

SHARED KNOWLEDGE IS TWICE AS VALUABLE.

Patents and Standards: Recent Developments in Germany

Dr. Ulrich Blumenröder, LL.M.

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The telecom war mushrooms. In its tail it induces the development of case law on the conflict of patents and standards. Germany being one of the major battlegrounds provides decision on a high number of issues making it prudent to summarize the current status of what can be considered solved and what has to be identified as un-solved.

Patents and Standards: Recent Developments in Germany

Dr. Ulrich Blumenröder, LL.M.

About 20 years ago, a conflict of patents and standards was barely known of within the legal community. If at all, it was a topic in universities. Standardization organizations knew of the problem and dealt with it in their statutes or policies. Nonetheless, not many cases were actually making it to the courts. This changed with cases like *Magill*, *IMS Health* and *Volvo/Veng*¹, introducing the American concept of the Essential Facility Doctrine² into Europe. However, while these cases mainly dealt with the question of whether the owner of an intellectual property right must grant a license, they hardly touched on the issue of how the contents of any such license agreement were to be drafted and commented on how to implement a claim to a license (if there is any) into the procedure of an infringement action – be it national or multi-national. Neither of these cases dealt with the standards set by standardization organizations like ITU³ and ETSI⁴. The prevailing notion was still to avoid a conflict between standard and intellectual property rights by imagining that it was possible to have standards not making use of any intellectual property rights.

Times have changed, and patent litigation involving essential patents has started becoming normal, even if the cases are of significant impact for the parties involved. The issue is not made easier by the plaintiffs of such patent infringement cases in many instances only being in the business of licensing out intellectual property rights.

1. Basic Problem

There is a necessary conflict between any standardization and intellectual property

¹ EuGH Slg. 1995 I, 808 – *Magill*; EuGH Slg. 1988, 6232 – *Volvo/Veng*; EuGH GRUR 2004, 521 – *IMS Health*

² see Robert Pitofsky, <http://www.ftc.gov/os/comments/intelpropertycomments/pitofskyrobert.pdf>

³ www.itu.int

⁴ www.itu.int

rights. Standardization is mostly welcomed, since it allows reduced investment for a technology and reduces manufacturing costs. Standardization also increases competition, since it allows more and more entities to offer products comparable to the consumer. This is especially true in the telecommunications market, where the traditional borders between computer technology and communication technology seem to fade away. Computers and cell phones become interoperable and increasingly offer similar or even the same functions. The increase of international communication and travelling also adds to the need of consumers to have the same devices which work in all (or at least in many) areas of the world.

This trend triggers a broader and broader creation and application of standards, for instance like GSM, GPRS, UTM, MPEG-2, DECT, DSL or Orange Book.

This concept of standardization gives deference to the idea that a certain technology should be accessible to a rather broad number of companies. In an ideal world, everyone should be able to make use of the standard without any administrative, legal or, in particular, financial inhibitions. Intellectual property rights – quite contrary to the above – are meant to award the individual (or rather the individual company of the inventor) for ingenuity but more so for substantial investments into an innovation. While it is the duty of the applicant to fully disclose his or her invention, the inventor is entitled to decide on the use of the technology for a certain period of time⁵.

In case the use of the standard requires the use of a patent, the two principles are substantially in conflict. The use of the standard is no longer (if ever) accessible to the public. Rather, it is only to be used on the

⁵ see Ullrich, *Patente, Wettbewerb und Technische Normen: Rechts – und Ordnungspolitische Fragestellungen*, GRUR 2007, 817, 820 et seq. with further references

condition of the consent of the intellectual property owner. One has to address this problem

- in creating a standard and
- in enforcing patents which are used in the course of using the standard.

The problems go far beyond a reasonable financial remuneration for the respective patent owner.

2. Sources of Standards

There are various kinds of “standards”⁶, which are to be treated differently depending on how much deference one wants to give to the interests of the public in a standard on one hand, and to the interests of the patent owner on the other.

De facto standards can be established by single firms which become so dominant in the market that other companies wanting to provide products in a downstream market must have access to the standard in order to be in a position to offer their products. The European Commission, for instance, was convinced that Microsoft had gained such a dominant position for PCs with its Windows software that it had to both grant access to the data of the interfaces as well as to grant licenses (under fair, reasonable and non-discriminatory terms) for any intellectual property right a company making use of such interfaces might otherwise infringe⁷.

Standards can also be formed ad hoc by companies agreeing to establish a certain system in the market without an exhaustive standardization procedure. Depending on the technology as well as the number of participating companies, such standards can be very powerful or so weak that they do not gain any importance.

