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FRAND-based litigation and competition issues in Europe

While FRAND disputes have been on the rise in Europe, a pending ECJ decision may end the heyday of FRAND-based litigation – in Germany at least

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For the past few years, FRAND-based litigation has played an important role in the European contentious landscape. But what exactly does the term ‘FRAND-based’ mean? What are the practical implications of FRAND-based litigation in commerce? What are the current developments in practice? What is to be expected in the future? This article seeks to answer these questions.

What is FRAND-based litigation?

The term ‘FRAND’ is an acronym for ‘fair, reasonable and non-discriminatory’. The term is used by organisations that develop, set and administer technical standards – so-called ‘standards-setting organisations’ (eg, the European Telecommunications Standards Institute and the Institute of Electrical and Electronics Engineers). These bodies play an important role in various industries by organising meetings between technical experts in order to agree on technical standards. Examples of such standards include Moving Picture Expert Group, Universal Mobile Telecommunication System (UMTS), Global System for Mobile Communication (GSM) and Digital Video Broadcasting. Such technical standards allow for the interoperability of products of different manufacturers (ie, to ensure that they can communicate with each other). For example, a UMTS-enabled mobile phone of Company X can effectively communicate with a UMTS-

enabled mobile phone of Company Y because both conform to the UMTS standard.

Wherever new technology is developed, there is potential for invention; this is also true in the area of standards setting. Often, inventions are made on (minor) aspects of a standard and the inventor usually rushes to have its invention patented before the standard is put into practice. In the most crucial cases, the patent is essential for a certain device that makes use of a particular technical standard, meaning that when the standard is actually used, a given patent is automatically used – and thus infringed. This is where standards-essential patents come into the picture. Needless to say, a standards-essential patent confers considerable power on the rights holder, given that any entity that wants to make use of the standard must obtain its permission. In terms of competition law, the rights holder is regarded as having a dominant position in the market.

Whenever an entity has a dominant position in the market, competition issues come into play. This is because the holder of a standards-essential patent may effectively block entities from entering a particular market by refusing to license its patent. Therefore, standards-setting organisations request that patentees submit FRAND declarations confirming that they are willing to license their patents on FRAND terms. The idea is that any entity has the right to obtain a licence to the respective technology on FRAND terms.

In theory, this may sound like a workable approach; but in practice, determining what does and does not constitute FRAND is controversial. Often, parties discuss the adequacy of royalty fees; if they agree on

this, negotiating the other licensing terms is often relatively easy. However, in practice, it is almost impossible to determine what a FRAND royalty actually amounts to. For example, smartphones make use of hundreds of different patents. How can a FRAND royalty for one (or several) standards-essential patents be determined? Thus, views diverge on what constitutes FRAND, which has led to significant litigation activity throughout Europe, most notably in the area of smartphone patents in Germany. Apple, Samsung, Motorola Mobility, Microsoft and others are all parties to complex patent litigation in Germany and other European countries.

In practice, enforcing standards-essential patents is simplified in that infringement may be proved by what is stated and described in the technical standard. This is based on the assumption that a product that is advertised as complying with a given technical standard (eg, a UMTS-enabled phone) is naturally regarded to fulfil all mandatory teachings of the standard. In order to prove infringement, a patentee may thus rely on the description of the standard, rather than conducting a time-consuming, expensive and potentially fruitless re-engineering of the offending/relevant product.

Concerns regarding FRAND-based litigation

There have always been serious concerns regarding FRAND-based litigation. Such concerns relate in particular to the fact that the patentee benefits to a large extent from the fact that its patent has gained importance and, as a result, increased in value by its selection as a standards-essential patent by a standards-setting organisation, and that no entity in the same market can effectively avoid making use of it. Moreover, in almost all cases, the patentee will have submitted a FRAND declaration. So, why is an entity that has declared itself willing to license on FRAND terms entitled to enforce its patent rights and oust a competitor from the market? Would it not be fairer to limit the patent owner to claiming royalty fees, as it has declared itself willing to grant licences? A standards-essential patent owner can be said to have been lucky, because had its patent not

been selected to become part of the standard, it would be worth much less; so should not the owner be limited in pursuing claims? Is this not even more justified when considering that if a licence is refused for just one of several patents, this may effectively block an entity from entering a particular market? On the other hand, why should a standards-essential patent owner not be entitled to sue if an entity – in most cases, a competitor – is (maybe even intentionally) delaying licensing negotiations? After all, a standards-essential patent is issued just as any other patent and should therefore be enforceable, should it not?

These and other questions have been fiercely debated over the past few years.

