

FRAND-RULES CLEARER AFTER CJEU RULED ON HUAWEI V. ZTE

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On July 16, 2015, the Court of Justice of the European Union (CJEU) handed down its long-awaited decision regarding potential antitrust limitations when enforcing standard-essential patents (SEPs).

The CJEU clarifies under what conditions an SEP-owner may enforce claims based on alleged patent infringement. In essence, the CJEU strikes a balance between the interests of an SEP-owner and an alleged infringer. The holding of the CJEU will be applied by patent infringement courts throughout the European Union. Given the high number of SEP infringement cases, its importance cannot be underestimated. However, even though FRAND-rules are now significantly clearer than before, many important questions remain unanswered.

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1. Dispute

The dispute arises from an European Patent (EP) owned by Chinese telecommunications company Huawei. This patent had been declared “essential” to the LTE-standard. This means, according to Huawei, that anyone seeking to manufacture LTE-compliant products must use its EP.

Based on its EP, Huawei sued ZTE, which had been selling products that Huawei regards to infringe, because of their conformity with the LTE-standard. The complaint was filed in Düsseldorf, Germany.

In Germany, over the past few years, courts had followed a very SEP-owner-friendly approach by relying on the often cited “Orange Book”-decision of the German Federal Supreme Court. However, the District Court Düsseldorf, hearing the Huawei v. ZTE case was in apparent doubt whether the “Orange Book” holding was compliant with EU laws and referred a set of very specific questions to the CJEU. The court sought to clarify under what circumstances a SEP-owner abuses its dominant position by going against infringers (Article 102 TFEU).

Prior to the referral of the District Court Düsseldorf, the EU-Commission had been investigating similar cases brought by Samsung and Motorola.

2. Decision

The CJEU addresses the following - rather common - fact pattern:

- A patent is regarded to be standard-essential by its owner;
- the owner has provided an (irrevocable) undertaking to license under FRAND-terms;
- the owner has a dominant position on the relevant market.

The judgment of the CJEU can be summarized as follows:

- If the SEP-owner (only) asserts claim for accounting and damages:
 - It is entirely free to do so.

- If, however, the SEP-owner wants to assert claims for injunctive relief and/or a recall, things become more complicated, since both parties need to fulfil certain duties in order to retain their rights:
 - In a first step, the SEP-owner must alert the alleged infringer by designating the patent and how it is infringed.
 - If the alleged infringer does not want to take a license, the SEP-owner may sue.
 - If, however the alleged infringer declares its willingness to conclude a license agreement, the SEP-owner must present a written offer for a license on FRAND-terms (specifying, in particular, the royalty and how it shall be calculated).
 - If these requirements have been met, it is on the infringer to diligently respond to that offer in accordance with recognized commercial practices in the field and in good faith. This may require a written counter-offer and the provision of security (such as a bank guarantee) for the royalties due for past and continuing sales.

In sum, the CJEU imposes duties on both parties: The SEP-owner needs to become active and offer a FRAND-license, and the alleged infringer, if it refuses to accept this offer, must submit a counter-offer. The CJEU clarifies that the infringer cannot be criticized for challenging, even while negotiations are going on, the validity of the SEP and/or the essential nature of the SEP to the standard and/or the actual use, or for reserving the right to do so in the future.

In the future, it will constitute an abuse of a dominant position under Article 102 TFEU (only) if the SEP-owner has violated its obligations.

3. Evaluation

It is important to note that the claims for (past) damages and rendering of accounts do not require any pre-trial actions of the SEP-owner. This means, that even though negotiations with the alleged

infringer may need to be initiated before seeking injunctive relief, damages and claims for accounting may already be filed. From a strategic point of view, this may make sense for an SEP-owner because it puts considerable pressure on an alleged infringer. In addition, the CJEU emphasizes that the alleged infringer may not engage in delaying tactics, meaning that the negotiations that shall take place before bringing a claim for injunctive relief, may not drag on for too long anyway.

4. Open issues

As has been stated in the introductory remarks, the scheme developed by the CJEU is only a framework and leaves open many important issues that will definitely come up in practice. By way of example, the following questions remain:

- Under what circumstances does an SEP-owner need to be regarded to have a dominant position in the market?

Article 102 TFEU only applies to parties that enjoy a dominant position in the relevant market - but the CJEU does not say that ownership of an SEP *per se* results in a dominant position. This was not part of the questions referred to it.

- How, in practice, will courts apply “objective factors” to assess whether an offer is FRAND, and when it is not?
- What are the “recognized commercial practices in the field” and under what conditions does a response fall short of “in good faith”?
- Under what conditions may a court assume that “delaying tactics” have been applied by the alleged infringer?
- Specifically, acknowledging that the CJEU explicitly allows the alleged infringer to attack the SEP’s validity and question its essentiality - doesn’t that always delay negotiations?
- Won’t this holding lead to a significant increase of the work load of the court in that it will not only need to rule on whether a particular SEP has been used by the alleged infringer (which is often times difficult enough), but also whether (or not) an offer made by either of the parties

is FRAND (or not)?

In other words, probably a number of rather complex licensing-relevant issues will find its way into infringement cases.

5. Outlook

The CJEU's decision will impact SEP-litigation significantly throughout Europe. The fundamental approach of the CJEU is that an SEP-owner needs to take action before seeking injunctive relief. This is a significant deviation from the German "Orange Book"-approach. It is probably to be anticipated that courts will need to decide on what material provision make up is a FRAND-offer from now on, which may bring about a delay in proceedings. Claims for damages, in particular, though, remain free of any limitations.

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