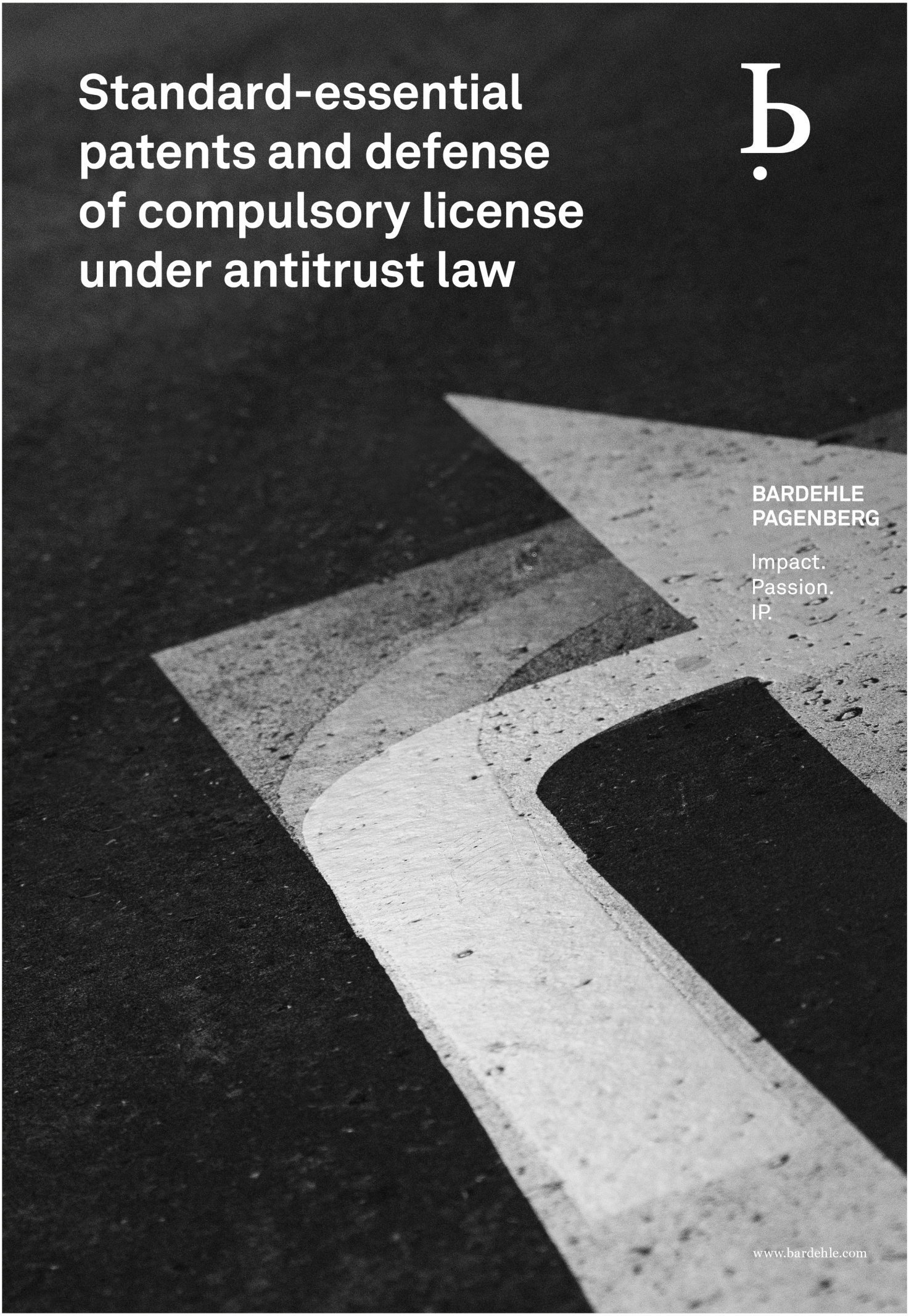
Standard-essential patents and defense of compulsory license under antitrust law



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Standard-essential Patents and Defense of Compulsory License under Antitrust Law

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Jan Bösing

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Standard-essential patents can establish a dominant market position which may lead to special requirements for the enforcement on the part of the patent proprietor and may entail the possibility of a defense of compulsory license under antitrust law on the part of the alleged patent infringer. The European Court of Justice defined specific requirements in 2015.

German patent law generally enables patent proprietors to exclude any third party from using the technological teaching protected by their patent. However, when it comes to standard-essential patents, antitrust law may prevail over this principle in certain circumstances.

The present brochure intends to provide a brief overview of the legal particularities of enforcing standard-essential patents and/or of a possible defense against such enforcement.

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1. What are standard-essential patents?

In many industries, the compatibility of products by different manufacturers is essential. For example, the fact that a standardized telecommunications network exists over which devices by different manufacturers can communicate causes a considerable increase in efficiency for users.

For the purpose of standardization, the companies of the industry in question need to agree on using a certain technology. Such an agreed technology is called an “industry standard”.

