

# Standard Essential Patents: New requirements for FRAND defence in the EU and Germany

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## European Commission approach

- > European Commission 1992, Communication on IPRs and Standardization, COM(1992) 445, Sec. 6.2 (General Principles) requiring open access to European standards on irrevocable, fair, reasonable, and non-discriminatory (“FRAND”) terms
- > European Commission’s Horizontal Guidelines of 2011 provide that “[i]n order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms”, EC Horizontal Guidelines, para. 285

## ETSI stance IPR Policy

> Sec. 6.1 in the ETSI IPR :

*“When an essential IPR relating to a particular standard or technical specification is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licenses on fair, reasonable and non-discriminatory terms and conditions under such IPR...”*

## No automatic injunction? Approach in various jurisdictions

- > *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) four factor test (including balance of interests, public interest)
- > *Shelfer v. City of London Electric Lighting Company* (CA) [1895] 1 Ch 287 (no injunction only if inter alia small injury, grossly disproportionate to grant injunction)
- > Sec. 9 German Patent Act: Always right to claim injunction
- > China: *Wuhan Jingyuan Environmental Engineering Co. Ltd. vs. Fushihua Shuigongye Zhushi Huishe and Huayang Electrical Co. Ltd* , SPC 21 Dec 2009, but no clear statutory basis so far

## Legal basis of defence against claim of injunction

### > Continental law:

- Contractual counterclaim due to FRAND declaration and/or SSO IP Policy rules agreed to?
  - Rejected by German courts Landgericht Düsseldorf, openJur 2012, 86155 – *UMTS-Mobilstation*; Landgericht Mannheim, Judgment of 2 May 2012, Docket no. 2 O 240/11 – *H.264*, no implied offer (Landgericht Düsseldorf, 24 April 2012, *IPCom v. Deutsche Telekom*), no waiver of right, no stand-still agreement or non-assert agreement
  - Competition law based defence: compulsory license claim (but according to which conditions?), based on abuse of dominant position *dolo agit qui petit quod statim redditurus est*

### > Common law:

- Equity principles, good faith principles, estoppel

## Statutory basis of defence under European law

- > Art 102 TFEU: No (1) discriminatory treatment, (2) no abusive exploitation, such as discriminatory pricing
- > Regarding SEPs: Dominant position + special circumstances required to invoke competition law and reject claim for injunction (ex post, no need to inquire for license before taking up use!)
- > General attorney Wathelet 20 Nov 2014: License market for one/several SEPs will automatically impact product market (different view German judges, argument: Not all SEPs are really needed to compete in product market)
  - In Germany, only clearly product-relevant SEPs can be objected to with competition-based estoppel
  - Burden of proof with infringer/licensee!

## Germany: Federal Supreme Court Orange-Book decision

- > Bundesgerichtshof, GRUR 2009, 694 – *Orange-Book-Standard*, (English translation, IIC 2010, 369)
- > Abuse of a dominant market position if the party seeking a licence made a binding, unconditional offer to conclude a licence on customary terms which cannot be rejected by the patentee without violating competition law, and provided that the potential licensee behaves as if licensed
  - Very high requirements, inter alia:
    - Willing licensee acting in good faith,
    - unconditional offer by licensee,
    - usual clauses have to be included,
    - past use and infringement must be acknowledged,
    - pre-payment of sufficient license fee into escrow and
    - rendering accounts for past use!

## EC: Willing licensee

- > European Commission, DG Competition, Case N° COMP/39985, Memo of 6 May 2013 (MEMO/13/403), Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents- Questions and Answers:
  - *“that the acceptance of binding third party determination for the terms of a FRAND licence in the event that bilateral negotiations do not come to a fruitful conclusion is a clear indication that a potential licensee is willing to enter into a FRAND licence”.*
- > And that by contrast,
  - *“a potential licensee which remains passive and unresponsive to a request to enter into licensing negotiations or is found to employ clear delaying tactics cannot be generally considered as ‘willing’.”*



## The questions put by the German court to the ECJ

- > **On 21 March 2013, the Regional Court of Düsseldorf (Landgericht Düsseldorf) has referred five questions the ECJ:**
  
- > 1) Does the proprietor of a standard-essential patent which informs a standardisation body that it is willing to grant any third party a licence on [FRAND] terms abuse its dominant market position if it brings an action for an injunction against a patent infringer even though the infringer has declared that it is willing to negotiate concerning such a licence?  
or
- > is an abuse of the dominant market position to be presumed only where the infringer has submitted to the proprietor of a standard-essential patent an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfils its contractual obligations for acts of use already performed in anticipation of the licence to be granted?

## The questions put by the German court to the ECJ

- > 2) If abuse of a dominant market position is already to be presumed as a consequence of the infringer's willingness to negotiate:
  - > Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed where the patent infringer has merely stated (orally) in a general way that it is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which it is prepared to conclude a licensing agreement?
- > 3) If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position:
  - > Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to that offer? Must the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the standard-essential patent is actually used and/or is shown to be valid?

