

# Report on Prior User Rights

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**I. Introduction**

A prior user right is the right of a third party to continue the use of an invention where that use began before a patent application was filed for the same invention.

Prior user rights are provided for by the different national legislations and such provisions in national legislation only have national effect. All national delegations of the Tegernsee Group provide for prior user rights and defences through their respective national law.<sup>1</sup> National provisions on prior user rights have common ground, but also have differences in the conditions under which they may be acquired. This report will compare the provisions of Denmark, Germany, France, the UK, Japan and the U.S and will go on to set out the common ground and the differences.

It should be taken into account that the main purpose of prior user rights is to strike a balance between the effects of the first-to-file principle on the one hand and third party considerations on the other.

The purpose of this paper is to identify the conditions under which prior user rights may be acquired in order to determine to what extent common ground can be considered to exist in the area of prior user rights.

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<sup>1</sup> Article 122(5) EPC provides intervening rights which apply the mechanism of prior user rights *mutatis mutandis* where a person has begun in good faith to use or prepare to use an invention which is the subject of a published European patent application or a European patent, between the time a loss of rights occurred and the time of publication of the mention of re-establishment of rights. However, since all substantive issues regarding the acquisition, scope and transferability of such rights are subject to the respective national laws of the EPC Contracting States, the EPO is not providing substantive input to the present study.

This paper also aims to establish the points of divergence between the different legal provisions and identify where practices differ, why the various approaches were chosen, and the consequences of the approaches chosen. Any appropriate sources of information (e.g. case law, legal databases, databases on court rulings, scientific literature, experience documented by practically working persons/users) should be made use of in order to clarify the issue. However, the extent of sources to be explored will depend on the time available for collecting the information.

## **II. Substantive law on Prior User Rights**

### **A. EP**

#### **1. State of the law**

##### **a) Legal Framework**

###### *Denmark:*

In Denmark, prior user rights are governed by section 4 of the Consolidate Patents Act. According to this provision, any person who, at the time when the patent application was filed, was exploiting the invention commercially may, notwithstanding the grant of a patent, continue such exploitation retaining its general character, provided that the exploitation does not constitute an evident abuse in relation to the applicant or his legal predecessor. Furthermore such a right of exploitation may also under similar conditions be enjoyed by any person who has made substantial preparations for commercial exploitation of the invention.

The scope of prior user rights is qualitative; there is no quantitative limit to the exploitation. The qualitative exploitation is essentially defined in the Consolidate Patents Act, Section 3; making, offering, putting on the market or using the invention etc.

###### *France:*

Prior possession right confers to the holder of this right a personal right to exploit the invention despite the existence of a patent. We can consider that the exploitation relates to the invention covered by the patent.

As Germany, prior possession rights are not construed as rights in themselves but as exemption from the rights conferred by the patent to the patent owner. Prior possession may benefit to anyone who was in good faith in the possession of the invention. The person alleging possession must have acquired the knowledge without fraud. The prior possession right can only be transmitted with the business, the enterprise or part of the enterprise which it belongs.

###### *Germany:*

Prior user rights exempt the concrete use enacted or prepared before the patent's application or priority, but no further adjustments or alterations within the patent's scope of protection.

Prior user rights are not construed as rights in themselves but as exemption from the rights conferred by the patent to the patent owner. The exemption of the prior user right can only be claimed by the person or entity that has actually enacted the use or preparations of use. The prior user right is a defense for only those uses

of the patented invention that take place within the business of said person or entity. Because of this attachment of the prior user right to the prior user's business (or businesses), it can only be conferred (by sale or inheritance) together with the business (or businesses).

*UK:*

In the UK, prior user rights are governed by section 64 of the Patents Act 1977. Prior user rights are an exception to infringement which are available to any person who, before the priority date of the invention in the granted patent,

(a) does in good faith an act which would constitute an infringement of the patent if it were in force, or

(b) makes in good faith effective and serious preparations to do such an act.

Similar third party rights apply where a third party has been using the invention or has made serious preparations for such use (a) following termination of the application and before reinstatement (s.20B) and (b) where a patent has lapsed and is later restored (s.28A).

