

Litigating standard-essential patents in Germany

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Introduction

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 in order 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 (a 'standard-essential patent' or 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 license to any third party to their SEP on Fair, Reasonable and Non-Discriminatory, (ie, FRAND) terms. This 'FRAND-declaration' typically constitutes a prerequisite for including a certain patented technology in the standard.

In most jurisdictions worldwide, 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 at the forefront of this development, with the German first instance courts handling a great number of SEP-related cases in the last 10–15 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 has recently seen a notable revival in Germany.

The legal background and current status of the German case law relating to SEP litigation may be outlined as follows:

Legal background

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.

However, it is widely accepted that under specific circumstances these rights of the patent owner require limitation. In its decisions *Standard Bung Bucket* of 2004 (docket KZR 40/02) and *Orange Book Standard* of 2009 (docket KZR 39/06), the German Federal Supreme Court recognised that a patent, which must be used when implementing an industry standard (ie, a SEP) can constitute a means that is essential to access a certain product market. Accordingly, the exercise of the right to exclude third parties from the use of such a patent may constitute an abuse of a dominant position in the technology market, which abuse may only be avoided if the SEP holder grants access to the technology by licensing the patent on fair and non-discriminatory terms.

In these decisions, the Federal Supreme Court further accepted that the implementer of a SEP can raise an objection under antitrust law and request grant of a compulsory licence. In order to be successful, however, this compulsory-licence request had to include a detailed licence offer by the implementer. This early antitrust defense has been successful only in rare cases, as the preconditions that the implementer had to meet to establish a fair and non-discriminatory licence offer were high.

European Court of Justice in re *Huawei Technologies v ZTE*

In its landmark decision *Huawei Technologies v. ZTE* (dec. of 16 July 2015, Case C-170/13), the European Court of Justice (CJEU) confirmed, as a matter of principle, that under exceptional circumstances, requesting injunctive relief against an implementer of an SEP 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 in 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.

In order to balance the interests of the parties and to avoid an undue pressure on the implementer to agree to a licence on abusive and discriminatory (unFRAND) 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, timely 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).

Apart from the antitrust objection or FRAND defence of the implementer, which is confirmed and further refined by the road map developed in *Huawei/ZTE*, the CJEU further stipulates that the implementer is eligible to contest the infringement and validity of the asserted SEP as further means of defence, thereby declaring the contrary practice in Germany inapplicable.

In light of the *Huawei/ZTE* ruling, the SEP holder is well advised to make a licence offer that truly is fair and non-discriminatory, as failure to comply with these obligations may result in its request for injunctive relief to be rejected as an abuse of market dominance. If, on the other hand, the implementer fails to accept a FRAND-compliant licence offer in a timely and reasonable manner and does not provide security to cover royalties for past use of the SEP, the implementer runs the risk of being enjoined from use of the SEP.

What should be kept in mind, however, is that an abuse of market dominance, which is a prerequisite of anticompetitive behaviour under article 102 TFEU, is only conceivable in cases where the asserted SEP truly affords the SEP-holder a dominant position in the relevant technology market. This question is for the national courts to assess and decide. Here, the German courts commonly ask whether the technical feature protected by the SEP relates to a mandatory technical feature of the standard *and* extends to a commercially essential function of the infringing product. (To give an example: a WiFi interface is a feature that end users expect in a mobile device. Hence, an SEP related to the mandatory features of a commonly used WiFi standard will very likely be considered to lead to a dominant position in the market for WiFi interface technology.) It follows from this that the road map developed by the CJEU in *Huawei/ZTE* needs to be complied with by the SEP holder only in cases where the SEP truly leads to a market-dominant position in this sense.

What is more, the road map of the CJEU only applies with respect to claims for injunctive relief, and for recall and destruction of infringing products, as it is these claims that enable the SEP holder to leverage its dominance in the technology market to downstream product markets. The claims to damages for past infringement and rendering of information, on the other hand, do not immediately affect the offer of standard-compliant products by the implementer and may, thus, be enforced regardless of competition law implications.

German case law implementing the *Huawei/ZTE* ruling

In the years following the CJEU decision in *Huawei/ZTE*, German patent infringement courts were seeking to apply and implement the individual steps of the road-map 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 timing and degree of substantiation that is required in order to comply with the steps stipulated by the CJEU.