Courts' view

That enforcing a standards-essential patent which is covered by a FRAND declaration is subject to some restrictions and limitations is to be expected. However, where to draw the line is a point of contention. Courts across Europe have failed to agree on this issue, and defendants in FRAND-based litigation face substantially different requirements across Europe in order to argue successfully that the plaintiff should be barred from enforcing the standards-essential patent – commonly referred to as the 'FRAND defence'.

Probably the most well known is the approach of the German courts, following the Federal Supreme Court's *Orange Book* decision. Given that this decision set strict requirements for successfully raising a FRAND defence, Germany has since become an attractive forum for FRAND-based litigation. Patentees could be almost certain that they would encounter no objection from the German courts when enforcing their standards-essential patents. This was due to the fact that in order to raise a FRAND defence successfully, the defendant had to demonstrate that it had:

- offered a reasonable licence agreement to the patentee; and
- fulfilled all obligations resulting from a licence agreement (even in cases where the offer was rejected).

As far as is publicly known, this defence has been raised successfully in only a

handful of cases out of hundreds. Courts in the Netherlands and the United Kingdom reportedly set much lower requirements for the FRAND defence.

This was one reason why much standards-essential patent-related litigation was heard before the German courts. Over the past few years, all major smartphone manufacturers have litigated extensively in the Mannheim, Dusseldorf and Munich courts. Despite the fact that a FRAND defence has seldom been raised successfully by a defendant, relatively low legal fees and straightforward and swift proceedings nevertheless attracted standards-essential patent owners to litigate in Germany.

ECJ decision on the horizon

The heyday of FRAND-based litigation in Germany may soon be over, as the Dusseldorf District Court referred a FRAND-based case to the European Court of Justice (ECJ) in February 2013 and stayed the matter in the meantime.

The Dusseldorf District Court's decision to refer the case was triggered by a December 2012 European Commission press release, which contained information on the issue of a statement of objection against Samsung. Samsung had sued competitor Apple, despite the fact that both parties were engaged in negotiations for a FRAND licence. Apple lodged a complaint with the commission alleging, among other things, that in light of the FRAND declaration that Samsung had submitted, suing a competitor for injunctive relief constituted an abuse of dominant position. Few facts and details as to the commission's reasoning were revealed in the press release. Nevertheless, the Dusseldorf District Court recognised that the opinion expressed by the commission apparently

requires a lower threshold for a successful FRAND defence than was defined in the *Orange Book* decision, which has been followed by German courts over the past few years. The Dusseldorf District Court subsequently forwarded a set of questions relating to the FRAND defence to the ECJ, in order to clarify the conditions under which a FRAND defence may be raised successfully.

In May 2013 the commission issued a second statement of objections, this time directed against Motorola Mobility. This press release was more detailed. It stated that the commission will consider a claim for injunctive relief to constitute an abuse of dominant position if:

- the patentee has declared itself willing to grant licences on FRAND terms; and
- the defendant has declared itself willing to take a FRAND licence and leaves only the determination of an adequate royalty fee to a court.

The relevant patents of Motorola Mobility related to the European Telecommunications Standards Institute's General Packet Radio Service standard, as part of the GSM standard. Despite its FRAND pledge, Motorola Mobility had enforced an injunction against Apple in Germany, notwithstanding that Apple had declared itself willing to pay FRAND licence fees. The commission expressed concern that the threat of injunctions could distort FRAND licensing negotiations and lead to licensing terms that licensees would have rejected in the absence of this threat. The commission emphasised that this may lead to less consumer choice.

The commission's two statements of objection are by no way final. The issuing of a statement of objection does not prejudice

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the final outcome of an investigation. In addition, the commission emphasised the specific circumstances of these cases. However, it is clear that the commission is sceptical as to whether a dominant standards-essential patent owner should have recourse to injunctions, which generally involve a prohibition against sale of the infringing product. Therefore, the second statement of objections issued in May 2013 seems to support the Dusseldorf District Court's decision to refer this case to the ECJ.

Outlook

The interesting issue is how FRAND-based litigation will proceed in Germany and other European countries now that the ECJ is close to rendering a decision.

One thing seems clear: it will not be as easy as before for standards-essential patent owners to enforce their patents, especially in Germany. The heyday of FRAND-based litigation in Germany is over. A patentee must anticipate that district courts will be inclined to await the ECJ's decision (expected in Summer 2014) and stay proceedings until they receive instructions from the ECJ. Of course, every case is different and in some it may not be necessary to await the ECJ's decision. However, a smart defendant would nevertheless try to initiate and keep negotiations ongoing before and during litigation – and certainly up to the point that the ECJ renders a decision.

This may result in negotiations for FRAND licences being taken more seriously by both sides: the patentee knows that it may be restricted in enforcing its patent, and the defendant must show a certain degree of willingness to negotiate seriously. In effect, this may lead to the conclusion of FRAND licences; and where such a licence is executed, no litigation to enforce the patent is required. **iam**

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