



Notice on handling the defense of compulsory license under antitrust law according to Huawei v. ZTE within Munich proceedings in patent litigation

(As of February 2020)

This notice governs how the two Patent Chambers of the Regional Court of Munich I handle the defense of compulsory license under antitrust law in patent litigation according to the principles laid down by the Court of Justice of the European Union in the Huawei v. ZTE decision (case no. C-170/13). They shall remain applicable until an updated notice for patent litigation as well as for proceedings under the German Utility Models Act (GebrMG) and the German Semiconductor Protection Law (*HalbSchG*) is published. The Chambers reserve the right of deviating from this in individual cases, following a judicial notification. The German version shall be applicable in each case.

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I. Scope

The decision of the European Court of Justice and this notice solely relate to complaints for injunctive relief, recall and destruction based on standard-essential patents provided that they confer a dominant market position on the proprietor and provided that the proprietor or its legal predecessor have made a FRAND commitment towards a standard-setting organization. Transfer of the patent does not mean that a FRAND commitment that has been made ceases to exist. To other cases, the principles of the decisions of the Court of Justice of the European Union in “IMS/Health” (case no. C-418/01) and of the German Federal Court of Justice in “Standard-Spundfass” (docket no. KZR 40/02) and “Orange-Book” (docket no. KZR 39/06) shall apply.

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II. Overview of the necessary procedure for contractual negotiations prior to court proceedings

According to the principles of the “Huawei v. ZTE” decision of the European Court of Justice and the way it is understood by the two Patent Litigation Chambers of the Regional Court of Munich I, the patent proprietor and the party already using the patented teaching principally have to pass various stages before a complaint is filed:

- 1)** Notice of infringement, at least comprising the future patent-in-suit, by the patent proprietor to the patent user
- 2)** Communication of the intention to take out a license from the patent user to the patent proprietor, at least comprising the future patent-in-suit, with the patent user being allowed to reserve the right of asserting nullity and/or non-use of the patents to be licensed right away or at a later point in time
- 3)** Provision of a draft FRAND license agreement by the patent proprietor to the patent user, at least comprising the future patent-in-suit
- 4)** In case of non-acceptance: Provision of an alternative draft FRAND license agreement by the patent user to the patent proprietor, at least comprising the future patent-in-suit, with the patent user (once again) being allowed to reserve the right of asserting nullity and/or non-use of the patents to be licensed right away or at a later point in time
- 5)** In case of non-acceptance: Rendering of accounts and provision of security by the patent user
- 6)** optional and voluntary determination of the license terms by a third party

regarding 3) In this regard, the patent proprietor has to explain its licensing concept and further has to indicate whether and with what content it has already concluded license agreements that are comparable in terms of time and materially and it furthermore has to indicate why – if applicable – its license offer includes patents other than the patents desired by the patent user. If the patent proprietor concludes an appropriate non-disclosure agreement, the

patent proprietor also has to communicate further, confidential details regarding the agreements already concluded – provided that it is formally in a position to do so within the scope of the non-disclosure agreements already concluded. If this is not formally possible without it being ordered by a court, the plaintiff in the infringement suit has to obtain such judicial order as soon as possible; reference is made to the notice on handling requests for confidentiality during and outside the oral hearing in patent litigation before the Regional Court of Munich I.

III. Possibility of making good for deficiencies by the end of the oral hearing

Whether or not these steps have been properly taken is to be determined at the time of the end of the oral hearing, Sec. 136 (4) German Code of Civil Procedure (ZPO). This is the end of the main hearing date in Munich proceedings.

Individual deficiencies can thus be removed during ongoing proceedings, with deadlines determined by the law or judicially having to be adhered to. In the course of Munich proceedings in patent litigation, the period between the preliminary hearing and the main hearing is available for this in particular, provided that removal of individual deficiencies was already announced in the preliminary hearing. The two Patent Litigation Chambers will – if possible – try the question of the defense of compulsory license under antitrust law for individual complaints in the preliminary hearing, so as to enable the parties to make good for individual deficiencies. If there are several complaints by the same patent proprietor before a single Chamber, with a uniform defense of compulsory license, this is to take place in a joint (non-technical) preliminary hearing. If several complaints with a uniform defense of compulsory license are to be tried before both Chambers, the Chambers will strive for close coordination with one another.