Finally, there are national and international

⁶ see Dolmans, Standards for Standards, <http://www.ftc.gov/opp/intellect/020522dolmans.pdf>, footnotes 2-5

⁷ COMP/C-3/37.792 - Microsoft

standard-setting organizations. The members of such organizations can be countries, companies or both. Naturally, they can focus their activities on certain products or on certain territories only⁸.

3. No Ideal World

In an ideal world, whatever the standard, there would be no intellectual property right essential for making use of a patent. To establish this goal in such an ideal world, any patent application or patent would not trigger the respective technology to be established as a standard or that another technology or no technology would be “declared” standard. Given that standardization has so many advantages that some fields require technology to avoid too large of investments and that many modern day technologies involve so many patents, however, it is no longer possible to avoid the conflict by selecting certain standards. Rather, it needs to be accepted that players in the market will make use of patents of competitors if applying the standard. Hence, the goal cannot be to avoid the conflict but to moderate the clash.

4. Problem Areas

There are two large areas to be distinguished, namely the standardization process itself and the handling of the conflict between patents and standards once a standard has been implemented and companies start to seek to start working under the respective standard. Typically, there will be an overhaul of the two areas in that a standard is not set once and for all but is further developing and thereby continuously creates problems in the standardization process.

The standardization process itself shall encourage standardization in light of the values described above. It shall ensure that, despite the conflict between patents and standards, rules are implemented in the course of standardization which ensure others access to such intellectual property

⁸ For instance DIN on Germany

rights. Typically, such access should be achieved not only in specific jurisdictions or with respect to certain companies, but on a broad basis. Furthermore, the condition under which the access is achieved shall not render the access to be a theoretical option but instead be fair and reasonable.

By doing so, the standardization process needs to comply with the anti-trust laws of all the countries where the standard shall be implemented⁹. Hence, rules to disclose patents, to waive means for injunctions, to grant licenses in consideration of specific royalties or for reasonable royalties, to grant licenses under FRAND¹⁰ conditions on the basis of reciprocity and so forth need to be such that the anti-trust authority does not have to intervene. Likewise, the inner structure of any entity setting up a standard – especially including the access to the standardization process – needs to comply with the anti-trust rules. Provisions of a Patent Pool Agreement (which form a standard not being set up by a standardization organization) are sensitive in this area. Given the fact that any patent pool will necessarily possess a certain market power and therefore a market share, it is likely that standard exemptions from anti-trust rules like the Block Exemption Regulation on Technology Transfer will not apply. In any case, patent pool agreements have to be drafted with even more care than other technology transfer agreements¹¹.

The post-standard process contains one main problem, namely the question of whether third parties will have access to the standard. In more detail, however, this involves the question of whether a patent owner shall be entitled to enforce his patent at all or whether he is to grant a license. If it is a license, the question of the conditions of such a license arises. There is not only the royalty to consider (which might be non-existent, reasonable or excessive, depending on the

specific circumstances). Further issues like accounting, granting of sub-licenses and information on improvements need to be defined. Even more important is the definition of the group of third parties being entitled to access to the patent in question. This group can be anyone, i.e. only those having participated in the standardization process, those also holding a patent to the standard or those offering licenses to essential or other patents.

Finally, the post-standard process involves the problem of implementing any of the above into a patent infringement litigation. One can opt to deny access until after a complaint for granting a license has been successful. It is also conceivable to expect the patent owner or rather the entity interested in a license to provide a suggestion for a license agreement. More specifically, one has to decide whether any such suggestion needs a detailed wording of any provision of a license agreement or whether a more general reference to usual or “reasonable” terms shall suffice.

The area is filled with unsolved problems, but in some respects, the situation becomes clearer, at least in Germany.

5. Problems “Solved”

Only a few of the issues arising in the context of the conflict between standards and patents can truly be coined as “solved”. This especially applies if one refers not to one jurisdiction but to all jurisdictions. Nonetheless, however, there are a number of issues where a solution seems to have been found.

5.1 *Standard as Means to Prove Infringement*

Infringements in the field of telecommunications are often difficult to prove. To establish infringement, complex measurements are necessary. Sometimes one will have to reengineer software or provide evidence regarding the structure of a chip. It is understandable that plaintiffs and to

⁹ see EC-Commission case COMP/C-3/37926 – *ETSI; Fröhlich, Standards und Patente – Die ETSI PR Policy GRUR 2008, 205*

¹⁰ Fair Reasonable And Non-Discriminatory

¹¹ The Guidelines on the Technology Transfer Regulation comment on patent pools in no. 216 et seq.

some extent courts have sought means to avoid such burdensome and costly endeavors. German practice¹² has established that infringement of an essential patent will be assumed if the plaintiff succeeds in providing evidence regarding two issues:

(1) The allegedly infringing device or method is advertised as being compatible with a certain standard.

