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PATENTEES BEWARE GERMAN ANTITRUST RULES

GRÜNECKER, KINKELDEY, STOCKMAIR & SCHWANHÄUSSER

Germany's Federal Supreme Court recently clarified the obligations of patent owners to grant licences under the country's antitrust rules. **Gerhard Barth** of **Grünecker, Kinkeldey, Stockmair & Schwanhäusser** explains what they mean in practice

Patentees beware German antitrust rules

For a long time, the possibility of an antitrust defence did not seem to exist in German patent infringement suits. However, in recent years, German courts have dealt with a series of cases that raised the question of whether infringement claims brought by a market-dominating patentee can be barred in cases where the patentee has discriminated against the alleged infringer by either refusing to grant him a licence or offering to grant a licence on terms that are not in line with other licences that the patentee has already concluded.

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The early cases

The German Federal Supreme Court (BGH) dealt with a case in 2004 in which the patent owner was dominating the market because a certain product (a standard barrel) was subject to technical specifications of the chemical industry in Germany which could only be complied with if the patent were used (BGH July 13 2004 – case No KZR 40/02 – Standard-Spundfass, IIC 2005, 741). In that case, the BGH ruled that if an industry standard requires a product design that is standardized and protected by IP rights, the licensing of rights that enable potential suppliers of this product to offer and sell to the market constitutes a market of its own that is downstream from the product market. The owner of a patent which has to be used to meet the standard is dominating this downstream market.

In this Standard-Spundfass decision, the BGH could leave it open whether the refusal of a patent owner to grant a licence to a potential supplier could bar the patent owner from obtaining an injunction against the supplier who had been denied a licence and used the patent anyway. The BGH only had to deal with the patentee's damages claim. The Court confirmed that a damage claim could be excluded if the patentee had violated antitrust laws by denying the patent infringer a licence which the latter was willing to take.

Since this decision, several trial courts have confirmed, in principle, that a patentee can be denied injunctive relief if he tries to enjoin someone who is entitled to a licence under antitrust law. The BGH has recently had an opportunity to decide on an appeal of one of these decisions (Bundesgerichtshof, May 6 2009, case No KZR 39/06 – Orange Book Standard).

The Orange Book Standard case

The patent in suit was granted for an optically readable record carrier of the inscribable type – in other words, for recordable compact discs (CD-Rs) and rewritable compact discs (CD-RWs) with the specific features of the Orange Book Standard. Since every CD-R and CD-RW on the market has to comply with the specifications of the Orange Book Standard, they necessarily made use of the patent. The patent owner is prepared to grant licences to potential producers and has already granted licences with various licence fees which are, in the view of the defendants in the case, too high. The defendants were prepared to pay a licence fee of 3% of the net sales price of the discs, which they argued to be adequate.

Alleged discrimination

The defendants claimed that the patentee who was dominating the market was discriminating against them by refusing to grant a licence under the terms proposed by them, thereby violating the German Anti-Trust Law, and thus lost his right to obtain an injunction against the unauthorised use of the patent.

The Court of Appeals had found that the patent owner was, in view of the importance of the patent for the Orange Book Standard, a market-dominating enterprise and therefore subject to the antitrust provision which forbids discrimination against other enterprises which depend on doing business with the dominating enterprise. While this could have led to a bar to the patent owner's injunction claim, the Court of Appeal had not found unlawful discrimination, since the defendants could not show that the patent owner had ever agreed to conclude a licence in return for the licence fee proposed by the defendant. The Court of Appeals therefore confirmed that an injunction against the defendants was justified.

Patentees who trusted that they would be able to enforce the patent with an injunction without considering their obligations under antitrust laws will have to reconsider their strategy

This gave the BGH an opportunity to answer (for the first time) the question of whether an injunction could be barred if the patent owner was a market-dominating enterprise and had – allegedly – violated antitrust laws by discriminating against the alleged infringer.

The BGH emphasized that the refusal of a market-dominating patentee to grant a licence on reasonable conditions excluded an injunction, because the attempt to enforce the patent against the discriminated infringer is a misuse of a market-dominating position. By refusing to grant a licence, the patent owner blocks the alleged infringer's entry into the market, whereas it is obliged to make that market entrance possible. As the BGH points out, the patent owner cannot rely on Article 31 of the TRIPS Agreement, since that provision permits to grant the use of a patent even without the consent of the patentee. However, in the case at hand, the BGH confirmed that the patentee was entitled to an injunction anyway.

When injunctions can be refused

The BGH formulated two conditions to clarify when a patentee should be denied an injunction:

1) The alleged infringer who is asking for a licence has to make an unconditional offer for a licence agreement in which the conditions are such that the patentee cannot refuse it without violating antitrust laws; and
2) The alleged infringer who already uses the patent before a licence is concluded has to meet the conditions of a hypothetical licence agreement.

