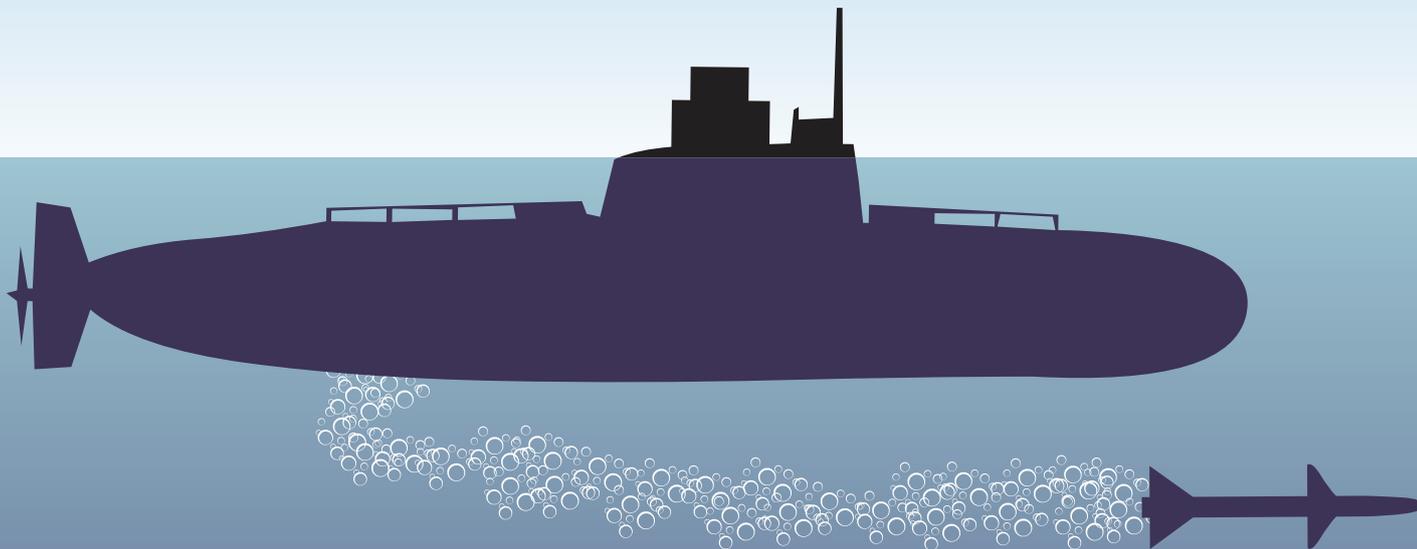


The 'torpedo': recent developments in Europe



Despite regulators' efforts, the old stalling tactic is still a valuable part of a lawyer's arsenal, says **Claudia Rehse**

The procedural tactic, commonly known as a 'torpedo', is an instrument that is generally available to defendants in Europe looking to buy time in a legal dispute. It has been particularly popular in patent infringement proceedings; if a potential defendant gets wind of an impending action against him under a particular patent, he may opt to file a suit in another European country seeking a decision that he is not infringing this patent, either by way of a declaratory judgment action or action for non-infringement. For this action a country known for its comparatively slow jurisdiction processes is chosen; popular venues in the past have been Italy and Belgium. If the patent owner then starts an action in another European country against the infringer, the second court dealing with this case is obliged to wait until the first court makes a legally binding decision as to whether it has jurisdiction over the dispute. This decision may take years, preventing the patentee from pursuing its infringement action in the meantime. As a result, the frustrated patentee might be more inclined to agree to a settlement of the dispute, and the infringer is able to avoid the consequences of an adverse judgment such as production delays, costs related to design-arounds, etc.

This strategy is only possible because of current European legislation. European civil procedure law, in Art 27 of Council Regulation (EC) No 44/2001 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (the Regulation), contains a *lis pendens* rule for intra-European litigation: if a lawsuit between the same parties concerning the same subject-matter is pending in different courts of different European countries, the court seized second *must* stay its proceedings until the court first seized decides whether or not it has jurisdiction. In some countries like Italy and Belgium it may take many years until such a decision is taken. As the judgment of the first

court has to be final and binding, the infringer can appeal against the decisions both in the first and second instances to buy even more time, as a substantive decision of the second court will be blocked until the last appeal is decided upon.

Thus the torpedo tactic can be quite effective, and is still within the bounds of European legislation. Attempts by several courts to limit torpedo actions to "reasonable scenarios" have not been successful. In particular, cases in which the court first seized clearly did not have jurisdiction, and which clearly had as their sole purpose the frustration of infringement actions in other jurisdictions, have led people to question how such torpedoes could be prevented and whether they were still

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the Supreme Court met with substantial criticism.

