suit, that was directed at a decoding process, as carried out in a display device that can read video data code according to the MPEG -2 standard.

Additionally, the Court held that a DVD coded in MPEG-2 standards is not in fact a “means that refers to an essential element of the invention”, within the meaning of Sec.10, Patent Act. The Federal Court of Justice said that the DVD does not, as it is required according to German case law contribute to the realization of the invention, i.e. in this case to the decoding of the video data, but rather merely represents an object on which the decoding is carried out. According to the Supreme Court's ruling “the criterion of suitability of the means to realize the protected inventive idea, by working functionally together with a material element of the invention, excludes such means which are employed in the use of the invention, but do not contribute to the realization of its technical teaching”.

According to the Court, direct patent infringement requires that the means provided must be used as an element or component necessary to fully realize the protected invention. The medium must, accordingly, contribute to the realization of the protected invention in such a way, that it can be fully realized by means or with the aid of the means. As a result, the Court found that a DVD suitable for decoding, in accordance with the method of invention, is lacking in the functional working together of the specific features of the patent in suit that would constitute a direct patent infringement. Therefore, in said case, the delivered DVDs or the video data stored thereon were not found to possess such an importance in the

system and method protected under the patented invention. A direct patent infringement could have happened only in the unlikely event that the DVD had been played back in a non licensed video display (i.e. a video device produced without the consent of the plaintiff”), thus accepting an objection to this effect, that was filed by the defendants.

This decision, which dismissed the action of the plaintiff against the Greek DVD manufacturer, as unfounded, is of paramount importance for the whole DVD industry in Europe, since it approaches the issues of “exhaustion” of patent rights and “direct patent infringement” in a way that can radically change the relevant market conditions and practices.

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