

# How do European Courts look at FRAND and SEPs?

*This presentation isn't necessarily reflecting my legal opinion. It is an observation of how courts in Europe have been looking at the matter. Views expressed are my own and do not necessarily represent those of my employer.*

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# Divergent interpretation of the law

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- ❑ Inconsistency as to the availability of injunctive relief in relation to FRAND-committed SEPs in the European Union.
  - German courts, in application of the “Orange-Book” criteria, require a relatively high standard for a successful FRAND-defence
  - European Commission has taken a more lenient approach under which already the seeking of an injunction should not be permissible if a potential licensee has shown itself willing to enter a FRAND licence.
  
- ❑ Unclear whether, and in what circumstances, an application for injunctive relief made by an SEP-holder will constitute an abuse of a dominant position.
  
- ❑ Regional Court Düsseldorf finding incompatibility between the German Orange-Book criteria and the conditions outlined by the European Commission, decided to request a preliminary ruling from the Court of Justice of the European Union.
  - Oral hearing on 11 Sep 2014
  - Opinion of the Advocate-General published on 20 Nov 2014
  - CJEU decision expected summer 2015



Germany's "Orange-Book-Standard"

# Orange-Book-Standard (OBS)

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- German Federal Supreme Court, 6 May 2009, Docket no.: KZR 39/06 - *Orange-Book Standard*
  - An offer that patentee must not reject.
    - Offer has to be binding and unconditional.
    - Conditions of the offered contract have to be on usual terms and have to be reasonable and fair.
      - Offer must contain all contractual terms that are usually set out in a licence agreement, including a royalty.
      - But license seeking party may make an offer a licence agreement providing, according to Sec. 315 Bürgerliches Gesetzbuch, for royalties to be determined by the patentee's discretion rather than a specific royalty rate and deposit an amount that it deems appropriate under competition law.
  - A licence seeking party that acts like a licensee
    - If the licence seeking party already started the use of the patent prior to acceptance of the offer, it has to comply with the contractual obligations in the licence contract to be concluded.
    - Licensee has in particular to account for the use of the patent and pay or deposit the royalties resulting from its accounts to the patentee.

# Lower court's interpretation of OBS

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- ▣ Challenges of invalidity; Termination clause?
  - Open: Regional Court Düsseldorf, 24.04.2012, Docket no.: 4b O 273/10 – UMTS Mobiltelefon
  - No: Court of Appeals Karlsruhe, GRUR-RR 2012, 124 – GPRS Zwangslizenz
  
- ▣ Request that licensee takes a portfolio license?
  - Open: Regional Court Mannheim, 09.12.2011, Docket no.: 7 O 122/11 – GPRS Zwangslizenz
  - No: Regional Court Düsseldorf, 13.02.2007, Docket no.: 4a O 124/05 – Zeitlagenmultiplexverfahren
  - No: Regional Court Mannheim, 27.05.2011, Docket no.: 7 O 65/10 – Philips ./ SonyEricsson
  
- ▣ Request that licensee takes worldwide license?
  - Likely yes: Regional Court Düsseldorf, InstGE 10, 66, 73 – Videosignal-Codierung III
  - Rather no: Regional Court Mannheim, InstGE 12, 160 - Orange Book Standard II
  
- ▣ Acknowledgment of patentee's claim for damages?
  - Yes: Regional Court Mannheim, 09.12.2011, Docket no.: 7 O 122/11 – GPRS Zwangslizenz



The European Commission's "willing licensee in the safe harbour"