(2) The allegedly infringed patent is an essential patent, i.e. it is necessarily infringed if a device or a method makes use of the standard. This has to be distinguished from patents which are merely used applying an optional section of the standard.

A plaintiff can prove infringement by comparing the ample documentation of the standard on the one hand and the allegedly infringed patent on the other.

Accepting these requirements as sufficient facilitates patent litigation regarding essential patents to a large extent. Instead of being forced to both measure the allegedly infringing device or method and to compare such measurements with the patent, the parties and the court can rely on an elaborate expert opinion regarding the structure of the device or the method, namely the text of the standard. (It is an uncomfortable burden in this context that some German courts expect translations of texts of standards into the German language, which can trigger substantial translation costs). To a large extent, the defendant will try to show that, even though a patent has been coined essential in many publications, it is actually not necessary to make use of this when applying the standard.

5.2 Duty to License

For a long time in Germany, it was a common understanding that a duty to license a patent

could indeed transpire should such a patent be truly essential for the use of a standard¹³. It was – and to a large extent still is – unclear, however, from which legal theory such a duty derives. As a first thought, any declarations in the course of the standardization procedure or obligations resulting from being a member in a standardization organization comes into play. It was also discussed whether the German Act against Unfair Competition might form a sufficient legal basis for such claims. In the end, however, it appears that the anti-trust approach coupled with the concept of the abuse of a dominant market position is the main legal theory. The Federal Supreme Court of Germany has confirmed in its Orange Book Standard decision¹⁴ that Art. 102 TFEU, §§ 19, 20 German Anti-Trust Law are the appropriate basis (even though there was no decision regarding the exclusion of any of the other legal theories).

As to the requirements, one will have to distinguish a number of different scenarios (leaving the patent ambush aside for the time being).

In all scenarios, it is common that the patent owner has to have (i) a dominant position in respect to allowing the use of the standard (by means of his essential patent; “essential” in this context needs to be determined and usually will be that there is no technical and financially feasible alternative, even if third parties seeking a license would try to achieve such an alternative with a number of further third parties) and (ii) that there are additional extra ordinary circumstances.

5.2.1 The situation one is likely to forget is that a patent owner outright denies the grant of a license. In this group, the patent owner produces its products alone and does not intend to give licenses to anyone else.

German case law has established that a duty to license will further require

¹² LG Düsseldorf 4b O 78/07, BeckRS 2009, 10890 – MPEG2

¹³ The First Supreme Court Decision is BGH GRUR 2004, 966 – *Standard-Spundfass*

¹⁴ BGH KZR 39/06 of May 6, 2009 – *Orange-Book-Standard*

(i.e. the additional extra ordinary circumstances) that the third party seeking a license wants to offer new products which are not offered by the patent owner and that there are no substitutes available on the market. Furthermore, German case law requires that there is reasonable cause for a denial of the license. Finally, in order to be entitled to a license, such denial must cause the abolition of an entire “downstream” market¹⁵. These requirements have been tested in cases like *Volvo/Veng* and *IMS Health*¹⁶.

In similar cases where a standard has been issued by a standardization organization, and the company seeking a license wanted to produce the same devices as the patent owner, the requirements have not yet needed to be tested. Rather, the situation has occurred where a claim could be based on an act of discrimination against the person seeking a license. However, it appears that there is almost always a consensus that in case there is a standard which has been issued by a standardization organization (of course without violating any anti-trust laws), a patent owner has a dominant position due to a (truly) essential patent and there is no reasonable cause for denial, the mere fact that the patent covers the standard is sufficient to find for a duty of the patent owner to license¹⁷.

5.2.2 Given the aforementioned situation, courts are usually confronted with a situation where the patent owner is willing (or at least is pretending to be willing) to grant a license to third parties. It may be that the patent owner seeks to distinguish between granting licenses to members of the

standardization organization, the patent holders holding essential patents as well or merely patent owners willing to cross-license intellectual property rights. However, this does not alter the fact that they are willing to grant licenses.

5.2.2.1 In cases where the owner is willing to grant licenses, it might first have the intention to discriminate against the third party seeking a license as to the conditions of the license agreement. If all of the aforementioned requirements are fulfilled (i.e. dominant position, essential patent and licenses to third parties), the patent owner has to grant licenses to additional third parties seeking a license for not worse conditions than those provided to others, under the condition that there is no other reasonable cause for the conditions. Regarding the reasonableness, there will be some room for discussion if the dominant position does not result from the existence of the standard. If, however, the license is needed to gain access to a market under the standard, the discretion of the patent owner as to whom he or she shall give a license tends to be very limited. The patent owner is especially not to apply reasons which are not in line with the aim of the German Anti-Trust Act, namely not to limit the freedom of competition. It shall be particularly of no concern whether the licensees have been members of the standardization organization and/or whether they hold essential patents of their own. The claim is not influenced by whether or not the patent owner has participated in the standardization process or even is a member of the respective standardization organization¹⁸.

