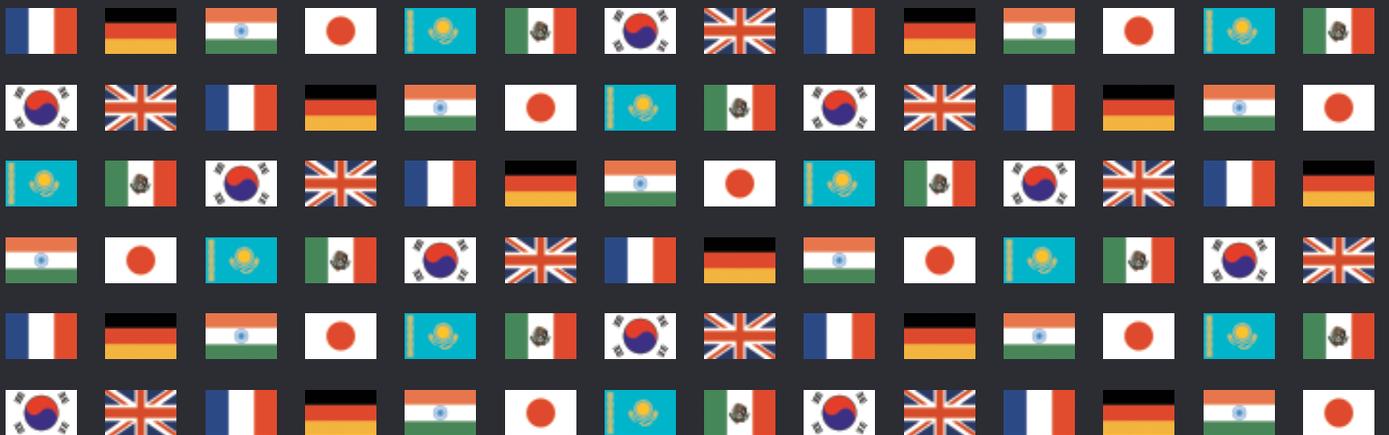


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Lexology Getting The Deal Through is delighted to publish the 15th edition of *Intellectual Property & Antitrust*, which is available in print and online at www.lexology.com/gtdt.

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SEP Litigation and FRAND Defence in Germany

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Most of today's high-tech industries depend on information technology and wireless communication. Interoperability of communication networks and standardisation of data processing technologies are, therefore, key to offering competitive products in a globalised world.

International standard setting organisations (SSOs) seek to develop and agree on workable technical solutions to provide access to systems and networks to cater for the needs of the industry.

While a technical standard is, as such, a limitation of competition, standards are generally perceived as being beneficial to the economy since they facilitate interoperability of systems and thereby foster broad adoption of a technology in the market.

As in other fields of technology, many of the contributions to a technical standard are protected by patents and comparable intellectual property rights. Where such a patent covers a technical feature of the standard (standard-essential patent, 'SEP'), an implementer who wants to use the standardised technology in its products or services will be forced to make use of this patent.

This leads to an inherent conflict between the interest of the patent owner to make exclusive use of its technology and the objectives of antitrust law to provide non-discriminatory access to a standardised technology for the benefit of competition on the merits.

In order to safeguard fair and equitable access to standardised technologies, most SSOs require a formal commitment of their contributors to be willing to grant a licence to any third party to their SEP on Fair, Reasonable and Non-Discriminatory, (FRAND) terms. This 'FRAND-declaration' typically constitutes a prerequisite for including a certain patented technology in the standard.

In many jurisdictions around the globe, including the US, China, Japan and Europe, legal concepts have been developed to ensure that access to a standard is exercised by the SEP holders in a manner that is in line with antitrust law provisions.

Germany has been on the forefront of this development, with the German first instance courts handling a great number of SEP-related cases in the last 10 to 15 years. The generally patentee-friendly courts and the comparatively low costs of litigation certainly helped this development, as did the unique German feature of 'bi-furcation', meaning that infringement and validity of the patent-in-suit are tried in separate proceedings, yielding fast first instance decisions on infringement in many cases.

While SEP cases in Germany predominantly involved chip and network technology in the field of telecommunication at an initial stage (the 'smartphone wars'), the focus has recently shifted to the automotive industry in the wake of connected cars and autonomous driving technologies. As the biggest German car manufacturers now commonly face attacks from SEP holders, SEP litigation case has recently seen a notable rise in Germany.