# The willing licensee in the safe harbour

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- Two decisions
  - Decision of 29 April 2014, C(2014) 2892 final, *Motorola – Enforcement of GPRS Standard Essential Patents*
  - Decision of 29 April 2014, C(2014) 2891 final, *Samsung – Enforcement of UMTS Standard Essential Patents*
- Seeking and enforcing of an injunction based on SEPs may be abusive if the SEP holder has given a FRAND commitment and where the company against which an injunction is sought is willing to enter into a licence agreement on such FRAND terms.
- The potential licensee can evidence its willingness to obtain a FRAND licence by agreeing to a binding third party determination for the terms of a FRAND licence in the event that bilateral negotiations do not come to a fruitful conclusion.
- Not detrimental to the licensee's willingness:
  - Challenges to the validity, essentiality or infringement of the SEP;
  - Restrictions to the territory of the patent; or
  - FRAND royalties also for the past instead of full damages.
- Detrimental, i.e. potential licensee is considered unwilling:
  - Remains passive and unresponsive or is found to employ clear delaying tactics cannot be generally considered as 'willing';
  - Is in financial distress and unable to pay its debts; or
  - Assets are located in jurisdictions that do not provide for adequate means of enforcement of damages.



Tension between OBS-case law and the decision practice by the European Commission

# Most important differences

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## German case law

- No reservation regarding (infringement and) validity
- Willingness to obtain a license must be specifically demonstrated. Requires making of specific offer with appropriate terms and conditions.
- Anticipated performance of contract necessary

## EU Commission

- Reservations regarding validity and infringement are allowable
- Basic willingness to *negotiate* a license is sufficient. Acceptance of binding third party adjudication of FRAND-licence is sufficient.
- Performance is not due

# Referral to the CJEU (C-170/13)

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- ❑ Regional Court Düsseldorf finding incompatibility between the *Orange-Book* criteria and conditions outlined by the European Commission, decided to refer a set of questions to the CJEU.
  - Patent infringement proceedings brought by Huawei against ZTE on the basis of its European patent allegedly essential to the LTE standard and for which Huawei committed to grant licences to third parties on FRAND terms
  - ZTE did not fulfil the requirements of *Orange Book*, but it may have met the requirements as set out by the Commission (at that point in time).
  
- ❑ Wording of the questions mirrors the various requirements of the *Orange Book* framework, seeking to test the compatibility of each of them with EU antitrust law.

# Questions referred for a preliminary ruling

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1. Does the proprietor of a standard-essential patent who informs a standardisation body that he is willing to grant any third party a licence on fair, reasonable and non-discriminatory terms abuse his dominant market position if he brings an action for an injunction against a patent infringer although the infringer has declared that he 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 his contractual obligations for acts of use already performed in anticipation of the licence to be granted?



# Questions referred for a preliminary ruling

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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 that he is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which he 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?



# Questions referred for a preliminary ruling

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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?





Court of Justice of the European Union

# Overview

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- Opinion of Attorney-General Melchior Wathelet, 20 November 2014
- FRAND undertaking does not imply a waiver of the right to seek injunctive relief (Para. 60). But the bringing of an action for an injunction can constitute an abuse of a dominant position, if exceptional circumstances exist. (Para. 63, 74)
  - Also applicable if the non-licensed use of the protected teaching has already begun, because it is not unreasonable to negotiate and conclude an agreement *ex post*. (Para. 82)
- The following conditions must be met cumulatively:
  - Dominant position of the SEP owner, and
  - Existence of exceptional circumstances

# Dominant position

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- Owning an SEP does not necessarily mean that a company holds a dominant position. But there may be a rebuttable presumption of dominance. For the national courts to determine on a case-by-case basis (Paras. 57, 58).
  
- Unclear whether this has to be understood to mean that the ownership of an SEP automatically justifies the assumption of a dominant position on the market, which may be rebutted by the SEP owner. Or whether the party asserting the notion of a dominant position must first present the circumstances justifying such an assertion.
  - Dominance only (+) if the patentee can effectively restrict competition in a downstream market
  - No automatism, because
    - there may be competing standards, or
    - the SEP may describe only an optional feature in the standard, or
    - the significance of the standard in the market may be low
    - What about essentiality and validity of the asserted SEP?