If the patent owner opts to enforce its patent proceeding only against some competitors and to force them into a

¹⁵ EuGH GRUR 2004, 524 – *IMS Health*

¹⁶ EuGH GRUR 2004, 52 – *Volvo/Veng*

¹⁷ BGH KZR 39/06 dated May 6, 2009 – *Orange Book Standard* in obiter and Götting, kartellrechtlicher Anspruch auf Einräumung einer Patentreferenz – *Standard-Spundfass* – LMK 2004, 226

¹⁸ BGH GRUR 2004, 966, 969 – *Standard-Spundfass*

license agreement, while other competitors are not even contacted¹⁹, such a strategy results in one group of competitors being granted the right to use the patent without charge while others have to pay some (potentially even reasonable) remuneration (this is considered discrimination). Naturally, when applying this concept, one has to give deference to the fact that it may be an undue burden for the patent owner to proceed against all potential infringers at the same time. It might be acceptable to proceed against a limited number of infringers and later on proceed against the rest by referring to the relevant decision obtained against the “first infringers”.

The burden of proof for the discrimination is with the defendant; the burden of proof for the reasonableness of such discrimination is with the dominant patent owner.

5.2.2.2 If the patent owner is to provide a license, he must not seek an unreasonably high royalty. Seeking such an unreasonable royalty can in and of itself be considered an abuse of a dominant market position. Defining “unreasonable” is difficult. It is suggested to allow a comparison with a hypothetical price which would have existed in the market, had their not been a dominating market position. It is even conceivable to compute the costs of the patent owner, including the development costs plus a usual profit, and to use such amount to compute a “reasonable” royalty for a competitor²⁰.

Unfortunately, the patent owner will not only be confronted with an estimation of a “reasonable royalty” in light of the patent he owns; patents of competitors – especially other

essential patents – would also be taken into account. The royalty rate can be considered unreasonable if it can be found that the company seeking a license does not only have to pay license fees for one essential patent but also for a number of essential patents. In this case, the entire amount of royalties (having to be paid to a number of patent owners) must be reasonable. As long as such further requests for payment of royalties are not actually made, the royalty requested for one certain patent cannot be considered to be unreasonable in light of such possible additional payments. However, the patent owner will have to accept a provision in the license agreement with which he is assured that, in case of such justified additional royalty requests by other owners of the essential patent, the royalty rate is not too high²¹.

5.2.2.3 Finally, there is the situation where all owners of essential patents or at least a large number of such owners are willing to grant licenses to essential patents. This situation is different to those mentioned before, in that there is a high likelihood that the company seeking a license will gain access to all necessary intellectual property rights by entering into one license agreement (alas, this is not always the case). For this reason, patent pools as such are accepted by the anti-trust authorities. In giving licenses, however, the patent pool (or the company of the pool, if the company has been set up by the pool members) has to grant licenses without discrimination and for fair and reasonable conditions. It is possible to contest the amount of royalties by arguing that certain patents are not essential, are not used or have been added to the standard arbitrarily

¹⁹ LG Düsseldorf InstG 7, 70 – *Videosignal-Codierung I*

²⁰ Compare Kübel, *Zwangslizenzen im Immaterialgüter- und Wettbewerbsrecht*, 2004, p. 250 et seq.; Immenga/Mestmächer, *GWB*, § 19 no. 161-167

²¹ LG Düsseldorf, decision of February 13, 2007, docket No. 4a O 124/05 and Schulte-Kühnen § 24 PatG no. 60

without any particular need. All of these defenses are accepted²². However, they will hardly be successful. Arguing that a certain (patented) technology has been unnecessarily implemented into the standard would hardly make it possible to prove that the very specific patent owner has fraudulently caused the implementation of its patent. Furthermore, the defendant in an infringement action would have to prove that such unnecessary implementation is actually an abuse. This will only be possible if there is a systematic action regarding a number of intellectual property rights²³. It might be easier to prove that the pool forces patent owners to give licenses for patents which are not actually used by the standard. Should a defendant in an infringement suit succeed in proving both that he does not make use of this respective patent and that it is not necessary within the standard, a point is made. However, one must still prove that the patent substantially influences the royalties actually paid and that the royalties are unreasonable in total.

One might also think of contesting that the pool comprises patents which should be declared invalid. Again, however, such defense will only be admissible if the inclusion can be considered abusive - an evidence which will hardly be possible. Hence, in case there is no discrimination regarding the royalty rate, it will be more than difficult for a company seeking a license from a patent pool to prove that a certain royalty rate is unreasonably high.