There are some questions as to how the first condition can be implemented in practice. In the decision, the BGH refrained from further explaining what conditions the alleged infringer must meet in his offer to take a licence. The Court merely stated that if the alleged infringer makes an offer based on the "usual conditions", the patentee can only refuse it if he is prepared to offer other conditions which are within the duties imposed upon him by the antitrust laws. The term "usual conditions" obviously includes provisions which are usual in any licence and specifically to licences in the relevant industry. However, the alleged infringer may not know how far his own offer deviates from the terms that the patentee usually agrees upon with his licensee; this brings an element of uncertainty to the alleged infringer's offer.

According to the decision, the alleged infringer may not try to escape his obligation to make an offer for a licence by making it conditional. Specifically, the alleged infringer may not offer to conclude a licence deal on condition that the court finds his own use to be within the scope of the patent.

The second condition is likely to raise even more problems when it comes to practical implementation. If use of the patent commenced before a licence contract is concluded, the user is, in practice, anticipating the rights conveyed upon him by a licence. According to the BGH, he also has to anticipate the obligations of such a contract by submitting regular accounts about the extent of his use and paying the licence fees which became due as a result of the use.

If the user of the patent fails to do this, the patentee will not be deemed to have misused the patent by enforcing it. According to the decision of the BGH, the user of the patent may either pay the patentee or deposit an amount in favour of the patentee. The latter possibility safeguards the interest of the patent user in case the patent is not infringed. While the decision is silent as to the possibility of replacing the actual payment with a bank guarantee in favour of the patent owner, it seems obvious that this will be insufficient. If the user of the patent pays the licence fee into a deposit, the patentee will, at the end of the day, receive only the adequate licence fee and any balance will be returned to the user.

It is obvious that there will be practical difficulties involved because the patentee and patent user will inevitably have different ideas about what constitutes a reasonable royalty. The situation is even more difficult if the patentee refuses to define any royalty because he feels entitled to refuse a licence in the first place.

Reasonable royalty

The BGH decision tries to offer a way out of these difficulties. If the patentee refuses to grant a licence at any royalty rate, the patent user may make an offer to pay a licence fee which the patent owner defines under the principles of equity. This possibility avoids the need for the patent user to offer too high a licence fee which the patentee then gladly accepts. However, the offer of a licence fee which has to be determined by the patentee has to be accompanied by a payment of an amount as a deposit which is clearly high enough to satisfy the patentee. In practice, this means that the patent user, even when offering to pay a licence which has to be defined by the patentee, has to pay quite a lot more than he may think appropriate in the hope that he can recover part of the payment on the grounds that only a smaller amount is justified under the aspects of a non-discriminatory licence fee.

The dispute about the adequacy of the royalty will be postponed to a second law suit.

Under the circumstances of the case decided by the BGH, it was deemed unnecessary to resolve the question of whether the patentee was forced to grant a licence at all and whether he offered reasonable conditions. It was obvious that no licensee of the patent paid a licence fee as little as

3% of net sales. Moreover, the defendants did not meet the second condition of the BGH either. They were therefore found to be infringing and the injunction granted against them was upheld.

Patent standards

The decision of the BGH is likely to gain importance in a number of patent infringement cases in which the patent covers an industry standard which has to be met by practically everyone in the industry. This is especially true for the area of communications technology. The decision will also be relevant for so-called ambush patents in which a producer participating in a standardizing procedure acquires patents but fails to disclose them during the negotiations of the standard.

It is obvious that the decision imposes burdens on both parties.

Those patentees who trusted that they would be able to enforce the patent with an injunction without considering their obligations under antitrust laws (in particular when requiring very high licence fees or refusing to grant a licence at all) will have to reconsider their strategy.

On the other hand, the courts will not sanction patent infringers who believe that they are entitled to a licence under antitrust laws without paying anything before the questions concerning the adequacy of the licence fee are resolved. The obligation on them to offer a licence, the conditions of which are clearly good enough that they have to be accepted by the patentee, is not a particularly easy one, especially if the patentee's standard conditions are not generally known. The alternative, namley to offer a licence on the condition that the patentee has to define the royalty under equitable considerations, only resolves the problem of the offer. There remains the sometimes difficult task of determining and paying a licence fee which is high enough that it cannot be refused by the patentee. This may be especially difficult if several patents are being used. Often, there will be an opportunity to acquire a pool licence to all patents which are relevant for an industry standard. If the patent user does not want to acquire (and pay for) such a pool licence because he wants to restrict the use to a certain area, he is on his own when it comes to calculating a licence fee which is high enough to avoid an injunction.

The possibility of reclaiming part of the payment in a second lawsuit offers some consolation but is obviously less than many users may have hoped to get.

Last but not least, it must be borne in mind that in many, if not all, cases in which the patent has already been used, patent users will not have met the conditions set out by the BGH. To avoid an injunction, they therefore have to make payments back to the time they started to use the patent, which may involve a rather large investment.

It remains to be seen how the mechanism designed by the BGH works in practice.