IV. Overview of the procedural action:

1. Requirements for material discussion of the defense of compulsory license under antitrust law:

- a) Assertion of the defense of compulsory license under antitrust law by the defendant.
- b) The complaint is for injunctive relief and/or recall and/or destruction.
- c) The defendant has made – provided that at least one offer comprising the future patent-in-suit was made and not accepted – at least one counter-offer at least comprising the future patent-in-suit and, after this was rejected by the plaintiff, rendered accounts and provided security.
- d) The defense of compulsory license cannot be asserted if the defendant used to be a licensee of the patent-in-suit but terminated this license agreement or otherwise contributed to its termination, for example by being in arrears with payment of royalties.
- e) The defense of compulsory license cannot be asserted if a license under the patent-in-suit was already offered to the defendant but it failed to include this in its counter-offer.

regarding a) The defendant has to assert the defense of compulsory license at the earliest point possible, i.e. usually in the statement of defense.

regarding c) The most recent binding offer of the patent proprietor must not be absolutely unacceptable (Sec. 242 German Civil Code (*BGB*)). This is also applicable to the counter-offer of the patent user. In this regard, the counter-offer may be less extensive in terms of time and materially, but it has to comprise the (future) patent-in-suit at least. Therein, the defendant may further reserve the right of asserting nullity and/or non-use of the patents to be licensed right away or at a later point in time. Instead of indicating a specific royalty, the defendant may also offer determination by the patent proprietor pursuant to Sec. 315 German Civil Code. The rendering of accounts and provision of security

at least have to be based on the counter-offer regarding the period from when use was first commenced until the time at which a provisionally enforceable first-instance decision is expected to be made, as well as on conventional practices. In case of a counter-offer without figures, the rendering of accounts and provision of security have to be based on the offer. In case of a global offer or global counter-offer, they may be limited to the turnover relating to the market in the Federal Republic of Germany, which may also be estimated. 110 percent of the relevant amount are to be deposited.

regarding d) This situation may occur if the parties have concluded a license agreement that provides for an opt-out clause for the benefit of the patent user for individual patents, for example. The defense of compulsory license under antitrust law will no longer be available to patent users that make use of this opt-out, since they already possessed a license before.

regarding e) This is the same in case that the defendant did not include the patent-in-suit in its counter-offer, for it would have been able to obtain a license in this regard.

2. Requirements for material discussion of the defense of compulsory license under antitrust law in the preliminary hearing already:

- a) Statements (made as a precaution) by the plaintiff in the complaint
- b) Assertion of the defense by the defendant in the statement of defense

regarding a) If the plaintiff seeks material discussion of the defense of compulsory license under antitrust law already in the preliminary hearing, the complaint is to include statements on the defendant's anticipated defense of compulsory license under antitrust law already (as a precaution). This applies not only if the complaint also seeks injunctive recall and destruction from the outset but also if it is to remain possible to extend the complaint (after the facts and status of the dispute have been introduced, in the preliminary hearing or at

the latest between the two hearings, after having announced it in the preliminary hearing). In exceptional cases, e.g. if a defense of compulsory license could not be anticipated, the plaintiff may be granted further leave to file a brief out of time before the preliminary hearing upon request.

regarding b) If the defendant also desires material discussion of the defense of compulsory license under antitrust law in the preliminary hearing, the statement of defense should already include statements (made as a precaution) on the defense of compulsory license under antitrust law.

3. Requirements for a complaint to be extended to injunctive relief, recall and destruction:

- a) An extension of complaint intended for later ought to be disclosed in the statement of complaint already. It has to be carried out in the preliminary hearing or at least to be announced in the preliminary hearing for the period between the two hearings at the latest.
- b) Any increases of the advance payment of court fees and/or the security for costs of action are to be processed and paid quickly.
- c) The complaint for information, rendering of accounts and determination of damages replaces the infringement notice according to step 1). The further remaining steps according to *Huawei v. ZTE* are to be made good for in the time between the two hearings at the latest. The Chamber responsible will determine this time based on the facts of the individual case. The time required may be reduced by statements (made as a precaution) on the expected defense of compulsory license already being included in the statement of complaint. If the defendant has already commented on the expected defense of compulsory license in the statement of defense (as a precaution), the Chamber may communicate a preliminary opinion on individual aspects in the preliminary hearing already.