An agreed industry standard is usually based on technologies which one company or several companies from the industry in question previously developed and subsequently suggested for use in the industry standard. Usually, the companies have previously already applied for a patent for the relevant technology. Such patents are referred to as “standard-essential patents” because using them is inevitable when using the industry standard.

A plurality of (alleged) standard-essential patents normally exist for complex industry standards. For example, companies have declared more than 30,000 patent families essential for the LTE standard at the standard setting organization ETSI.

2. Legal particularities of standard-essential patents

In an economic sector with an established industry standard, products usually have to support said standard in order to be competitive at all. However, since such products inevitably use the standard-essential patents, the proprietors of such standard-essential patents could theoretically prevent companies offering such products from entering the relevant market by asserting their claim for injunctive relief. Against this background, there are two legal particularities which set standard-essential patents apart from non-standard-essential patents.

2.1 Declaration of willingness to grant a license

To ensure that everyone will be able to use an approved industry standard, the standard setting organizations demand companies that propose a technology for a standard to declare their willingness to grant everyone a right of use of the protected

technology. The details of such a declaration of the willingness to grant license differ depending on the standard setting organization, but usually the willingness to grant a license on fair, reasonable and non-discriminatory (FRAND) terms is declared.

The legal nature of such declarations of the willingness to grant a license has not finally been decided on by the Federal Court of Justice; but so far, the majority of German courts of lower instance have refused to directly derive claims by license seekers based on a declaration of the willingness to grant a license.

2.2 Antitrust law

Art. 102 TFEU prohibits any abusive exploitation of a dominant market position. As we have already explained, a standard-essential patent may establish a dominant market position if its use is a requirement for entering a market and if making a competitive offer is not possible without using the standard-essential patent. In that case, refusing to grant a license, or demanding unreasonable or discriminating royalties may constitute abuse as prohibited under Art. 102 TFEU.

3. Defense of compulsory license under antitrust law

If the requirements of Art. 102 TFEU are met, a patent user can use this as a defense against the enforcement of the claims based on a standard-essential patent by the patent proprietor. Since the rights of the patent proprietor which are guaranteed by the constitution are limited by such a defense, case law has repeatedly set high standards for the defense of compulsory license under antitrust law.

3.1 Orange Book Standard (German Federal Court of Justice)

In the decision Orange Book Standard of May 6, 2009 (case no. KZR 39/06), the German Federal Court of Justice decided that a patent proprietor only acts in an abusive manner if the patent user provided them with an unconditional offer for concluding a license agreement to which they feel bound, and which the patent proprietor, if they want to adhere to the prohibition of discrimination and unfair hindrance, must not reject, and if the patent user meets the obligations to which the license agreement to be concluded subjects the use of the subject-matter to be licensed for the period during which they have already used the subject matter of the patent.

3.2 Huawei v. ZTE (European Court of Justice)

The European Court of Justice rendered its first decision on the defense of compulsory license under antitrust law on July 16, 2015 in the proceedings of *Huawei v. ZTE* (case no. C 170/13). The European Court of Justice ruled as follows on the questions referred to it by the Regional Court of Duesseldorf:

1. Article 102 TFEU must be interpreted as meaning that the proprietor of a patent essential to a standard established by a standardisation body, which has given an irrevocable undertaking to that body to grant a licence to third parties on fair, reasonable and non-discriminatory (FRAND) terms, does not abuse its dominant position, within the meaning of that article, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:

- *prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and*
- *where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.*

2. Article 102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding a patent essential to a standard established by a standardisation body, which has given an undertaking to the standardisation body to grant licences for that patent on FRAND terms, from bringing an action for infringement against the alleged infringer of its patent and seeking the rendering of accounts in relation to past acts of use of that patent or an award of damages in respect of those acts of use.

According to the decision of the European Court of Justice, the proprietor of a standard essential patent does not abuse its dominant market position by asserting claims for an injunction or recall if, firstly, they notified the alleged infringer of the patent infringement before bringing the complaint and made a license offer on FRAND terms to the alleged patent infringer, provided that the latter had declared their willingness to take a license, and if, secondly, the alleged infringer did not react diligently to the license offer, i.e., particularly, did not make a counter-offer, did not render account regarding the infringement and did not provide security.

3.3 FRAND-Einwand and FRAND-Einwand II (German Federal Court of Justice)

On May 5, 2020, in its decision *FRAND-Einwand* (case no. KZR 36/17), the German Federal Court of Justice rendered the first decision on the defense of compulsory license under antitrust law after the decision by the European Court of Justice. In said decision, the German Federal Court of Justice first confirms its *Orange Book Standard* decision. Additionally, the German Federal Court of Justice states that asserting claims for injunction, recall and destruction by way of a complaint can also constitute an abuse if the infringer has not (yet) declared its willingness to conclude a license agreement on certain reasonable terms, but the patent proprietor, in turn, can be accused of not sufficiently endeavoring to facilitate the conclusion of a license agreement on reasonable terms for an infringer that is generally willing to take a license. In this context, the German Federal Court of Justice defines stringent requirements for the infringer's willingness to take a license. The German Federal Court of Justice holds that the infringer has to declare its willingness to conclude a license agreement with the patent proprietor on reasonable and non-discriminatory terms in a clear, unambiguous and unconditional manner, meaning specifically that they subject themselves to any terms which turn out to be FRAND *(a willing licensee must be one willing to take a FRAND license on whatever terms are in fact FRAND)*. Additionally, a willing licensee also has to contribute to the negotiations of the license agreement in a purposeful manner even afterwards.