Where prior user rights are available, the person has the right to continue to do the act (or, where serious and effective preparations have been made, to do the act) without infringing the patent in question. The right does not extend to granting a licence to another person to do the act. However, if the act was done (or the preparations were made) in the course of a business, it is possible to authorise partners in the business to do that act or to assign or transmit the right to any person who acquires that part of the business.

A chain of causation must be established between the alleged prior use and the act of infringement in issue. However we are not aware of any UK case law which considers the question of whether the prior user rights still apply if there has been a period of time during which the act was not carried out.

The recipients of products disposed of in exercise of such rights are also protected.

#### **b) Definition of "use" in relation to prior user rights**

*Denmark:*

The demand that the invention was exploited at the time of filing of the patent application involve that a real, present and practical exploitation of the invention must have taken place. It is not required that the prior use must be continued after the filing of a patent application in order to uphold prior user rights; the exploitation can be stopped and commenced again.

*France:*

In France we use the term possession. There is no definition of this term. But it is generally recognized that intellectual possession of the invention can be sufficient to generate the right and use of the invention or preparation to use is not required. However some authors consider that the simple intellectual detention of the invention should not be sufficient.

Concerning the condition related to the possession, the possession must cover the same technology as covered by the patent, the invention must be fully known. The possession must remain secret and it must be realized before the filing or priority date of the patent. Possession must be acquired in France.

*Germany:*

The term “use” comprises all sorts of uses that would constitute a use of the patent (e.g. production, offer, distribute etc.). One sort of use is sufficient to constitute a prior user right for any other sort of use. Preparations of use are such that are seriously intended to result in an immediate, timely use of the invention.

The prior user right is restricted to the use enacted or prepared before the patent’s application or priority. Therefore, the prior user is not entitled to adjust or alter the prior use in a way that would fall within the patent’s scope of protection. But with the concrete use unchanged the prior user is entitled to work the use in other businesses of his.

*UK:*

In order for the prior use exception to apply, the act in question must constitute infringement of the patent. Acts which do not constitute infringing acts therefore do not give right to prior user rights (e.g. done privately and for purposes which are not commercial; done for experimental purposes relating to the invention.)

Both public and secret acts are eligible for prior user rights; however if the act was public and amounted to an enabling disclosure then it would constitute prior disclosure of the invention, thereby depriving the invention of novelty and rendering the patent invalid – if this is the case, infringement would not arise and a user would have no need to rely on prior user rights.

The prior user right only applies to those uses (or serious and effective preparations) which took place in the UK.

### **c) The date of the prior use**

*Denmark:*

In Denmark prior use must occur prior to the filing or priority date of the patent application for prior user rights to apply.

*France:*

Prior possession rights require that the person was in possession of the invention at the filing or priority date of the patent.

*Germany:*

Prior user rights require the use or the necessary preparations of the use of the invention claimed by the patent at the time of either the patent’s application or its priority date, whichever ever comes first. If at this moment in time, the use or preparations have been abandoned, the prior user right will not come into existence. But if there is a prior user right, it is independent of how long use and/or preparations have taken place before the patent’s application or priority.

*UK:*

In the UK, the prior use (or the effective and serious preparations) must occur prior to the priority date of the invention.

#### **d) Exceptions and/or limitations attached to the prior user rights**

##### *Denmark:*

The prior user right is understood as a limitation to the exclusive right that is granted to the patent holder. The prior user right does not entail an exclusive right and the prior user thus has no right to prevent other third parties from exploiting the invention. The question of prior user rights typically arises when two (or more) inventors have come up with the same invention at the same time. The prior user right arises automatically and no registration is needed. The prior user is under no obligation to pay royalty to the patent holder. A prior user right cannot be claimed by a person who has obtained knowledge of the invention illegally for instance by stealing information in this respect. Private and non-commercial use cannot give rise to a prior user rights claim. Neither experimental exploitation nor an exploitation that definitely ceased before the time of filing of a patent application can establish prior user rights. The right to claim a prior user right can only be transferred to others together with the business in which it has arisen or in which the exploitation was intended. According to the wording of the provision, it is only possible to claim prior user rights in relation to use which has taken place in Denmark including on Greenland and the Faroe Islands. However, it is possible that prior user rights extend beyond national territorial use according to the principles of EU law. If use or substantial preparations for commercial exploitation take place within the EU, it may be argued that this should be treated the same way as if the use or preparation took place nationally in a single member state. But the prior user rights would in this case be limited to importation and distribution in that particular member state.