Naturally, in light of all of the above, any IP policies of standardization organizations can help, provided they apply to the case at hand.

²² see Schulte-Kühnen § 24 no. 62, 63 and 64

²³ see LG Düsseldorf InstG 7, 70 – *Videosignal-Codierung I*

5.3 Procedural Implementation

The Federal Supreme Court of Germany has now decided on some aspects of how to implement the above into a patent litigation proceeding. In 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 and re-writable compact discs with the specific features of the orange book standard). Since every CD of this kind on the market has to comply with the specifications of the Orange Book Standard, they necessarily made use of the plaintiff's patent. The patent owner was prepared to grant licenses to potential producers and had already granted licenses with various royalty rates. The defendants considered them all to be too high and were "only" prepared to pay a license fee of 3% of the net sales price of the CDs. The defendants claimed that the patent owner had a duty to grant them a license for a royalty rate of 3%. By not doing so, so the defendants alleged, the plaintiff was barred from enforcing its patent to the extent that the plaintiff sought injunctive relief. Both the Court of Appeals and the Federal Supreme Court found for the plaintiff by stating that the plaintiff had granted licenses to all others for royalty rates higher than 3% and that there was no reason for a discrimination or too high a royalty. The case, however, gave the Federal Supreme Court an opportunity to state that the conditions of a duty to grant a license can actually translate into a bar of injunctive relief. The Federal Supreme Court stated two conditions under which a patent owner should be denied injunctive relief:

- The defendant asking for a license makes an unconditional offer for a licensing agreement with provisions that the patent owner must not deny without violating anti-trust laws.

This includes that the defendant must not make the offer under the condition that it actually does not make use of the patent. The defendant is not entitled to make the offer under the condition that the patent will be held

valid in a nullity action, either. Rather, the defendant will have to settle for a provision in the license agreement pursuant to which royalties no longer have to be paid once the patent has been declared invalid.

- Furthermore, the defendant already using the patent will have to comply with all duties under the hypothetical license agreement offered to the plaintiff. Thus, such a defendant will have to fulfill duties like payment of royalties, accounting and any other duties which result from the license agreement and which (as stated above) must not be refused by the patent owner without violating anti-trust provisions.

Hence, in a specific infringement situation, the defendant will have to submit a full text of the license agreement, giving deference to what is usual and reasonable in the industry as well as to what the patent owner can agree on without discriminating against license agreements already having been concluded with third parties. This of course involves the problem that the defendant might not be aware of the other license agreements. This problem can be avoided to a certain extent by allowing the patent owner to reasonably determine certain obligations.

Regarding the fulfillment of the provisions of the license agreement, the defendant will certainly have to provide accounting for any use of the patent at least having made since the request for a license agreement. If the defendant fails to do this, the patent owner will not be deemed to have misused the patent by enforcing it.

The most crucial aspect, however, will be the payment of the adequate royalty. An adequate royalty has to be offered within the license agreement and also has to be paid. The Federal Supreme Court offered the following structure for the defendant:

- The defendant has to offer (i) a certain percentage of the net sales or a certain amount for each device sold or

(ii) a royalty to be reasonably determined by the patent owner.

- The patent owner can (i) react to such offer by accepting the certain percentage or amount per device or determining a certain royalty rate which is accepted by the defendant. In such cases, there is no longer a genuine dispute regarding the royalty rate. Most likely, however, the patent owner might (ii) reject the specific offer made by the defendant or determine a higher royalty rate than what is actually reasonable, and this request is not accepted by the defendant.
- In such a case, the defendant has two options.

Firstly, the defendant can pay the patent owner what the defendant considers to be appropriate. Assuming that the patent owner does not send back the respective amounts, this will result in the court deciding which amount is appropriate or not. If the court considers the amount to be adequate (and all conditions of the fictitious license agreement are met), it will bar the plaintiff from injunctive relief. If the court considers the amount or the royalty rate to be inadequate, the patent owner will not be deemed to have misused the patent by enforcing it. The patent owner, as such, is then dealing with a licensee not fulfilling its obligations under a license agreement.

Secondly, to avoid this situation, the defendant shall be entitled to pay whatever is sought by the patent owner under the condition to claim back any amount which is more than an adequate payment. Such payment can either be made directly to the patent owner or be paid into a deposit with the local court.

This condition, accepted by the Federal Supreme Court, allows the defendant to

discuss what is considered reasonable in a separate law suit without having to fear that the licensing agreement will be terminated.

As one can see, the burden on the defendant is quite substantial. However, there is now a way to allow the defendant to avoid injunctive relief.

