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**Standard-essential patents and FRAND licensing in Europe**

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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 judgment in *Huawei v ZTE*. This judgment has set out an antitrust law framework within which standard-essential patents (SEPs) can be enforced. The criteria laid down by the ECJ have been specified and elaborated in greater detail by the various judgments handed down in such cases. Some important questions left unresolved by the ECJ are gradually being answered by the national courts of law.

Common features and differences in the implementation of European case law can both 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 patent owners 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.

Some questions, such as how and to whom the infringement must be specified, and what patent users must do to be deemed willing to license, have largely been clarified in the meantime. The debate is increasingly addressing the core issue: the requirements to be met before the content of

an offer can qualify as FRAND and who bears the burden of proof.

## **German post-Huawei v ZTE case law**

In the years that have passed since *Huawei v ZTE*, dozens of judgments dealing with its implementation have been rendered by the regional courts in Dusseldorf and Mannheim. Meanwhile, several decisions have been handed down by the Dusseldorf Higher Regional Court. 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.

Following an initial period in which the two main jurisdictions for patent litigation in Germany had adopted different approaches to key aspects, there is now significant convergence in the precedents set in Dusseldorf and Mannheim. Some important issues will not be clarified conclusively until the Federal Court of Justice has heard the cases, and it is not foreseeable at present when the highest civil court in Germany will have the opportunity to rule on such matters.

## **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 suffice in any case. Even shorter explanations can be enough in some cases.

Further, according to settled case law, it is sufficient if the notice of infringement is sent



to the parent company. Thus, the patent owner may negotiate with only one affiliate as the representative of the entire group of companies.

### Patent user's request for licence

With respect to the patent user's declaration that it wishes to take out 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. Responses that have been submitted two-and-a-half months after the notice of infringement have been deemed as being too late, which then led to a prohibitory injunction being issued.

### 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 the 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. Consequently, in a case where the patent is used by a group of subsidiaries, the patent owner may request that the licence agreement be concluded with the parent company. In a recent series of decisions, the Dusseldorf Regional Court contented itself with a pool offer (the patent owner being under no obligation to offer individual portfolio licences, as the patent in suit was offered for licensing through a well-accepted pool).

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

There is now a broad consensus that the courts must determine whether the offer presented by the SEP is FRAND. The problem in that regard is that the courts typically have relatively scant data on which to base such an examination. However, that task is made easier by the basic assumption

by German courts that different methods may be applied when drafting the offer, and that the SEP owner must be granted a substantial amount of latitude in that respect. Thus far, the courts in Germany have refrained from commissioning experts to clarify this question.

The method most 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 – this practice will be regarded as FRAND. So-called 'top-down' methods in which a reasonable royalty is calculated on the basis of a hypothetical ceiling on the overall royalty burden also seem possible but are more difficult to justify.

As to the question regarding which explanations must be provided for the requested royalties, a well-defined body of case law has been developed. It is accepted that the patent owner must explain the background to its offer and why it believes that it is FRAND.

In the past, one important difference in the case law of these two jurisdictions was that the Dusseldorf courts saw an obligation on the part of the patent owner to present existing licensing agreements to demonstrate that the offer is non-discriminatory. The Mannheim Regional Court has accepted that logic in the meantime. The Mannheim Regional Court now proceeds on the assumption that the SEP owner must specifically show that its offer is non-discriminatory, which will generally require the disclosure of existing agreements as a rule, or at least details of their content. This is problematic, not just because there is no basis for it in *Huawei v ZTE*, but also because third-party interests in confidentiality are often affected (ie, those of existing licensees). German law does not provide for documents being designated for 'attorneys' eyes only', which makes matters more difficult.

### FRAND counter-offer by patent owner and provision of security

The courts agree that the SEP user must likewise present a complete written agreement on FRAND terms. Recent precedents established by the Dusseldorf Regional Court have shed light on this counter-offer in two respects:

- If the patent in suit was offered for licensing under a well-accepted pool licence, a counter-offer relating to the portfolios of only one or more of the pool members may be insufficient.

- On the other hand, if the alleged infringer is acting as a retailer, FRAND counter-offers may come from the manufacturer of the (infringing) devices.