##### *Germany:*

Prior user rights are infinite in time but attached to the business or businesses of the prior user.

##### *France:*

The prior possession right is attached to the business or the enterprise which it belongs to.

##### *UK:*

The provision safeguards existing commercial activity by allowing an alleged infringer to continue the specific act of commerce which he was committing before the priority date but does not allow expansion into other products and other processes which would infringe the patent. However the Court of Appeal has confirmed that the intention of the provision is to give practical protection to enable a person to continue in substance what he was doing before. So the protection afforded is not strictly limited to acts identical to those which were performed before the priority date.

## **2. Policy considerations**

##### *Denmark:*

Prior user rights are justified by socio-economic considerations; e.g. to counter waste of value and loss of investments, and as a fairness mechanism to a prior user which exploited an invention at a point in time where a patent right did not exist.

*Germany:*

The rationale of prior user rights is mainly seen in the protection of acquired and vested rights on the grounds of equity. Investments and expenditures on a use of another one's invention shall not be frustrated if this use is claimed by a later patent application.

*France:*

The rationale of prior possession is to rebalance the rights conferred by the system of the first to file. Indeed, in a first to file system, the right to a patent belongs to the person who first filed a patent. The prior possession right just give a right to the inventor who was in possession of the invention (but did not file a patent application), right that allows him to continue to exploit this invention despite of the existence of a patent.

## **B. Japan**

### **1. State of the law**

#### **a) Legal Framework**

The Japanese Patent Act stipulates a prior user right. A person who has been working the identical invention with an invention protected by a patent or preparing for the working of the invention in Japan has a prior user right. When the business working the invention is transferred, its prior user right is also transferred along with the business.

#### **b) Scope of prior user rights**

The scope of a prior user right covers not only a form of the working which its prior user has conducted or has been preparing at the time of the filing of a patent application (or at the time of the filing of the earlier application on which the priority is based) but also a form of its modified working without losing the identity of the scope of the prior user right. Even if some parts of the form of working which are irrelevant to the scope of a patented invention are modified, such a modification in the form does not influence the identity of the scope of the prior user right.

The effects of a prior user right cover not only a form of the working which its prior user has conducted or has been preparing at the time of the filing of a patent application (or at the time of the filing of the earlier application on which the priority is based) but also a form of its modified working without losing the identity of the scope of the prior user right.

The prior user has a non-exclusive right to "work" an invention with respect to its prior user right as his/her business. However, this is in principle restricted to the act of working on which he/she has a prior user right. "Working" of an invention is provided in the Article 2(3) of the Japanese Patent Act. "Working" includes producing, using, assigning, exporting or importing, or offering for assignment in the case of an invention of a product. In addition, it includes, in the case of an invention of a process, the use thereof.

**c) The date of the prior use**

The existence of prior use is required at the time of the filing of a patent application or at the time of the filing of the earliest application on which the priority is based in case of a patent application claiming priority.

**d) Exceptions and/or limitations attached to the prior user rights**

When the business working the invention concerning the prior user rights is transferred, the prior user rights are also transferred along with the business.

**2. Policy considerations**

If the principle of first-to-file was strictly applied to every case, in case where a person both who independently completed an invention with the same content as another person's patent before the time when the another person filed his/her patent application and who had performed his/her business working the invention or had been preparing such business, he/she would be subject to patent rights. This context contradicts fairness and justice. Therefore, the Japanese prior user rights system allows him/her (namely, a prior user) to work the patented invention owned by other patent holder without charge, fee, or royalty and continue doing the business, so that the Japanese prior user rights system ensures fairness between the prior user and the patent holder.

