
Court of Justice of the European Union on the FRAND defense in the Huawei v ZTE case (decision of July 16, 2015 - Case C-170/13)

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On July 16, 2015, the Court of Justice of the European Union (Court) handed down its long awaited decision on the competition law implications of asserting Standard-Essential Patents (SEPs).

With the present decision, the Court strikes a balance between the quite patent owner-friendly practice of the German Orange Book case law and the rather vague – more infringer-friendly – preliminary views of the European Commission in the Samsung and Motorola investigations based on the “willing licensee” concept.

The Court answers some very important questions and provides for some legal security. However, as expected, a number of questions remain open which will most likely give rise to further referrals to the Court and subsequent decisions.

A. Background

Industry standards and SEPs are of crucial importance in the telecoms and IT industry and, increasingly, also in other sectors like the automotive or sports industry where IT based solutions are more and more used.

The background of the present decision is a request for a preliminary ruling from the German Regional Court of Duesseldorf. In March 2013, this referring court stayed patent infringement proceedings between Huawei and ZTE and essentially asked the Court under which circumstances the assertion of SEPs may constitute the abuse of a market dominant position in the meaning

of Art. 102 TFEU. Prior to the referral, the EU Commission was investigating similar cases brought by Samsung and Motorola. In November 2014, the Advocate General Whatelet issued his opinion in the CJEU proceedings and essentially concluded that the SEP owner, before seeking an injunction, generally must alert the infringer to the infringement and is obliged to provide a written license offer on fair, reasonable, and non-discriminatory (FRAND) terms.

B. Key Take-Away (Injunction & Recall): Ping Pong Interaction

The key take away from the decision of the Court is that – generally following the Advocate General’s opinion, a kind of ping pong interaction must take place between the patent owner and the (alleged) infringer before claims for injunctive relief and/or corrective measures, such as for instance recall, are asserted in court. This ping pong interaction is the following:

- First, the patent owner must alert the infringer by designating the patent in question and specifying the way in which it has been infringed.
- If and when the infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, the patent owner must present to the infringer a specific, written offer for a license on such FRAND terms, specifying, in particular, the royalty and the way in which it is to be calculated.
- These obligations of the patent owner apply as long as the infringer diligently responds to that offer, in accordance



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with recognized commercial practices in the field and in good faith. Whether the latter is the case, must be established on the basis of objective factors and implies, in particular, that there are no delaying tactics. In particular, should the infringer not accept the offer made, it must submit to the patent owner, promptly and in writing, a specific counter-offer under FRAND terms. Only then, the infringer can argue that the patent owner's license offer was not FRAND and that his request for injunction / recall constitutes an anti-trust law violation.

- Furthermore, where the infringer is using the patent in question before a license agreement has been concluded, it is for the infringer, from the point at which its counter-offer is rejected, to provide appropriate security, in accordance with recognized commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit. The calculation of that security must take into account, inter alia, the number of the past acts of use of the patent in question, and the infringer must be able to render an account in respect of those acts of use.

C. Accounting & Damages

Another important finding – relating to the assertion of claims for accounting for past acts of use and a respective liability for damages – is the following:

- The patent owner is not prohibited from bringing an action for infringement against the infringer 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.

D. New Strategic Option

This latter finding provides a very interesting strategic option for the patent owner – at least under German law: before or while negotiating with the infringer within the above described ping pong interaction, the patent owner can already file an infringement action asserting claims for accounting and for a finding of liability for (past) damages. Such lawsuit could later be easily extended by bringing claims for injunctive relief and for further corrective measures, if and when the negotiations fail because of non-diligent behavior of the infringer. Such extension would regularly not have a negative impact on the timing of the already pending infringement lawsuit, i.e. a decision on all claims can be expected within about a year as of the filing of the initial infringement action. This means in other words that the negotiation time does not impair the patent owner's interest in effective judicial protection.

E. Further interesting Findings

Finally, there are another couple of interesting remarks in the decision:

- Where no agreement is reached on the details of the FRAND terms following the counter-offer by the infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay.
- The infringer cannot be criticized either for challenging, in parallel to the negotiations relating to the grant of licenses, the validity of those patents and/or the essential nature of those patents to the standard in which they are included and/or their actual use, or for reserving the right to do so in the future.

F. Specific Facts of Decision

Notably, expressly, all of the above findings only apply to a specific set of facts:

- The patent in question must be a patent essential to a standard established by a standardization body.
- The patent owner must have given an irrevocable undertaking to that standardization body to grant a license to third parties on FRAND terms.
- There must be the existence of a dominant position of the patent owner.
- The specifics of the decision relate to a standard composed by a large number of SEPs (and possibly also to a plaintiff owning a large number of SEPs for the standard in question).

G. Open Questions

However, a number of important questions are still open and may give rise to further referrals to the CJEU, for instance:

- Under which circumstances does the

ownership in an SEP result in a market dominant position?

- What is the law regarding *de facto* standards?
- What is the law if there was no FRAND commitment? What is the law if there was no FRAND commitment by the patent owner but only one by a predecessor in title?
- Is the ping pong interaction also required in case of standards which only feature a low number of SEPs?
- What specifically are the objective factors for assessing whether or not the infringer responds “*in accordance with recognized commercial practices in the field and in good faith*”? When is the threshold of “*delaying tactics*” crossed?
- Can the infringer require the patent owner to provide a SEP-specific offer and refuse to negotiate a portfolio license?
- Can the FRAND terms be determined by a court if there is no common agreement of the parties to have a third party decide?

Remarks

The CJEU’s decision will certainly have a significant impact on the way patent owners as well as standard users will approach FRAND-encumbered SEPs in the future. The core approach that has now been set is that it is the patent owner’s obligation to alert the infringer and to provide a FRAND offer prior to seeking an injunction. This, as well as the standard user’s obligation to react diligently and in good faith makes it indispensable for both, patent owners and standard users, to deal with these requirements thoroughly, not only during already pending patent infringement proceedings, but first and foremost well in advance of a potential litigation.