The legal background and state of play of the German case law relating to SEP and FRAND litigation may be outlined as follows:

European Court of Justice in re Huawei Technologies v ZTE

It is a profound principle of patent law that the patent owner has the exclusive right to exploit the patent-protected technology and to exclude any third party from its use. Thus, from an antitrust law point of view, a patent is a time-limited monopoly right.

Notwithstanding this, the the European Court of Justice (CJEU) confirmed in its landmark decision *Huawei Technologies v ZTE* (decision of 16 July 2015, Case C-170/13), that under specific circumstances, requesting injunctive relief against an implementer of a standard-essential patent can amount to an abuse of market dominance within the meaning of article 102 TFEU. In the view of the CJEU, the fact that a FRAND-declaration has been given with respect to a certain patent would establish such specific circumstances, taking account of the fact that a party interested of making use of the patented technology can lawfully trust that it will be allowed to do so if it is prepared to pay a licence on FRAND' terms.

Following from this, the implementer of a standardised technology may request to be granted a licence to the SEP on FRAND terms if he or she is faced with the claim for injunction under the SEP (FRAND Defence).

However, in order to balance the interests of the parties and to avoid an undue pressure on the implementer to agree to license terms that are unfair and abusive (unFRAND licence terms), the CJEU went on to develop a regime or road-map that is to be followed by both, patentee and implementer, when an SEP is enforced in court. The steps of this road map can be broken down as follows:

- prior to bringing suit against the SEP implementer, the SEP holder must give the implementer written notice about the SEP and how it is allegedly infringed (step 1);
- if the implementer, in reply to the infringement notice, has expressed its willingness to take a licence to the SEP on FRAND terms (step 2),
- the SEP holder must provide a written offer for a licence agreement on FRAND terms, specifying the amount of the royalty and how it is to be calculated (step 3);
- the implementer must 'diligently' (ie, in timely fashion and reasonably) respond to the FRAND offer of the SEP holder, and if the implementer does not accept the offer made to it, needs to make a FRAND counter-offer (step 4), and
- if the implementer is already making use of the SEP absent of a licensing agreement, the implementer must provide appropriate security (ie, a bank guarantee or bank deposit) reflecting the licence value of its past use of the SEP (step 5).

With this 'road map' the CJEU established obligations that both, SEP holder and implementer would have to follow in patent infringing proceedings involving SEPs.

German case law implementing the Huawei/ZTE ruling

In the early years following the CJEU decision in *re Huawei/ZTE*, German patent infringement courts were seeking to apply and implement the individual steps of the 'road map' of the CJEU to German civil court proceedings, whereby the decisions from the courts in Düsseldorf, Mannheim and Karlsruhe have led the discussion.

It is one focus of a great many of these decisions to define the actual scope of the parties' obligations as established by the CJEU.

Acknowledging that the CJEU put particular emphasis on the fact that steps 1 and 3 of the roadmap should be fulfilled by the SEP holder prior to bringing an action, the patent infringement courts of Mannheim and Düsseldorf initially interpreted these obligations in a strict sense. Accordingly, the parties to infringement proceedings were required to follow the steps in consecutive order, whereby steps 1 and 3 of the road map would have to be fulfilled by the SEP holder prior to bring a claim for injunction in court. Naturally, these early judgments focused on the proper and timely performance of the obligations by the SEP holder, and in particular, on the FRAND nature of his or her licence offer.

Meanwhile, however, it has become common ground amongst German patent infringement courts that the steps of negotiation established with the *Huawei/ZTE* road map should not be construed in a formal manner. In more recent decisions, German courts have come to the conclusion that the goal of road map established by the CJEU is to urge both parties to actively engage in negotiating a licence to the SEP on whatever can be considered FRAND terms in the given case. As a consequence, the courts assess the parties' conduct towards agreeing on a FRAND licence throughout the proceedings and decide on the proper performance of the obligations at the end of the trial.

Given this new take on the implementation of the *Huawei/ZTE* 'road map', the SEP holder may fulfill its obligation of putting the implementer on notice of the SEP and the infringement (see step 1) with a simple information about the SEP, its standard-essential nature and the products and processes of the implementer, which the SEP holder believes to infringe his or her patent. While it has been common practice in the past to provide the implementer with claim charts that map the patent claims of the SEP to the respective portions of the involved technical standard and to the features of the attacked embodiment, the FSC has recently confirmed in *Sisvel v Haier* (docket KZR 36/17) that such detailed information is not necessary for an effective infringement notice.