Between 2006 and 2009, the global dispute between Visto Corporation and Research In Motion (RIM) again drew the attention to the Italian torpedo. RIM had sued in the UK for revocation and for a declaration of non-infringement of the GB counterpart of one of Visto's European patents. Later, RIM filed for declaration of non-infringement of the Italian, German, Belgian, French, Spanish and Dutch counterparts of the same patent with the courts of Milan. Visto argued that the claim of RIM before the Italian court was an abuse of the legal system. The English appellate court denied an abuse and stated that the parties and their lawyers were not to be criticised for using the current legal system as long as they did not 'overstep the line'. The simple use of a torpedo was provided for by the current legal regulations and was therefore lawful. To quote Lord Justice Jacob "...a party who fires an Italian torpedo may stand to gain much commercially from it. It would be wrong to say that he is 'abusing' the system just because he fires the torpedo or tries to."

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covered by the regulation? Until now the answer to the latter question given by courts in Europe, particularly in Germany, is still yes and those courts have refused to categorise the tactic as an abuse of process. The torpedo is therefore still alive and potentially irritating to patentees. But on the other hand, a few possible countermeasures exist.

Recent developments in Italy

The 'torpedo' was originally called the 'Italian torpedo' as Italy has for some time been known for its especially slow jurisdiction processes (although the fact that two appeals are possible against a decision to deny jurisdiction has played an equally big role). Most torpedoes were therefore fired in Italy. As Italian courts became quite aware of the torpedo problem, there have been a few changes in the Italian case law, presumably to adapt the law to deal adequately with cases of obvious misuse of the European and Italian procedural systems only to delay the proceedings in another country.

In 2003, the Italian Supreme Court issued the *Windmüller* decision, which limited the possibility for potential patent infringers to use the torpedo tactic before an Italian court. The Supreme Court argued that it had no jurisdiction when a potential infringer sought a ruling that there was no infringement of the patent. This was because under the regulation the Italian courts only had jurisdiction in cases when a harmful event actually occurred (Art 5 Nr 3 of the regulation). However, where a potential infringer was seeking a declaration of non-infringement, logic demands that the basis of that claim was that no harmful event had taken place in Italy. In other words, the basis of the claim was the very opposite of the basis on which it was alleged that the Italian court had jurisdiction. Thus, it held, Art 5 of the regulation did not cover claims asking for a declaration of non-infringement. This line of reasoning of

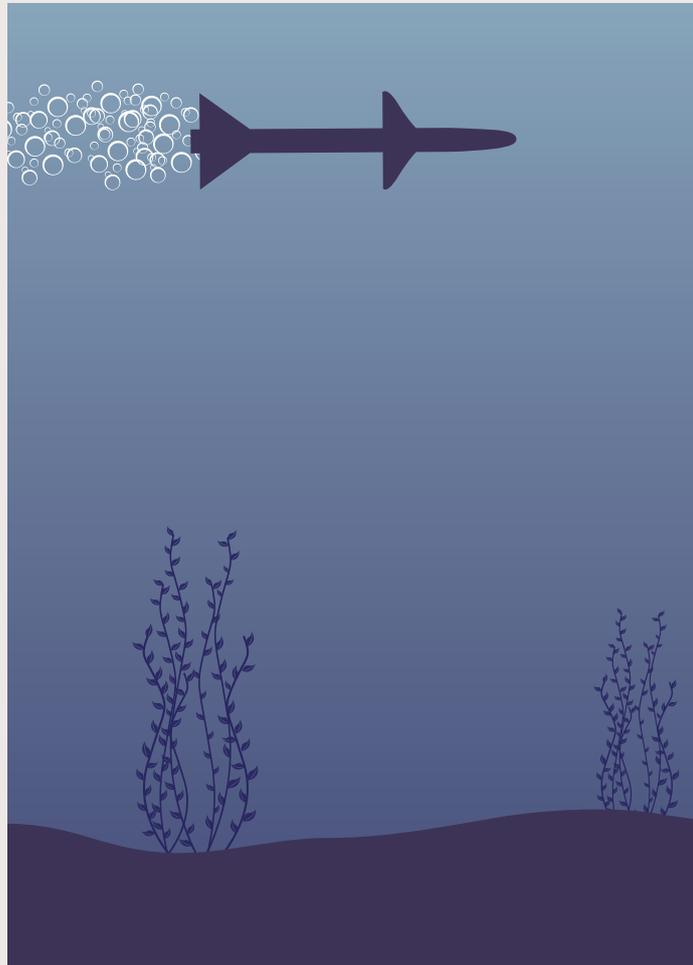
The Italian court, 16 months after the torpedo had been filed, declined jurisdiction with respect to the non-Italian designations of the patent. In 2008, Visto's German subsidiary (which had not been subject to the Italian proceedings), after having been granted exclusive licences from the patent owner, filed German infringement actions and again the question of a stay according to Art 27 became an issue. In its *Italienischer Torpedo* decision of 2009, subsequently confirmed by the appellate court, the District Court of Dusseldorf decided that the patent owner and the exclusive licensee are not identical parties within the meaning of Art 27. This is because under German laws, the exclusive licensee generally enforces its own right in its own name and not in the name of the patentee.