5.4 Damages

A previously unsolved issue regards the **past**. There used to be various possible positions. Firstly, it was conceivable to address only the future in a fictitious license agreement. The parties could then litigate the question of infringement for the past and the patent owner could seek payment of damages at least for the time prior to the defendant requesting a license. Secondly, it was possible to assume that any parties having to deal with infringement for both the past and the future will try to settle any controversy in the past as well by payment of the royalty for the past. Thirdly, a patent owner might have expected that a license agreement is only acceptable if damages in the form of lost profits or infringer's profits (and not only a fictitious royalty) are paid for the past.

The MPEG-2 decision of the Court in Düsseldorf²⁴ suggested that the parties could agree on payment of royalties for the past as well. In a recent judgment the Court of Appeals of Karlsruhe, however, upheld a ruling of the Regional Court of Mannheim which introduced a further burden on license-seekers. The defendant will now have a duty to include in his *Orange Book*-compliant offer an unconditional acknowledgement of his obligation to pay damages (not restricted to a fictitious royalty) in respect to his previous use of the patent²⁵.

5.5 Nullity action

In case the only real defense for a defendant is the allegation of the **invalidity** of the patent, the defendant might be inclined to

offer to take a license but to challenge the validity of the patent under the umbrella of the license agreement. In a recent decision, a court in the U.K. (unrelated to standards) has allowed a licensee to challenge the patent while a license agreement regarding a patent was still in force²⁶. The concept appears to be unusual from a continental point of view. It is rather that license agreements tend to include a provision pursuant to which the license agreement can be terminated for cause, should the licensee challenge the validity of the patent. Hence, should the defendant want to rely on the invalidity and still want to obtain a license, he will actually have to rely on the implementation of a straw man (which again creates difficulties).

The aforementioned recent decision of the District Court Karlsruhe²⁷ provided new lymph to the debate. It established that the defendant must explicitly acknowledge in his *Orange Book* offer the entitlement of the patent owner to an extraordinary right to terminate the license agreement should he decide to bring a nullity action against the licensed patent. The Mannheim Regional Court had furthermore provided that the defendant may not reserve its right to continue a nullity action if the patent owner demands past damages exceeding FRAND²⁸. In a recent decision of the 2nd Civil Chamber the Mannheim Court added that the FRAND defense will not even be considered if the nullity action is not withdrawn or suspended²⁹.

6. Problems "Unsolved"

At least as interesting as those issues which are "solved" are those problems where substantial uncertainty prevails.

6.1 Patent Ambush

In many of the recent cases, the parties argued so called "patent ambush". This is meant to describe a situation where a patent

²⁴ LG Düsseldorf NJOZ 2009, 930

²⁵ LG Mannheim 7 O 122/11 (2011), OLG Karlsruhe, 6 U 136/11

²⁶ Knorr-Bremse Systems v Haldex Brake Product GmbH [2008] EWHC 156

²⁷ OLG Karlsruhe, 6 U 136/11

²⁸ LG Mannheim 7 O 122/11 (2011)

²⁹ LG Mannheim 7 O 122/11 (2011)

owner and plaintiff participated in a standardization process but did not disclose his or her patent, thereby allowing the patent to cover the standard. The defendant will argue that the respective patent owner had a duty to disclose his patent applications during the standardization process due to, for instance, the IPR policy of the standardization organization and that therefore the patent owner should be treated as if it had given its consent to the use of his patent. It is clear that the patent owner (given the requirements described above) will at least have to grant licenses. It can be assumed that a court will presume the special circumstances needed in addition to a dominant market position are met in case of such an activity. However, the remedy for the (wrong) behavior of the patent owner is somewhat unsatisfactory. The situation for the patent owner is not any different whether or not a patent is disclosed. This could induce patent owners to not disclose their patents.

In cases both in the US³⁰ as well as in Europe, it has been discussed to consider a patent ambush to be a breach of contract, a fraud or unfair-competition. American courts have deduced from this that the respective patent owner is barred from injunctive relief without any consideration. Given the distinction between criminal law and civil law under German law (and in most other civil law countries), the patent ambush itself will probably not suffice for such remedy. Rather, the defendant will have to prove that in case the patent owner had disclosed his or her patent, the standard would have been established without said patent. The remedy of the defendant for the patent ambush would in that case be that the patent owner puts the defendant in a position it would be in if the patent owner had disclosed a patent. Such a position would be to not be confronted with the patent. Hence, only under this circumstance should the defendant have access to the patent without any remuneration.

³⁰ See, e.g., *Rambus v. Infineon* 318 F3rd 1081 (Fed.Cir. 2003) and subsequent decisions; David Alban, *Antitrust, Note: Rambus v. Infineon*, 19 Berkeley Tech L.J. 309 (2004)

The Rambus cases which were handled by various courts appeared to have had little impact in Europe. However, the EC Commission took up the case as well. It appears that the recent proposed commitment of Rambus³¹ also includes that payments by third parties making use of the respective patent will lead to a settlement. When finalizing this essay, the Commission has merely sought comments from the involved party³².