In the subsequent decision *FRAND-Einwand II* of November 24, 2020 (case no. KZR 35/17), the German Federal Court of Justice confirmed this case law and selectively developed it further. Particularly, the German Federal Court of Justice clarified that both sides must show that they are willing to agree to a license in the negotiations.

The focus of the assessment remained on the conduct of the alleged infringer, however. The German Federal Court of Justice particularly left open whether the plaintiff's license offer was FRAND, since the defendant was not truly willing to take a license.

4. Requirements for a defense of compulsory license under antitrust law

As explained in section 3, in its decision Huawei v. ZTE (C-170/13), the European Court of Justice defined several requirements which the patent proprietor and the alleged infringer, respectively, must meet in order to justify (on the part of the alleged infringer) or avert (on the part of the patent proprietor) the defense of compulsory license under antitrust law. The details of these requirements are quite controversial, depend on the individual case and are applied differently by German courts of lower instances. Hence, we will only be able to provide you with a rough overview below.

4.1 Notice of infringement by the patent proprietor

According to the decision of the European Court of Justice, the proprietor of the SEP in question is first obligated to notify the alleged infringer of the SEP infringement, indicating the SEP in question and specifying the manner in which it was allegedly infringed (marginal no. 61). The background of this obligation of the patent proprietor is that there is often a large number of standard-essential patents which is why the infringer does not necessarily know that they use the teaching of a valid and standard-essential patent (marginal no. 62).

4.2 Declaration of willingness to take a license by alleged infringer

After the notice of infringement by the patent proprietor, the alleged infringer has to declare their willingness to conclude a license agreement on FRAND terms (marginal no. 63). As shown in Section 3.3, in its *FRAND-Einwand* and *FRAND-Einwand II* decisions, the German Federal Court of Justice ruled that high standards are to be set regarding the willingness of the alleged infringer to take a license and that, during the license negotiations, the alleged infringer continuously and unconditionally has to make clear that they will take a license on FRAND terms, irrespective of what will in fact be FRAND.

4.3 FRAND license offer by the patent proprietor

Subsequently, the patent proprietor has to make a specific written license offer on FRAND terms to the alleged infringer, specifying the royalties and the method of their calculation in particular (marginal no. 63). The European Court of Justice justifies the fact that the patent proprietor has to make the first offer by stating that the patent proprietor is better positioned to assess which terms are materially FRAND (marginal no. 64).

4.4 Reaction and counter-offer by the alleged infringer

The alleged infringer has to react diligently to the FRAND license offer by the patent proprietor and, specifically, must not pursue any dilatory tactics (marginal no. 65). If they do not accept the offer made by the patent proprietor, they have to provide the patent proprietor with a specific written counter-offer on FRAND terms within a short period (marginal no. 66).

4.5 Rendering of accounts and provision of security by the alleged infringer

If the alleged infringer uses the patent, they also have to render accounts regarding past acts of use and provide the patent proprietor with an adequate security for it (marginal no. 67).

5. Summary

The enforcement of standard-essential patents considerably differs from the enforcement of non-standard-essential patents because of the influence of antitrust law. In particular, both parties have to establish the actual facts for, or against, a defense of compulsory license under antitrust law prior to a complaint. On the part of the patent proprietor, a complaint based on a standard-essential patent has to be prepared carefully because the requests for an injunction or recall may be rejected otherwise. The alleged infringer also has to diligently react to the actions of an SEP owner even before a complaint is served in order to be able to assert a defense of compulsory license under antitrust law in case of a complaint.

Contact

Munich

Prinzregentenplatz 7
81675 München
T +49.(0)89.928 05-0
F +49.(0)89.928 05-444
info@bardehle.de

Barcelona

Avenida de Diagonal 598, 3º 1ª
08021 Barcelona
T +34.(0)93.4 57 61 94
F +34.(0)93.4 57 62 05
info@bardehle.es

Duesseldorf

Breite Straße 27
40213 Duesseldorf
T +49.(0)211.478 13-0
F +49.(0)211.478 13-31
info.duesseldorf@bardehle.de

Paris

SO Square Opéra
5 rue Boudreau
75009 Paris
T +33.(0)1.53 05 15-00
F +33.(0)1.53 05 15-05
info@bardehle.fr

Hamburg

Bohnenstraße 4
20457 Hamburg
T +49.(0)40.271 4468-0
F +49.(0)40.271 4468-50
F +49.(0)40.271 4468-50
info.hamburg@bardehle.de

Yusarn Audrey Singapore Office

4 Shenton Way
#14-03, SGX Centre 2
Singapur 068807
T +65.(0)63.58 28 65
F +65.(0)63.58 28 64
enquiries@yusarn.com

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