**C. US**

**Background**

The Leahy-Smith America Invents Act, signed into law in September 2011, introduced a number of significant changes to U.S. patent law, among them an expanded prior user rights defense to patent infringement. Prior to enactment of the AIA, section 273 of Title 35 provided for a limited prior use defense applicable to business method patents. Section 273 was enacted as part of the 1999 American Inventors Protection Act (AIPA) in response to the decision by the Court of Appeals for the Federal Circuit (CAFC) in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, which affirmed that business methods are eligible subject matter for patenting.

The decision created uncertainty for domestic businesses as to whether they might now be liable for patent infringement for continued use of internal business processes that, prior to *State Street*, were thought to be unpatentable. The *State Street* decision also followed several years of debate in the U.S. Congress and academic and legal circles about introducing a broad prior user rights defense into United States patent law. The language of section 273 reflected this confluence of circumstances by, on the one hand, providing an explicit provision for a prior user rights defense, and on the other hand, narrowly circumscribing its applicability to patents covering methods of doing or conducting business.

**Basic Features of the Prior User Rights Defense under the AIA**

The AIA makes a number of significant changes to the pre-AIA prior user rights defense. Most notably perhaps, the AIA expands the defense beyond just business methods to cover all technologies. More specifically, the defense is available to persons who, acting in good faith, independently commercially used the invention in the United States in connection with an internal commercial use, an arm's length sale, or an arm's-length transfer of a useful end result of the commercial use.

To be entitled to the defense, however, the prior user must establish that the relevant activities occurred more than one year before the earlier of (1) the filing date of the patent application; or (2) the date of public disclosure by the patentee during the patentee's grace period. Importantly, the AIA provides for several limitations and exceptions to the new prior user rights defense. For example, the defense is personal, and thus may not be licensed, assigned, or transferred, other than in connection with an assignment or transfer of the entire enterprise or line of business to which the defense relates. In addition, the applicability of the defense is geographically limited to cover only those sites where the invention was used before the critical date. The defense is also limited to the specific subject matter for which it was established that the commercial use in question qualified, except that it also extends to variations in quantity and volume of use and to improvements, provided these do not otherwise infringe other specifically claimed subject matter in the patent.

The AIA further provides an explicit exception to the defense for patents owned by or assigned to institutions of higher education or affiliated technology transfer organizations. This latter provision relates to concerns expressed by the higher education community that prior user rights may impair the ability of universities to license patents on upstream research results.

### ***The date of the prior use***

Under Section 273 as amended by the AIA, commercial use giving rise to a prior use defense must take place more than one year before the earlier of either the filing/priority date of the application in question or any disclosure preceding that date that qualified as an exception to prior art, i.e., a qualifying grace period disclosure.

### ***Policy considerations***

The prior user right defense acknowledges the fact that inventors may, for a variety of reasons, prefer not to seek patent protection for every innovation. This takes into consideration that for some types of innovations, or for certain categories of technology or various business/economic reasons, innovators may find trade secret protection more advantageous than pursuing patent protection. By allowing the earlier user/inventor to continue uninterrupted commercial use of the invention while also allowing the later inventor to obtain a patent enforceable against all others, the prior user right embodies a balance between the equitable economic interests of the earlier user and the larger goal of the patent system in incentivizing the enrichment of the fund of human knowledge. In this way, the prior user right may also contribute to one of the main goals of the AIA, which is to reduce patent litigation and related costs. It should be noted, however, that the prior user right defense is generally a downstream enforcement matter and not an upstream patentability issue, and as such, is not a matter typically dealt with by patent offices.

## **III. Prior user rights in practice**

### **1. The assertion of prior user rights in court cases**

#### *Denmark:*

Prior user rights are asserted in very few court cases in Denmark. However, these cases demonstrate the importance of prior user rights and their problem of only having national effect.