Once the implementer has received the infringement notice, it must review the notified SEPs immediately and promptly declare his or her willingness to conclude a licence on 'whatever terms are in fact FRAND' (see step 2), if he or she intends to rely on the FRAND Defence in the suit for patent infringement that is likely to follow the infringement notice. In its decision in *re Sisvel v Haier*, the FSC made it clear that the declaration of willingness must be straightforward and unambiguous and that any non-binding declaration of intent or a declaration made subject to conditions will be insufficient to that effect. In order to prevent a hold-up of the process by the implementer, two months are considered sufficient to react to the notice of infringement (see Courts of Appeal *Karlsruhe*, docket 6 U 183/16 – processing data packets). If the implementer takes more time to respond, it runs the risk of already losing its FRAND Defence in this early stage of the process.

The obligation to show willingness to license will not stop there, however. Instead, the implementer will be expected to turn rhetoric into action and actively engage in the licence negotiation practice, while avoiding anything in the course of the proceedings that could be considered delaying tactics.

Given the FSC's emphasis on the FRAND-willingness of the implementer, the German patent courts in Mannheim and Munich have recently shifted their focus of assessment from the initial licence offer of the SEP holder to the implementer's counter-offer for a licence, the

terms of which are considered by the courts as an indication of the implementer's genuine intent to take a licence on FRAND terms. Thus, in a string of recent decisions from Mannheim and Munich, which rely on the reasoning of the FSC in *re Sisvel v Haier*, the implementer was considered 'unwilling' to take a FRAND licensee, because the terms of its counter-offer were considered unFRAND. In a second step, the courts turned to the initial licence offer of the SEP holder in these decisions. Interestingly, the patentee was afforded considerable discretion as to what he believed to be FRAND terms in this case. Due to this broad discretion, it was considered sufficient if the terms of the patentee's licence offer were not 'obviously unFRAND'. As a consequence, the implementers were enjoined from using the standardised technology in these cases.

A second focus of the German court decisions lies, of course, with assessing of what 'FRAND' would mean in the individual case at issue. It is important to note in this relation that, unlike courts of other member states, German judges construe the FRAND topic purely from an anti-trust law perspective. Thus, they only decide on the question of whether the enforcement of the SEP amounts to an abuse of a dominant market position under the specific circumstances of the case before them. Based on this, the courts may grant an injunction, if the implementer refuses to accept a licence offer of the SEP holder that is considered 'not obviously unFRAND' by the court.

It is also common ground among German courts that there is not one specific FRAND licence rate in a certain case. Rather, a range of licence terms may (still) be FRAND and not violate article 102 TFEU. In light of this, German Courts will focus their review on whether the terms offered by the SEP holder are non-discriminatory and non-abusive within the meaning of article 102 TFEU.

Further, German courts have broadly accepted that a licence not only to the SEP in suit, but to an worldwide SEP portfolio, may be considered FRAND in a given case, provided that the portfolio offer does not unlawfully tie a licence to the SEP portfolio to a licence to non-SEPs. Also, the practice of SEP holders to request the parent company of the implementer to take a licence to the SEP portfolio for a group of companies, has been considered permissible as this would relieve the SEP holder from negotiating licence agreements with each and every implementer of the standardised technology in the downstream distribution chain anywhere in the world.

However, to enable the courts to judge on the FRAND-character of a particular licence offer, the SEP holder will be required to submit a full draft of a FRAND licence agreement and will have to explain in detail not only how the royalties are to be calculated, but also why the SEP holder believes the licence rate and the further terms and conditions of the offer do not amount to an abuse of the implementer.

If the SEP holder has granted licences to the SEP before, the focus of the courts' FRAND assessment will shift to an examination of the non-discriminatory nature of these previous licence agreements.

If the SEP holder maintains an established licence regime, which has been accepted by a number of licensees, German courts tend to accept that this licence regime complies with FRAND requirements without applying an in-depth review of the terms. Accordingly, members of SEP licensing pools, such as the MPEG LA or the AVANCI pool, have been quite successful in enforcing their SEPs before German courts where the implementers refused to accept the standard pool licence terms.