Obviously, there are many open questions. One important question is what is needed to find a duty to disclose a patent or patent application and at what time. Standardization organizations have different policies including wordings suggesting that there is no duty but a mere expectation. The “call for patents” known within ETSI also might or might not induce a duty to disclosure. Another question is whether in the rare cases where a patent ambush can be found, the consequences deriving from such patent ambush will be borne also by those purchasing the patent from the party committing the ambush³³.

6.2 Contents of Standard License Agreement

It is difficult enough to establish the provisions of a usual or standard license agreement. This is especially due to the fact that what is usual or reasonable will differ from industry to industry. In the MPEG-2 case finding for the plaintiff, the Court in Düsseldorf³⁴ had to deal with a number of provisions. Not surprisingly, the decision has not acquired *res judicata*.

6.2.1 Territory

Firstly, there is the question of **territory**. A defendant might be inclined to accept a license agreement for a specific territory, for

³¹ Case C-3/38.636 - *Rambus*

³² See Memo/09/273 dated June 12, 2009.

³³ Such a question might be answered differently than the question of whether or not assignees of a patent owner who have obliged themselves to grant licenses to a certain patent with standardization organizations.

³⁴ LG Düsseldorf NJOZ 2009, 930

instance Germany, but try to avoid paying royalties in any other areas. The defendant might also want to discuss not only infringement in other countries but also the meaning of what is considered to be a FRAND in only one country.

It is not only necessary to look at the problem from the perspective of the defendant as a potential licensee. It might also be the patent owner who seeks to be confronted with a duty to license in only one country and try decisions of other courts before settling the matter. It is also possible, however, that the patent owner will be very interested in settling the infringement/licensing issue once and for all and will sign a license agreement for all areas where parallel foreign intellectual property rights exist.

A prediction as to how courts will decide is difficult to make. Yet, it appears more likely that a normal license agreement will encompass at least those countries forming a common market. One will also have to expect a defendant who is able to force a patent owner into a license agreement will want to do so with respect to all of Europe, if not the entire world.

Recently however the Regional Court of Mannheim shed some light on the issue of territoriality in the context of worldwide portfolio licenses. The court ruled that the patent owner may in principle not refuse an Orange Book offer to a license of the patent-in-suit limited to one single country, e.g. Germany. This is the case even when worldwide portfolio licenses are otherwise standard. The only exception would seem to envisage the case where the defendant is manifestly planning to infringe other patents owed by the same patent-owner until further infringement procedures are initiated against him. In such a scenario the burden of proof rests on the patent owner, although the mere use of the other patents by the defendant does not seem to constitute a *per se* proof³⁵.

6.2.2 Destruction

Secondly, the **destruction** of already existing (“past”) products to which a patent owner is entitled in principle is an undecided issue. Given, however, that a license agreement will usually also apply to the past, it has to be accepted that, should parties have a controversial position regarding this issue at any time, a court would find for a plaintiff not to be entitled to destruction of the allegedly infringing products. 6.3 Reasons to discriminate.

It has been determined in this paper that any discrimination against a licensee needs substantial, well-founded reasons. Quite surprisingly, however, there appears to be no comments regarding a rather likely behavior for the infringer. The defendant could accept that an unconditional offer is needed. To still retain all options, the defendant could be tempted to challenge both validity as well as infringement and, only after having lost, make an – unconditional – offer to sign a license agreement.

The decision Orange Book Standard of the Federal Supreme Court does not give any indication as to how to decide a case like this. It appears, however, that such behavior would not necessarily result in a decision favorable for the plaintiff. The party deciding to apply a standard will most probably be fully aware of the patent owners claiming to hold essential patents covering the standard. If, as in the Orange Book Standard Case, the relevant party starts using the allegedly essential patent, he or she cannot expect the patent owner to accept that its patent is invalid or not infringed. Rather, it is clear that by declaring a patent essential, the patent owner considers it to be both valid as well as infringed by anyone applying the standard. Hence, any such alleged infringer intentionally disregards the patent. Apparently, the Federal Supreme Court did not consider this alone to be sufficient grounds for patent owner to refuse to grant a license. Even the threat and the start of an infringement suit – under the Orange Book Standard – did not void the right of the alleged infringer to a license. If at all, a first

³⁵ LG Mannheim 7 O 65/10 (2011)

instance decision might be sufficient for the plaintiff to discriminate against the respective defendant, in that the patent owner cannot be expected to grant a license to someone not willing to honor the patent but instead choosing to litigate against its validity and infringement.