# Exceptional circumstances

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- CJEU case-law on refusal to license is only partially applicable, because factual situation is not directly comparable. (Para. 70)
  - Patentee doesn't want to keep the use of the protected invention for himself and refuses to license, but he gave a voluntary commitment to license the patent to 3<sup>rd</sup> parties on FRAND terms, thereby engaging in conduct which cannot be treated as a refusal to deal.
  
- Existence of exceptional circumstances requires cumulatively (Paras. 71-74):
  - Technological dependence following the incorporation into a standard of the teaching protected by the patent,
  - Voluntary FRAND-commitment,
  - Unfair or unreasonable conduct by the SEP-holder, at variance with its commitment to grant licences on FRAND terms, towards an infringer which has shown itself to be objectively ready, willing and able to conclude such a licensing agreement, and
  - No objective justification

# Obligations on the patentee

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- SEP-holder must notify the user of the patent in writing, giving reasons which SEP is infringed and why, unless alleged infringer is fully aware of the infringement. (Para. 84)
  - ▣ Requirement is not disproportionate, because SEP-holder would have to take this step in any event in order to substantiate an action for an injunction.
  
- SEP-holder must make a written offer for a licence on FRAND terms that 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. (Para. 85)
  - ▣ Requirement is not disproportionate, because SEP-holder made FRAND-commitment and voluntarily restricted the way in which it exercises its exclusive right so that he must make the first offer, and because he has the necessary information for the purposes of complying with his obligation not to discriminate.

# Obligations on the potential licensee

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- Mere willingness on the part of the user of the patent to negotiate, in a highly vague and non-binding fashion, cannot be sufficient to limit the SEP-holder's right. (Para. 50)
- He must be ready and willing to take a licence, which includes a response in a diligent and serious manner to the offer made by the SEP-holder. (-) if he refuses to engage in negotiations or if the negotiations are a sham and purely tactical to keep up appearances (Para. 88)
  - Timeframe for exchanging the offers and counter-offers and the duration of the negotiations has to be assessed in the light of the remaining lifetime of the patent and the 'commercial window of opportunity' (Para. 89)
  - If the patent is already used, the negotiations must be opened and concluded quickly (Para. 89, footnote 56)
  - If the user of the patent does not accept the offer of the SEP-holder, it must promptly submit a reasonable counter-offer in writing relating to the clauses with which it disagrees (Para. 88)
  - *But:* Instead of conducting own negotiations, or in case negotiations fail, the user of the patent can ask a court or an arbitration tribunal to determine the terms of a FRAND-license (Para. 93 and footnotes 62, 63). SEP-holder can then ask for a bank guarantee or a deposit of a provisional sum to secure the payment of royalties (Paras. 93, 94, 103)
  - No obligation to abide by the terms of a future contract before one has been concluded (Para. 98)

# Obligations on the potential licensee

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- Cont'd...
  - Must be able to conclude and comply with a licensing agreement on FRAND terms and, in particular, to pay an appropriate royalty (Para. 80)
    - SEP-holder can ask for a bank guarantee or for a deposit of a provisional sum to secure the payment of royalties for past and future use of the patent (Paras. 98)
  - The use and the validity of the patent can be challenged. (Paras. 95, 96)

# Other claims arising of patent infringement

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- Seeking of corrective measures, Art. 10 Enforcement-Directive (recall, removal from distribution channels, destruction) is subject to the same rules as for injunctive relief (Para. 100)
- No abuse of a dominant position when:
  - SEP owner takes legal action to secure the rendering of accounts; (Para. 101) or
  - SEP owner brings a claim for damages in respect of past use of the patent. (Para. 102)
    - But left unclear whether damages are necessarily limited to FRAND or whether such past damages could be sought at a rate that is higher than FRAND.
- Determination of the specific terms of a FRAND license remains a matter for the parties and, where appropriate, the courts and arbitration tribunals.

# Thank you for listening!

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