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Patents in Europe ***2018/2019***

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Standard-essential patents and FRAND licensing in Europe

By Volkmar Henke and Tilman Müller, Eisenführ Speiser

In July 2015 the European Court of Justice (ECJ) issued its long-awaited judgment in *Huawei v ZTE*. This judgment concretises an antitrust law framework within which standard-essential patents (SEPs) can be enforced. In particular, the court has standardised an explicit set of negotiating obligations to be followed by all parties involved (ie, for patent owners attempting to enforce a claim for injunctive relief under patent law or for patent infringers trying to circumvent such a claim for injunctive relief).

While a degree of reticence prevailed in the enforcement of SEPs before the judgment was issued, two years later, one may now speak of a new wave of lawsuits. Despite the ECJ's decision, important questions remain open that must now be resolved by the courts of the EU member states.

Here both commonalities and differences in the implementation of European case law can be seen. The German courts have excelled primarily in distinguishing the negotiating obligations; while courts in the Netherlands and the United Kingdom have issued judgments which deal with the ultimately relevant question of what 'fair, reasonable and non-discriminatory' (FRAND) means.

This chapter sheds light on the different lines of national case law, with a certain emphasis on Germany, due to the number of relevant decisions rendered there.

Huawei v ZTE and open questions

In its comparatively short decision, the ECJ set out a sequence of steps that the patent owner must follow to enforce claims for injunctive relief under an SEP. At the same time, it prescribed specific responses by means of which the alleged

infringer can circumvent these claims for injunctive relief.

However, the schedule developed by the ECJ leaves many open questions. How and to whom must the patent owner explain the infringement? Can the patent owner insist on licensing only its entire portfolio? What is the timeframe in which the parties are required to act? And what actually constitutes a FRAND offer?

German post-Huawei case law

In the past two years, dozens of judgments have been rendered by the regional courts in Düsseldorf and Mannheim and the competent appeal courts dealing with the implementation of the *Huawei* judgment. It would be beyond the scope of this chapter to present each of these judgments individually; what is more important in this context is to identify the essential lines that are formed by the recent case law.

Notice of infringement by patent owner

It has been largely clarified that the patent owner's obligation consists of providing a technical explanation of the licensed portfolio. For this purpose, claim charts in which the claims are presented and subsumed by way of feature analyses should in any case suffice. In the view of the Mannheim Regional Court, however, even shorter versions suffice – particularly if the defendant can conclude from a sensible reading of the (succinct) explanations, and drawing on expert advice, what the patent owner considers to justify an accusation of patent infringement.

This liberal view may gladden the hearts of many patent owners, but caution is also required. In individual cases, the courts trace what in fact could

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be concluded from the individual information. Mere placebo explanations that have no actual technical substance are not enough.

Further, according to settled case law, it is also sufficient if the notice of infringement is sent to the parent company. Thus, the patent owner is not required to address all possible subsidiaries individually, but may negotiate with only one affiliate as the representative of the entire group of companies.

Patent user's request for a licence

With respect to the patent user's declaration that it wishes to take a licence, the German courts have set the bar quite low. This request for a licence need not even be explicit; it may also result from conclusive behaviour, such as mere participation in licensing negotiations.

However, the patent user's response must follow promptly. The Mannheim Regional Court, for example, regarded a request for a licence that was submitted two-and-a-half months after the notice of infringement as being too late, which then led to the issuance of an injunction.

FRAND offer explained by patent owner

The subsequent obligation of the patent owner includes two distinct aspects:

- the criteria that the FRAND offer must satisfy; and
- the extent to and form in which this offer must be justified.

The German courts have meanwhile agreed that the patent owner may offer a worldwide portfolio licence for all patents that are needed for a particular product. This applies at least if the patent user itself acts on a worldwide basis and

offers a product that is substantially the same on a technically uniform market. This is good news for many patent owners, which are now no longer required to enforce each patent individually (which would in any case be impossible from a practical perspective).

There is further agreement that there is not only a single FRAND offer to be calculated with mathematical precision, but rather a certain bandwidth within which (multiple possible) FRAND offers may lie.

However, in examining whether an offer is FRAND, the German courts previously used varying standards but now seem to agree. The Dusseldorf courts believe that FRAND compliance must be conclusively verified, whereby it is in principle accepted that different methods may be used for determining the offer. After the Mannheim Regional Court first took a different position, the Karlsruhe Higher Regional Court agreed with the Dusseldorf courts: the offer must be subjected to a 'positive' test as to whether it is FRAND. However, the patent owner is to be granted greater leeway in the assessment.

Overall, FRAND compliance can be positively determined by different methods. A method frequently used by the German courts is a comparison with other licensing agreements concluded by the patent owner. If the patent owner can argue that it has already concluded a number of similar agreements, then as a rule FRAND compliance will not be disputed. The situation is similar if the patent owner can derive the FRAND compliance of its offer from a generally accepted pool agreement. Greater difficulties are presented by so-called 'top-down' methods in which a reasonable royalty is calculated based on a hypothetical overall limit on the licensing burden.

As to the question of which explanations must be provided on the requested royalties, the Mannheim Regional Court has meanwhile developed a well-defined body of case law. Accordingly, it is insufficient for the patent owner to cite only the royalties and the method by which they were calculated. Rather, the patent owner must also explain the background for its offer and why it believes that its offer satisfies FRAND criteria.

One essential difference between the case law of the two jurisdictions is the fact that the Dusseldorf courts regard the patent owner as having the obligation to disclose existing licensing agreements. This is problematic, not only because



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Another core area of his practice is concluding IP licensing agreements, including consortium, patent pool and joint venture arrangements.

it has no basis in the *Huawei* decision, but also because the confidentiality interests of third parties (ie, the existing licensees) are affected. The idea of ‘attorneys’-eyes-only’ privilege is not a principle of German law, which complicates the matter even further.