In 2012, the Court of Justice of the European Union (CJEU) declared that Art 5 Nr 3 of the Regulation also covers claims asking for a declaration of non-infringement (decision of 25 October 2012 – C-133/11 – *Folien Fischer/Fofitec*). Subsequently, in June 2013 the Italian Supreme Court, in the case *General Hospital v Asclepion*, decided that the reasoning used in *Windmüller* case did not apply anymore and that Italian courts generally have jurisdiction to grant declarations of non-infringement even regarding the non-Italian counterparts of European patents. According to this new case law, assuming that it is followed (because, strictly speaking, the Italian courts of first instance and appeal are not bound by decisions of the Italian Supreme Court), the torpedo tactic described above will not meet with as many challenges from Italian courts and is therefore more likely to succeed in the future.

Recent case law in Germany – *Wundverband*

German courts also realised the risk of a torpedo for the patentee but have so far rejected the idea of altogether ignoring Art 27 of the Regulation in obviously abusive cases. In its *Cholesterin-Test* decision issued in 2002, the Düsseldorf District Court reasoned that the torpedo was an abuse of the law so that the lawsuit would not have to be stayed. Although there is still no clearly leading decision of the highest court in Germany (Federal Court of Justice – *Bundesgerichtshof*) in this question, the reasoning of the court is problematic since Art 27 of the Regulation offers no room for the court to exercise any degree of discretion: if its requirements are met and a torpedo has successfully been fired, the court seized later *must* stay its proceedings.

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Another way for the patentee to deal with a torpedo, if and when he comes to know about it before starting the infringement action, is to transfer the relevant patent or grant an exclusive licence to a third party not mentioned as a defendant in the declaratory judgment action. This is intended to avoid the effect of Art 27 as the parties in the two pending litigations are not considered to be the same. The court later seized is therefore not forced to stay the proceedings. However, according to a recent decision of the *Bundesgerichtshof* (decision of 19 February 2013, *Wundverband*), an exclusive licence is not effective to avoid a torpedo if an action before a second court is already pending. In the case *Wundverband* the alleged infringer had filed a declaratory judgment action in Stockholm before the patentee had started litigation in the District Court of Mannheim; in the latter case, the alleged infringer argued successfully for a stay in line with Art 27 of the Regulation. The patentee subsequently granted a licence under the patent to a third party which then filed its own action against the defendant. The *Bundesgerichtshof*, however, ruled that because the licence was granted to the third party only after the claim was already filed in Mannheim, the results of the defendant’s successful defence also apply to the third party. This is because, according to the *Bundesgerichtshof*, the licensee, contrary to prior case law, is to be treated like the legal successor of the patentee. Therefore, other than in the *Visto* case described earlier when the licence was granted before the start of the German infringement litigation, if the action has already been filed by the patentee, an exclusive licence grant doesn’t help against a previously filed torpedo.

The *Wundverband* decision thus further limits the possible ways in which a patentee can escape from a torpedo. If possible, the patentee should be careful when granting an exclusive licence in order to avoid the effects of Art 27 of the Regulation. In our view, the same applies to the transfer of the relevant patent(s) to the entity that will later start the infringement proceedings.

Summary

Although there have been several attempts by different courts in Europe to curtail the effect of torpedoes, few of them have proven to be effective. A torpedo may still be a powerful defence for potential infringers.

The patentee has only limited possibilities to prevent a torpedo and the delay in which it results.

One obvious but important recommendation for the patentee is to keep the intention to start an infringement action secret until the pleading is filed and the matter is thus pending. As long as the infringer doesn’t suspect that litigation is impending, and as long as he doesn’t know by which entity and under which patents he might be sued, there is little reason for him to fire a torpedo. And as soon as the pleading is filed by the patentee, it is usually too late for a torpedo.

If the patentee already knows about a torpedo filed by the infringer, he should take the time to think about possible countermeasures. He could transfer the patents and grant a licence to a third party to avoid the effects of Art 27 of the Regulation, but he should do so before starting the litigation against the infringer.

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