An example is a multinational operating company A producing a product X by a method Y; though company A has a patent on product X, it did not opt for a patent on earlier stages of method Y. Subsequently, a company B aware of product X did file a patent for the method Y thereby potentially blocking company A's production of its own product X. Even though company A is able to claim prior user rights in jurisdictions where it has its production facilities, it is in practice prohibited from exporting to other markets where company B hold patents.

The relevance of prior user rights differs from one technical area to another. In fields where technology develops fast like for instance the mobile area, several inventors might develop the same inventions thus making the prior user rights defense necessary.

*France:*

Between 2003 and 2010, 11 cases of litigation in which the exception of prior personal possession rights was raised were recorded in our database. On these 11 cases, only 1 decision (Tribunal de Grande instance de Paris 19/12/2003) recognized the prior possession.

*Germany:*

There is no statistical data being retrieved on the occurrence of the prior user right defense before German courts. Practical experience shows that this defense is chosen rather scarcely, roughly estimated in one of twenty to fifty cases. This is supposedly mainly due to the burden of proof the defendant has, and which is not easily to be dealt with as the facts that could justify a prior user right usually lie somewhat far in the past.

*Japan:*

From 1960 to 2012, there were at least 90 cases (including cases related to design rights) in which judgments were made on a prior user right and of which the Japan Patent Office could obtain their sentences of courts.

*UK:*

We are aware of 11 UK court cases which have considered prior user rights since the current provisions came into effect in 1977. The UK case law also provides details about, amongst other things, what constitutes "effective and serious preparations" – for example, in *Lubrizol Corporation v Esso Petroleum Co. Ltd.* [1998] RPC 727, two customer trials of small samples imported into the UK from the US with a view to possible later manufacture in the UK but with no decision yet made, were held, although serious, not to be "effective" preparations to do an infringing act. It was not sufficient to show that the serious preparations, if pursued to finality, will have the requisite effect.

*United States*

In response to concerns expressed during the legislative debate preceding enactment of the AIA about the impact of an expanded prior user rights defense on the patent system, and innovation more generally, Congress mandated the USPTO to produce a report detailing its findings and recommendations on a number of specific issues. Pursuant to this mandate, the USPTO held a public hearing and solicited comments from interested parties to complement its own independent research on the issue of prior user rights. Additionally, the USPTO obtained input from the Office of the United States Trade Representative (USTR), the Department of Justice (DOJ), and the Department of State (DOS). The USPTO received 29 comments from a broad spectrum of foreign and domestic stakeholders, including industry organizations, universities, bar associations, and individuals.

Only a few of the comments received mentioned any practical experience with asserting or defending against claims of prior use in court, and by and large, these experiences were very rare. The USPTO's own independent research did not turn up a single reported case in the United States of such a claim being raised under the previous version of Section 273 applicable to business method patents.

## **ii. The assertion of prior user rights pre litigation**

### *Germany:*

This is even harder to answer as the parties of a litigation are not obliged to reveal their pre-litigation exchange of arguments. It is, however, rather probable that the prior use defense is attempted more often before the litigation than it is actually raised within.

### *France:*

We have no data available but we can imagine that this exception could be used before litigation to conclude agreements.

### *Japan:*

There is no available data on frequency relating to the usage of prior user rights as an assertion prior to litigation.

### *UK:*

At a stakeholder consultation meeting on 11 June 2012, UK users were asked about their experiences in relation to prior user rights. Some patent professionals commented that in their entire career they had not encountered the assertion of prior user rights, while litigators commented that they encountered regularly.

Users felt it was very difficult to assert prior use rights in the UK as judges interpreted the provision narrowly and were strict in applying the "serious and effective preparation" test. In practice even if prior user rights were maintained the scope of what is subsequently allowed is very narrow. Parties usually try to settle the matter with a licence and avoid going to court. The territorial effect was also pointed out as being of little use to multi-national companies – e.g. serious and effective preparations are of no use if they've been conducted outside of the UK.

Users feel that the prior user rights defence should be broader.

It was felt that licencability, territoriality and assignability should be considered.

A philosophical question was also raised about whether it is right that someone who later gains a patent should be allowed to expand the market, rather than the earlier pioneers who were prior users but didn't patent.