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 to the amount of the patent owner's offer, whereas the Mannheim Regional Court would probably be satisfied if security were provided only to the amount of the

counter-offer. It also remains to be seen whether the provision of security must also cover past use.

### Timing and procedure

The difference in case law between 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 generally requires that all *Huawei v ZTE* obligations are completed before an action is filed. If the patent owner must catch up on its obligations in the course of the proceedings, it is suggested that



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it request a temporary stay of the infringement proceedings to allow for “negotiations without undue threat”.

- The Dusseldorf courts take the position that both parties may still fulfil their obligations during the proceedings. Naturally, this has considerable significance for the preparations and tactics of both sides.

However, there are initial signs that the Mannheim Regional Court will increasingly follow Dusseldorf case law in the future.

### The Hague ruling on FRAND royalties

One of the few decisions relating to the enforcement of SEPs and handed down in other European countries since the ECJ judgment was issued 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 to the effect that certain royalties offered by the patent owner are not FRAND but that its own counter-offer was FRAND. The Court of Justice in The Hague dismissed the action on all points.

### 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. However, it considered only those patents that relate to mobile phones.

The court disregarded the objection that only the smallest sellable unit must be used as the basis for calculating royalties. In this regard, the court recognised that the value of a mobile phone is not solely vested in the transmission technology protected by Universal Mobile Telecommunications Service and long-term evolution patents. The transmission technology does significantly affect the value of the entire device. Even a good camera is of little interest to the user if the phone cannot receive and send photos over the mobile network.

### FRAND as a corridor

A further 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 the terms being offered.

Based on the SEP owner’s willingness to negotiate, the court rejected a series of objections from the mobile phone manufacturer according to which the offer was not FRAND. The court found that these points could have been discussed in the negotiations. Therefore, the fact that the SEP owner presented an offer favourable to itself 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* differed from the approach taken by the courts in the Netherlands and Germany. That said, the judgment handed down in October 2018 by the Court of Appeal indicates a degree of convergence between the different bodies of case law. In this case, the issue was whether two different royalty rates for mobile telecommunications patents were FRAND.

The High Court proceeded on the assumption that, between two parties, only one particular licence can be FRAND. That approach has been widely criticised and was also rejected by the Court of Appeal in London. According to the Court of Appeal, different offers with different royalties may be considered FRAND. Further, non-discrimination does not require that all licensees be treated equally well in the sense of a ‘most favoured licensee’ clause. The SEP owner is not obliged to offer other licensees a favourable royalty rate that it has previously offered to one particular licensee.

In contrast to the German courts, the Court of Appeal does not interpret the ECJ judgment as an immutable set of obligations that must always be honoured by the parties in the same manner. The only essential step for obtaining a prohibitive injunction is that the SEP owner has alerted the alleged infringer to the infringement. Whether it is then necessary to go through all the steps specified by the ECJ is, according to the Court of Appeal, up to the individual case.

In calculating the royalty that is FRAND, the Court of Appeal has confirmed the approach of the first instance. Comparable licence agreements remain an important indicator for calculating FRAND royalties. It is necessary to break down these agreements into comparable parameters (eg, by converting a one-time payment into running royalties). The court also

calculates from the number of licensed patents and their share of the number of patents declared essential to the standard, but it regards this as more of a cross-check.

The Court of Appeal also confirmed that the SEP owner may only offer a global portfolio licence.

### Conclusion

It could not have been expected that a single ECJ judgment would clarify everything and the national trial courts are on the way to filling the remaining gaps and answering unresolved questions. There is much to be said for the stance adopted by the UK courts, according to which the parties' obligations as specified by the ECJ are not to be conceived of as an incontrovertible scheme that must be applied in that particular form only. Rather, for the patent owner the obligations to negotiate as laid down in *Huawei v ZTE* are a kind of safe harbour, simply due to the missing link to specific norms in EU law: if the patent owner fulfils those obligations, then nothing can prevent it from claiming injunctive relief. If it fulfils them only partially, then such relief will depend on the circumstances of the individual case

– namely, on how negotiations were conducted or on the experience of the patent user.

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. However, pending the next judgments from the highest courts, 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 by both patent owners and users. **iam**

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