As the CJEU put particular emphasis on the point that steps 1 and 3 of the road map need to be fulfilled by the SEP holder prior to bringing an action, the Mannheim court interpreted these obligations in a strict sense in its earlier decisions, arguing that the implementer should have a fair chance to negotiate FRAND licence terms without being under the imminent threat of an injunction. Meanwhile, however, it has become accepted practice to start SEP infringement proceedings by only asserting the claims for damages and rendering of information for past use as a first step. As said, claims for past infringement are not directly subject to antitrust limitations. Such a complaint is considered to fulfil the obligation of putting the implementer on notice of the SEP and the infringement (see step 1). It is then for the implementer to declare willingness to take a FRAND licence (step 2). If it does so, the SEP holder will have to make a FRAND licence offer (step 3) and, after a reasonable time for consideration, the SEP holder can extend its complaint to claims for injunctive relief, recall and destruction of infringing goods. This course of action has been endorsed at least by the Dueseldorf courts, recognising that this approach helps avoiding delaying tactics by the implementer. In general, the implementer is expected to reply to a FRAND offer by the SEP holder in a timely fashion if it does not want to be considered an 'unwilling' licensee. In fact, declaring willingness to take a FRAND licence and providing a counter-offer more than three months after the SEP holder's initial offer has been considered too late by German courts.

A second focus of the German court decisions lies, of course, with assessing what is FRAND in the individual case at issue. Unlike the courts of other EU member states, German judges are in agreement that there is not one specific FRAND licence rate in a certain case. Rather, a range of licence terms may (still) be FRAND: that is, non-discriminatory and non-abusive within the meaning of article 102 TFEU. As a consequence, the German courts do not occupy themselves with calculating a specific FRAND rate in a given case. Instead, it is up to the parties (initially the SEP holder) to submit licence rates and terms that they believe to be FRAND. This approach is in line with the basic principle of German civil court procedures, where the courts must only decide on the facts brought before them by the parties to the proceedings.

However, in order 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 to be FRAND.

German courts have meanwhile accepted that a licence not only to the SEP in suit, but to an entire SEP portfolio on a worldwide basis can be considered FRAND in a given case, provided, however, that the SEP holder can show that the patents in the portfolio are used by the implementer. The use of the patent portfolio may be made plausible by way of claim charts for a few selected patents (proud list), so that not each and every SEP of the portfolio must be litigated.

Further, German courts have accepted to request the parent company of the implementer to take a licence to the SEP portfolio for a group of companies, relieving the SEP holder from negotiating licence agreements with each and every subsidiary in the distribution chain.

In case the SEP holder has already 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.

As there is no single set of FRAND terms in a given case, the SEP holder can argue that the terms offered to a specific implementer are FRAND, even if these terms differ from a previous licence practice with

respect to the SEP. 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. However, against the backdrop of an existing licensing practice it will involve considerable effort for the SEP holder to convince a court why a different set of terms is still non-discriminatory in the given case.

The Düsseldorf courts, in particular, have adopted a strict position on previous licensing practices. A SEP holder will basically be required to disclose the terms of all licence agreements concluded in respect of the asserted SEP. In a recent and much-debated decision, the Court of Appeal Düsseldorf (docket I-2 U 31/16, *Improving Handovers*) has taken this one step further: the plaintiff will even need to produce licence agreements that have been concluded by the previous owners of the SEP. As a consequence, the SEP holder will be more or less bound by the licence regime implemented by a previous patentee, limiting the SEP holder's option to offer licence terms that it believes to be more adequate to the current circumstances of the case. In any event, parties who acquire SEPs with the aim of monetising them by way of enforcement are now well-advised to request the selling party to disclose any licence agreements concluded with respect to the SEP portfolio.

Of course, this line of case law of the Düsseldorf courts may prove difficult to implement for the SEP holder, given that most licence agreements are confidential. The issue may be addressed by the SEP holder and implementer concluding non-disclosure agreements before the licence contracts are disclosed to the court. However, it can prove difficult to get all involved parties, including the previous licensees, on board.

Summary

With its *Huawei/ZTE* decision, the CJEU has established a balanced regime that is to be followed if an injunction is requested based on a SEP. As failure to comply with the stipulated obligations will result in the defeat of the defaulting party in a pending court action, the regime urges the SEP holder and implementer alike 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 gone to great lengths to implement the regime in *Huawei/ZTE* in a manner that is fair and transparent for both sides, while keeping the threat of injunction alive for the implementer. However, a recent decision of the Appeals Court Düsseldorf, which requires the SEP holder to disclose all licence agreements made with respect to the SEP, including agreements concluded by previous owners of the SEP, will likely make SEP enforcement more cumbersome for SEP holders in the near future. It is hoped that the German Federal Supreme Court will shed further light on this topic. A first Supreme Court decision in a FRAND case is expected to come out in 2020.

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