4. Individual requirements regarding the parties' submissions:

a) The defendant particularly has to raise the defense of compulsory license and to submit and prove that its factual requirements are met, i.e. particularly that and why the plaintiff's most recent binding offer is not in accordance with antitrust law (FRAND).

b) If the defendant has not made a counter-offer, it has to establish and prove that the plaintiff's most recent binding offer is absolutely unacceptable from the point of view of antitrust law or that the plaintiff would be required to grant licenses to the defendant's suppliers. This is referred to as the "derived" defense of compulsory license and it is ruled out if the defendant itself could have concluded a license agreement that would have taken into account later elements of exhaustion or licensing within the value chain appropriately, sufficiently and retroactively and that would have ensured that such information may also be communicated to the defendant by the other members of the value chain. It is further to be ensured, in this regard, that double payment of royalties to the patent proprietor cannot be achieved by assertion of damages either.

c) The plaintiff has a secondary onus of presentation regarding its licensing concept as well as regarding the question of whether license agreements that are comparable in times of time and materially have already been concluded and if so, what their content is, unless such information is freely accessible or already available to the defendant. With regard to agreements concluded earlier, this remains applicable if the portfolio has been transferred. Should a range of transfers and/or re-arrangements of the portfolio have resulted in an unclear situation (a patchwork rug, as it were), the Chamber responsible will define the extent of presentation required in the individual case.

d) If the plaintiff has offered a license agreement including an appropriate, sufficient and retroactive most-favored partner clause to the defendant, which is particularly well-suited in case of first licensing, the defendant has to submit and prove that the royalty offered is excessive nonetheless. If the defendant asserts that agreements concluded earlier were concluded due to a situation of pressure, it furthermore has to specifically submit and prove, if necessary, which other, lower royalty rate or which other, more beneficial conditions the contractual

parties at the time would have agreed upon if the situation of pressure had not existed.

e) If a defendant that reserved the right to do so (cf. steps 2 and 4) asserts nullity and/or non-use and/or exhaustion and/or licensing (hereinafter: defenses) of individual portfolio patents offered, which are not currently patents-in-suit, in the course of a defense in the infringement lawsuit, it has to make detailed submissions about this and prove the requirements should they be disputed. Moreover, the defendant has to submit specifically and prove, if necessary, that and why the defenses regarding individual portfolio patents offered significantly influence the amount of the royalty offered. Provided that the portfolio offered is dynamic, this is only possible with regard to licensed patents and patent applications that have been granted or published by the time of the end of the oral hearing. In case of the defense, the plaintiff has a secondary onus of presentation in that they have to submit why it included these patents in the portfolio offered and whether, and if so how, the alleged defenses regarding individual portfolio patents affect the amount of the royalty offered. The defendant is not able to assert these defenses regarding individual portfolio patents in the infringement lawsuit if the plaintiff offered a license agreement to the defendant that takes into account the subsequent assertion of these defenses with regard to individual portfolio patents in separate proceedings or in the course of other contractual mechanisms by an appropriate, sufficient and retroactive adjustment clause.

f) If the defendant asserts nullity, non-infringement, exhaustion and/or licensing of these portfolio patents in separate proceedings and/or – if admissible – in the course of counterclaims, the distribution of the onus of presentation and burden of proof is determined according to general principles.

V. Handling requests for confidentiality during and outside the oral hearing

Reference is made to the separate notice regarding the handling of requests for confidentiality during and outside oral hearings in patent litigation before the Regional Court of Munich I.

VI. Time between the two hearing dates

The parties may beneficially use the time between the two hearing dates of Munich proceedings in patent litigation for renegotiations, mediation attempts before the Court's conciliation judge or other alternative mechanisms of settling the dispute.

VII. Contractual clauses

In view of the freedom of contract and the private autonomy of market participants, the two Chambers are refraining from prescribing the specific content of the contractual clauses mentioned. However, the wording chosen has to meet the requirements of the individual case and reconcile the two contractual parties' contrary interests. If necessary, drafts communicated by third parties for this purpose may be used for the wording.