FRAND counter-offer by patent owner and provision of security

The courts agree that the SEP user must likewise lay out a complete written agreement on FRAND terms.

If its counter-offer is rejected by the patent owner, the alleged infringer must provide security for the royalties. However, the amount of the security remains in dispute. The Dusseldorf Regional Court is of the opinion that the defendant must provide security in the amount

of the patent owner’s offer, while the Mannheim Regional Court would probably be satisfied if security were provided only in the amount of the counter-offer. It also remains open as to whether the provision of security must also cover past use.

Timing and procedure

The difference in case law from the courts in Dusseldorf and Mannheim which possibly has the greatest effect on practice relates to the timing that the courts apply to the fulfilment of the ECJ requirements:

- The Mannheim Regional Court requires that all steps formulated by the ECJ be concluded before an action can be filed. Explanations and offers that are made after the filing of the action are, in the court’s view, not to be considered.

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The court bases this opinion on the wording of the ECJ judgment, which provides for the fulfilment of the patent owner’s obligations (and thus also those of the SEP user) before the filing of an action.

- The Dusseldorf courts, on the other hand, adopt the position that both parties can still subsequently fulfil the obligations imposed on them in the trial. In doing so, reference is made to German procedural law, which in principle prescribes the consideration of new facts until the conclusion of the oral arguments.

Naturally, this has considerable significance for the preparations and tactics of both sides in the trial. Patent owners that are largely free to select the place of jurisdiction in Germany might be well advised to beat a path to the Mannheim courts. Here the facts of the case that are relevant to the FRAND objection are fixed once the action is filed, which facilitates planning and anticipating the course of the proceedings.

The Hague ruling on FRAND royalties

One of the few decisions rendered on the enforcement of SEPs in other European countries after the ECJ judgment was handed down by the court in The Hague. The issue here was not the enforcement of a claim for injunctive relief; rather, a mobile phone manufacturer filed an action for a declaratory judgment against an SEP owner seeking a determination that:

- the licensing fee offered by the patent owner (of approximately \$1 per mobile phone) was not FRAND;
- in contrast, the amount offered by the manufacturer (which was approximately 1% of that offer) was FRAND; and
- a licensing fee of less than 0.1% of the net sales of these devices was more than FRAND.

The Court of Justice in The Hague dismissed the action on all points. The judgment is significant due to several fundamental

considerations outlined by the court for FRAND calculations.

FRAND calculations of the court

The decision from The Hague discusses in detail the value of the patent portfolio offered and gives important indications for how FRAND royalties are to be determined. The court used as its starting point the percentage share of these patents in the SEPs declared to be relevant to the corresponding standard. Here, however, it considered only those patents that refer to mobile phones. On the other hand, any additional weighting of the patents using so-called ‘forward citations’ and the number of independent claims was rejected.

The court also disregarded the objection that only the smallest sellable unit is to be used as the basis for calculating royalties (possibly the chipset). In this regard, the court recognised that the value of a mobile phone is not solely vested in the transmission technology protected by UMTS and LTE patents. However, the transmission technology does significantly affect the value of the device as a whole. Even a good camera is of far less interest to the user in the absence of the ability to receive and send photos over the mobile network.

FRAND as a corridor

A further central consideration of the judgment is that a FRAND licence always inhabits a certain bandwidth. Against this background, the court accorded great significance to the willingness of the patent owner to negotiate over the terms offered and thereby situated itself in the context of earlier Dutch case law.

Based on this willingness to negotiate on the part of the SEP owner, the court then rejected a whole series of detailed objections with which the mobile phone manufacturer attempted to represent the offer of an agreement as not FRAND. According to the court, all of these points could have been discussed in the negotiations. Therefore, in light of the willingness to negotiate, the fact that the SEP

owner staked out in its offer a position that was favourable to it was insufficient to reject the offer as unreasonable.

UK perspective

The judgment of the High Court of England and Wales concerning FRAND licences in *Unwired Planet v Huawei* differs significantly from the approach taken by the courts in the Netherlands and Germany. In this case, the issue was whether two different licence rates for mobile telecommunications patents were FRAND.

The High Court started from the assumption that between two parties only one particular licence can be FRAND, and thus countered the notion that FRAND encompasses a certain bandwidth of licensing terms. However, the High Court conceded that it does not demand that the parties agree on precisely those terms that are FRAND already in the first round. Rather, it is sufficient if the offers leave room for negotiation and are not obviously non-FRAND.

In calculating the royalty that is FRAND, the court looks first and foremost to comparable licensing agreements. Here it is necessary to break down these agreements into comparable parameters (eg, by converting a one-time payment into ongoing royalties). The court also undertakes a calculation starting from the number of licensed patents and the calculation of their share of the

totality of patents declared to be standard-relevant, but it regards this more as a cross-check to compare with other licensing agreements.

As a result, the High Court arrived at royalties that were significantly closer to the offers by the SEP users (even if higher) than those of the patent owner.

Conclusion

SEP litigation is once again gathering momentum. SEPs are no longer proving to be paper tigers, but can be judicially enforced, including by way of claims for injunctive relief.

It could not have been expected that a single ECJ judgment would clarify everything. However, the national trial courts are on the way to filling the remaining gaps and answering the open questions.

In light of the large number of cases and the high productivity of the courts, this depiction would actually have to be updated on a monthly basis. Pending the next judgments from the highest courts, however, we can state the following: anyone interested primarily in the content of a FRAND judgment should look to the English and Dutch decisions. For negotiating behaviour in the run-up to the judicial proceedings, the German decisions offer a cornucopia of aspects that are worthy of consideration from both patent owners and patent users. *iam*



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