Absent of an established licensing regime, however, things are not so straightforward. In principle, the SEP holder is free to argue that the terms offered to a specific implementer may differ from a previous licensing practice for the SEP and still be FRAND. Reasons for this may include, for instance, the nature of the implementer (producer, reseller or service provider), the territorial scope of the licence, or the size of the portfolio. If dissimilar terms are applied, instead, it will be for the SEP

holder to convince the court, why he or she believes the offered terms to be non-discriminatory. This will naturally involve substantive information about licence terms previously agreed for the SEP at issue to enable the court and the defendant to identify potentially discriminating licence conditions.

Currently, German courts are divided on how to go about the SEP holders' onus to prove non-discrimination. According to the Dusseldorf Court of Appeals (docket I-2 U 31/16, 'Improving Handovers'), the plaintiff will need to produce any and all license agreements that have been concluded with respect to the SEP. This even includes licence agreements concluded by previous owners of the patent. What is more, the Court of Appeals Dusseldorf takes the position that the SEP holder is limited to the licence regime applied with respect to the patent in the past, rendering deviating licence terms in the future very difficult.

The Courts in Munich and Mannheim and the Court of Appeals in Karlsruhe (docket 6 U 183/16 – data packet processing), on the other hand, seem to be more open to differing licence terms, if the SEP holder can provide a convincing justification why 'different' does not mean 'discriminatory' in the given case. Also, the obligation of disclosing earlier licence agreements in full is applied less strictly at these venues.

The German courts are also divided on the question of whether the SEP holder is free to elect which implementer to sue within the distribution chain. The German Federal Cartel Office (BKartA) has submitted amicus curiae briefs to a number of German courts on this point of law, arguing that it would amount to a discriminatory abuse of a dominant position to go after the manufacturer of the final product (where the SEP holder can regularly collect higher licence royalties), while at the same time refusing to license a supplier upstream in the distribution chain, who has declared its willingness to take a licence on FRAND terms. While the Courts in Mannheim and Munich have refused to adopt the position of the Federal Cartel Office, the Court of Dusseldorf just stayed a relevant case and referred questions to the CJEU for clarification of this issue (docket 4c . O 17/19).

Résumé

With its *Huawei/ZTE* decision, the CJEU has established a balanced regime that is to be followed by the SEP holder and the implementer, if an injunction is requested based on a SEP. As the failure to comply with the obligations stipulated by the CJEU will result in the defeat of the defaulting party in a pending court action, the regime urges both, the SEP holder and implementer, to negotiate a licence to the SEP on FRAND terms in good faith and in a timely fashion. The German first instance and appeal courts have spent great lengths to implement the regime of *Huawei/ZTE* in manner fair and transparent for either side, while keeping the threat of an injunction alive for the implementer.

While earlier decisions of the lower German courts focused on the proper performance of the obligations by the SEP holder, the recent decision of the German Federal Supreme Court in *re Sisvel v Haier* (docket KZR 36/17) has shifted the focus on the conduct of the implementer. If the implementer wants to avail itself of the FRAND Defence and avoid being enjoined from using the standardised technology, it will have to show true and continued willingness to take a licence on 'whatever is FRAND' in the given case. The injunctions subsequently granted by German lower courts for lack of willingness of the implementer show that the bar for a successful FRAND Defence in Germany has been raised for the implementer. Given this, and taking into account that German Courts generally do not toil with calculating FRAND rates, SEP holders now have a realistic chance to obtain a provisionally enforceable injunction in Germany within 10 to 15 months from filing of the action, provided of course, they can establish that their licence offer is FRAND. The German procedure thus affords SEP holders with a considerable time advantage over comparable disputes in other jurisdictions, for example in the UK or the US.

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The decision of German Federal Supreme Court in *re Sisvel v Haier* may be seen to conclude a first phase of consolidation in the German case law after the CJEU's verdict in *re Huawei v ZTE*. Yet, the SEP and FRAND issue is likely to see further clarification by the CJEU in the coming years, given that the court of Dusseldorf referred a case to the CJEU under article 267 TFEU for further clarification of the FRAND issue in November 2020. Taking into account that the Unified Patent Court is not unlikely to start in 2021 and considering that this court will likely attract a considerable number of SEP cases, additional guidance from the CJEU will certainly be welcomed by courts and practitioners alike.

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