Whatever position one takes, the later the license agreement is offered by the infringing defendant, the harsher the conditions of the license agreement. It appears to be conceivable, for instance, to assume a duty to license for the future but, however, to retain the right to claim damages (and not a fictitious royalty) for the past. The current trend is to assume a duty offer to take a license by the last hearing in the first instance of infringement court.

6.3 IPR Policy of Standardization Organization

Given that German courts assume that the duty to license derives from anti-trust considerations and that the question of whether or not a patent owner has participated in the standardization procedure or whether he is a member of such organization, working on a more elaborated IPR policy might be considered moot. However, the contrary is correct. Firstly, any such IPR policy is of extreme importance in cases where local jurisdiction is not willing to apply an anti-trust violation. Secondly, many of the “unsolved” issues may be taken care of by the IPR.

ETSI, for instance, is always improving its policies³⁶. The currently favored model is the “ex-anti disclosure of licensing terms”. Under this model, the participating members of a standardization procedure – voluntarily – inform on the terms for licensing the patents. Thereby, a controversy over the usual or reasonable licensing terms could be avoided. Naturally, from the perspective of avoidance of any post standardization conflicts, a compulsory wording of any licensing would be preferable. However, anti-trust issues suggest to be cautious in this respect.

³⁶ See *Fröhlich*, GRUR 2008, 205, 214 et. seq

Another possibility to reduce post standardization conflicts would be to force those participating in a standardization procedure to sign a licensing declaration under the respective national patent act. § 23 of the German Patent Act provides for the possibility to declare to the German Patent Office that a license will be granted to everyone in consideration of a reasonable remuneration. § 23 Sub. 3 of the German Patent Act finds that a notice to use the patent triggers the right to do so and bars the patent owner from seeking injunctive relief (to the extent that that entity filing the notice complies with the obligations provided for under § 23 of the German Patent Act). There are other countries in Europe providing this system³⁷. So far, however, it appears that none of the standardization organizations have taken this path. Too few jurisdictions may actually provide for such a possibility.

6.5 Possible Licensee

Most of all, however, it is unclear who might be entitled to a license. Devices making use of an apparatus claim of a patent are usually not manufactured and sold directly to consumers. Rather, there is a long distribution chain involving the manufacturer, the wholesaler and the retailer. In many cases, the actual infringement of an apparatus claim will not be fulfilled only by manufacturing and selling the entire consumer product. For instance, a cell phone would already involve parts making use of patents themselves, such as chips. Such items are more often than seldom produced and designed amongst different entities. Hence, regarding the allegedly infringing device, there is a chain of four or more possible infringers. It is clear that it makes a difference whether the first manufacturer or the wholesaler seeks a license from the patent owner.

The example becomes even more complex if the patent does not protect an apparatus but rather consists of, for example, the communication between two cell phones. In

³⁷ For instance, see Sec. 46 of UK Patent Act of 1977

this case, none of the manufacturers or wholesalers might actually be infringing the patent directly; only the provider would then be subject to direct infringement, while the rest of the suppliers involved would only be subject to contributory infringement.

The patent owner will take the position that it is only obliged to grant a license to an entity at the end of the distribution chain or – as regards the example of contributory infringement – the provider. Quite to the contrary, any supplier will claim that he or she must not be forced to develop and manufacture infringing devices.

6.6 Information on Patent Owner's License Scheme

The defendant who wants to argue that a license the patent owner offers is not fulfilling FRAND requirements needs to compare the offer with prior license agreements the patent owner entered into. This information, however, might not be publicly available. It is yet to be decided whether the patent owner has a duty to disclose information in this respect.

Pending cases in Germany might move problems from the “unsolved” list to the “solved” list. Given that approximately 3.500 patents have already been claimed as essential regarding the 3GPP³⁸, however, there is still a long way to go.

³⁸ See *Fröhlich*, GRUR 2008, 2005

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CONTACTING THE AUTHOR

Add Office

Tel. +49 (0) 89 21 23 50
blumenroeder@grunecker.de

CONTACTING US

Munich Office

Leopoldstr. 4
80802 Munich
Germany
Tel. +49 (0) 89 21 23 50
Fax +49 (0) 89 22 02 87

Cologne Office

Domkloster 1
50667 Cologne
Germany
Tel. +49 (0) 221 949 72 20
Fax +49 (0) 221 949 72 22

Berlin Office

Kurfürstendamm 38/39
10719 Berlin
Germany
Tel. +49 (0) 30 305 10 29
Fax +49 (0) 30 304 31 91

Paris Office

260 bvd Saint Germain
75007 Paris
France
Tel. + 33 (0) 1 80 40 02 60
Fax + 33 (0) 1 47 05 41 94

Email: info@grunecker.de
<http://www.grunecker.de>