## The questions put by the German court to the ECJ

- > 4) If the fulfilment of the infringer's obligations arising from the licence that is to be granted is a prerequisite for the abuse of a dominant market position:
- > Does Article 102 TFEU lay down particular requirements with regard to those acts of fulfilment? Is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?
- > 5) Do the conditions under which the abuse of a dominant position by the proprietor of a standard-essential patent is to be presumed apply also to an action on the ground of other claims (for rendering of accounts, recall of products, damages) arising from a patent infringement?

## Conclusion General Attorney

- > 1. Request for injunction constitutes an abuse of its dominant position under Article 102 TFEU where it is shown that the SEP-holder has not honoured its commitment even though **the infringer has shown itself to be objectively ready, willing and able to conclude such a licensing agreement.**
- > 2. Compliance with that commitment means that, prior to seeking corrective measures or bringing an action for a prohibitory injunction, the SEP-holder, if it is not to be deemed to be abusing its dominant position, must — unless it has been established that the alleged infringer is fully aware of the infringement — **alert the alleged infringer to that fact in writing, giving reasons, and specifying the SEP concerned and the manner in which it has been infringed by the infringer.** The SEP-holder must, in any event, **present to the alleged infringer a written offer of a licence on FRAND terms which contains all the terms normally included in a licence in the sector in question, in particular the precise amount of the royalty and the way in which that amount is calculated.**

## Conclusion General Attorney

- > 3) **The infringer must respond to that offer in a diligent and serious manner.** If it does not accept the SEP-holder's offer, it must promptly present to the latter, in writing, a reasonable counter-offer relating to the clauses with which it disagrees. The making of a request for corrective measures or the bringing of an action for a prohibitory injunction **does not constitute an abuse of a dominant position if the infringer's conduct is purely tactical and/or dilatory and/or not serious.**
  
- > 4) **If negotiations are not commenced or are unsuccessful, the conduct of the alleged infringer cannot be regarded as dilatory or as not serious if it requests that FRAND terms be fixed either by a court or by an arbitration tribunal.** In that event, it is **legitimate for the SEP-holder to ask the infringer either to provide a bank guarantee** for the payment of royalties or to deposit a provisional sum at the court or arbitration tribunal in respect of its past and future use of the patent.

## Conclusion General Attorney

- > 5) Nor can an infringer's conduct be regarded as dilatory or as not serious during the negotiations for a FRAND licence if it reserves the right, after concluding an agreement for such a licence, to challenge before a court or arbitration tribunal the validity of that patent, its supposed use of the teaching of the patent and the essential nature of the SEP in question.
  
- > 6) The fact that the SEP-holder takes legal action to secure the rendering of accounts does not constitute an abuse of a dominant position. It is for the national court in question to ensure that the measure is reasonable and proportionate.
  
- > 7) The fact that the SEP-holder brings a claim for damages for past acts of use for the sole purpose of obtaining compensation for previous infringements of its patent does not constitute an abuse of a dominant position.

## Changes in the future if ECJ follows General Attorney?

- > Many questions remain open and will be interpreted by national courts in EU
  - Contractual terms of licensee must live up to a higher standard of transparency and uniform application to all standard users, meaning less room for licensor to give more favorable terms to cross-licensing parties etc.
  - Courts/arbitration tribunal must judge a license offer contract each time on a case-by-case basis prior to deciding whether an injunction is granted or not
  - When does status of “willing licensee“ end and injunctive relief becomes available again?
  - Can licensee choose to restrict the intended scope of a license, e.g. because of no activity in a market?
  - Can licensee demand adaptation of terms after certain periods of time have lapsed, based on changed circumstances (patents lapsed/were invalidated; value of technology decreases)?

## Topics of discussion

- > When does a standard-user only buy time and pretends to be a “willing licensee“?
  - Non-acceptance of timeline to agree on contract?
  - Non-acceptance of territorial scope demanded by licensor (only worldwide license offered)?
  - Non-acceptance of binding arbitration on FRAND terms?
  - Condition of licensee to see further contracts by other licensees of patentee?
  - Condition of licensee to receive a calculation basis of the demanded license fees?



## Early German position

- > No legitimate interest for licensee to demand different (also FRAND-compliant) license terms, if first offer of licensor is FRAND it must be accepted
- > Licensee can stay willing by referring to court or arbitration, no obligation to agree to arbitration, courts will be sufficient
- > Under German law courts will only make a general review of licensor terms under Sec. 315 German Civil Code on clear lack of equitableness (rarely the case, broad scope of judgment for patentee)
- > Bond must be posted during negotiations by licensee also for past infringement
- > Estoppel also extends to claims of patentee for recall, destruction of goods, NOT for rendering accounts for past and future use, compensation claims for past use

## Early German position

- > No compensation claim for
  - Use prior to sufficient instruction of infringement and prior to offer for contract by patentee
  - Continued use during earnest licensing contract negotiation
- > **ECJ still has (and probably will not define) what is FRAND**
- > German approach may look at acceptable maximum license cost per product as benchmark, as well as number of patents relevant under the standard and owned by patentee
- > ECJ decision will probably not influence Orange book decision standard for de facto standards or non SEP patent infringements

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