### *United States*

As noted by other delegations, it is difficult if not impossible for patent offices to obtain empirical data on pre-litigation reliance on the prior user rights defense because pre-litigation claims of prior use and related settlement discussions are generally not made public and are not within the purview of the patent office to monitor. That said, a few of the comments the USPTO received in response to the above-mentioned solicitation noted that counseling clients on the availability of a prior use defense or addressing claims of such in pre-litigation discussions were not infrequent occurrences. The degree of frequency, however, was not specified, suggesting it is a relative (i.e., relatively small) number.

## IV. Discussion points

### 1. Common Ground of Prior User Rights Provisions

It is clear from the above mentioned considerations that the following common ground may be highlighted:

- a) Prior user rights are general provisions applying to patents in all fields of technology without exception. (Harmonized: DE, DK, FR, JP, UK, US).
- b) Territoriality aspect: prior acts giving rise to the rights must be performed within the territory in which the patent statute applies. (Harmonized: DE, DK, FR, JP, UK, US)
- c) The requirement that such prior acts be performed in good faith (Harmonized: explicit statutory requirement in US, UK and FR; required by the Courts in DE) or not constitute an evident abuse (DK).

In Japan, prior user rights are given for the following cases: (1) When a prior user himself/herself invented the identical invention with an invention protected by a patent and/or (2) When a prior user, without knowing the content of an invention claimed in a patent application, learned about it from a person who invented it.

- d) It may additionally be noted that all countries provide restrictions on the transfer of prior user rights, which can usually only be transferred with the business within which they arose.

### 2. Areas of Divergence

From a harmonization perspective, it seems that common ground exists between several countries of the Tegersee Group. However, it is possible to identify four main areas of divergence:

- a) The critical date: In the US under the AIA, the prior use that gives rise to the defense must have occurred at least one year before either the effective filing date of the claimed invention or the date of a qualifying grace period disclosure. In DK, DE, FR, UK and JP, the activity giving rise to the defense must have occurred prior to the filing or priority date.
- b) In the US, actual use must take place, whereas in the other Tegersee countries preparations to use will also qualify. FR law distinguishes itself as it refers to "personal possession" of the invention, which is certainly a conceptual difference. However, such personal possession must be established, and in the vast majority of cases (if not all), it can be argued that in practice, the evidence adduced before the Courts in France to show possession (blueprints, models, contracts, etc.) would in other jurisdictions be sufficient to meet the requisite standard of "preparations to use" the invention.
- c) Patentee-derived subject matter: In JP, no one who has obtained the subject matter that was derived from the patentee is entitled with a prior user right under the Japanese Patent Act. In the US, a person may not assert a defense under this section if the subject matter on which the defense is based was derived from the patentee or persons in privity with the patentee. In DE, DK, FR and UK there are no provisions explicitly limiting the availability of the defense where the subject-matter has been

derived from the patentee, although the provisions on “good faith” may in practice limit the possibilities in many such cases.

- d) In the US, the defense is not available in the case of patents owned or subject to an obligation of assignment to an institution of higher education or a technology transfer organization whose primary purpose is the commercialization of technology developed by such institutions.

## **V. Conclusion and Next Steps**

All Tegensee offices provide for prior user rights in some form, though there are some differences as pointed out above.

User views on prior user rights vary - some seem to be of the opinion that they are necessary, while others believe they are not. Few, if any, statistical data on the occurrence of assertions are available.

Although both DK and UK users were of the view that the territorial effect of prior user rights are of little use to companies operating multinationally, it is difficult to see, given the territoriality of patents, how it could be possible to expand prior user rights to encompass use outside the territory concerned. As mentioned in section II, A, 1, d) the scope of prior user rights may extend beyond national territory, given the example within EU. This is an aspect which could be explored in the future.

Based on the above mentioned areas of main divergence we recommend initiating one or more user surveys covering for instance the aspects of:

- How are PUR's used in industry
- How frequently are PUR's used
- What is the perceived value of PUR's