THE ECJ CLAMPS DOWN ON STANDARD ESSENTIAL PATENTS

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1. INTRODUCTION

In July 2015, the European Court of Justice (hereinafter “ECJ”) answered one of the most challenging questions concerning Standard Essential Patents (hereinafter “SEP”): may a SEP holder who has committed to licensing its technology on “fair, reasonable and non-discriminatory” terms (hereinafter “FRAND”) seek an injunction against patent infringers without violating Article 102 TFEU?

2. FACTUAL BACKGROUND

The preliminary ruling sought from the ECJ was requested by Germany’s Düsseldorf Regional Court (Landgericht Düsseldorf). Notably, two Chinese companies, Huawei and ZTE, failed to reach a licensing agreement on FRAND terms for Huawei’s patent, which was considered essential by the European Telecommunication Standard Institute (hereinafter “ETSI”) to the Long Term Evolution (hereinafter “LTE”) standard.

These circumstances brought the patent holder to sought an action for infringement against ZTE for the purposes of obtaining, from the Düsseldorf Regional Court, an injunction prohibiting the continuation of the infringement, an order for the rendering accounts, the recall of the products and the damages.

In light of the European Commission decisions in the case Samsung, ZTE claimed that the Huawei request for an injunction had to be considered as a violation of Article 102 TFEU.

1 Italian Competition Authority


4 See European Commission, 27 September 2013, Case COMP/C-3/39.939, Samsung Electronics and Others. In this case the European Commission stated that seeking an injunction can be considered as an abuse of dominant position only if these two conditions are fulfilled: 1) the patent holder had committed to grant licenses on FRAND terms, and 2) the infringer was willing to negotiate that license.
because the latter was willing to negotiate a licence.

On the other hand, Huawey considered applicable the Orange Book Standard case-law, according to which for there to be abuse it is necessary that the “would be licensee” unconditionally offers to enter into a license agreement with the patent holder to a price that the latter cannot reasonably refuse or to a price chosen by the patent holder, but subject to the court review, and if the “would be licensee” behaves as proper licensee, for example paying license fees. However, the German case law dealt with a de facto standard rather than a SEP.

In the light of the above, the Düsseldorf Regional Court stayed the proceedings and referred five questions to the European Court of Justice concerning the interplay between competition law and intellectual property rights. In other words, the Dusseldorf Regional Court sought to understand under which condition a SEP holder who has committed to licensing its technology on fair, reasonable and non-discriminatory terms seeking an injunction against patent infringers violates Article 102 TFEU.

3. THE ECJ RULING

ECJ has taken one step forward, assembling the above-mentioned approaches in an original way and mainly confirming the address offered by Advocate General Wathelet in its opinion published in November 2014. The Court has set up a number of specific obligations bearing upon the parties during the negotiation, explicitly stating that failure by the SEP holder to comply with these provisions would result in a violation of Article 102 TFEU.

First of all, before bringing an action against an alleged infringer, the SEP holder must alert the latter of the complained infringement by designating the relevant SEP and specifying the way it deems that it has been infringed, “even if the SEP has already been used by the alleged infringer” (§ 60-61). As pointed out by Advocate General in point 81 of his Opinion, the reason for this although the alleged infringer has declared its readiness to enter into negotiations or only when the licence seeker has submitted an unconditional offer?

b) if readiness to enter into negotiations is sufficient, are there any qualitative and/or time related requirements?

c) if an unconditional offer is required, are there any qualitative and/or time related conditions that must be met? May the offer involve the condition that the SEP is legally valid?

d) if the fulfillment of obligations by the licence seeker is required, are there specific conditions that must be met (on acts of use payment of fees etc)?

e) the same conditions under which seeking an injunction may be an abuse entail the same consequence for the assertion of other claims based on patent infringement (e.g. damages)?

3 Case KZR 39/06, Bundesgerichtshof (the German Federal Court), 6 May 2009. This approach was endorsed in a many other subsequent national cases where injunctions had been granted.

6 On this point see KÖRBER TÖRSTEN, Orange-Book-Standard Revisited, in Wettbewerb in Recht und Praxis, 2015, p.1167-1172.

7 The five questions addressed to the ECJ by the District Court of Düsseldorf on 21 March 2013 are:

a) does the owner of a FRAND encumbered SEP abuse its dominant position if he asserts an injunctive relief

8 Advocate-General Wathelet Opinion, delivered on 20 November 2014, in the Case C-170/13 Huawei Technologies Co. Ltd v. ZTE: Corp., ZTE Deutschland GmbH.
obligation is that the high number of patents existing in some hi-tech standards (i.e., in the smartphone industry) could lead a firm to infringe that patent without being aware of it (§ 62).

Secondly, once the alleged infringer has expressed “its willingness to conclude a licensing agreement on FRAND terms”, the SEP holder must submit “a written offer for a licence on FRAND terms (...) specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated” (§ 63).

Thirdly, the alleged infringer must respond diligently to that offer, without adopting delaying tactics (§ 65). If the alleged infringer does not accept the offer, it must submit to the SEP holder, “promptly and in writing, a specific counter-offer that corresponds to FRAND terms”. In absence of this counter-offer, the SEP holder’s conduct does not have abusive nature (§ 66).

Fourthly, if the alleged infringer is using the teachings of the SEP before a licensing agreement has been concluded and its counter-offer is rejected, it must provide financial security (i.e., a bank guarantee or a deposit). The calculation of that security must include, inter alia, the number of the past acts of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use”.

Fifthly, where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay (§ 68).

Sixthly, the alleged infringer always maintains the right to challenge the validity of the SEP or the essential nature of the patent to the standard in which it is included, independently of the outcome of the negotiations relating to the grant of licences (§ 69).

4. CRITICAL REMARKS AND OPEN ISSUES

The Huawei judgment apparently provides competition authorities and national Courts with detailed guidance to strike a fair balance between rights linked to IP, the right of access to a Court and the freedom to conduct business.

Furthermore, the ECJ goes beyond the “case by case” attitude displayed by the Commission in its assessment of SEP holders’ conduct, so enabling decision-making bodies to find a compromise between the protection of intellectual property and the need to ensure the proper functioning of competitive dynamics.
However there are still some open issues.

First of all, the methodology to determine FRAND rates remains subject to a “case by case” approach. Considering that an increase in litigation is now expected, the absence of clear calculation parameters could at first lead to heterogeneous decisions by the “independent third party”, such as the expert witness, which is called to determine the amount of the licensing royalties. It is not clear if this approach is a gap left blank on purpose by the ECJ or if it is a policy-making choice oriented to a “case by case approach”. The latter option is likely to be the more realistic, as defining in depth what has to be meant with “FRAND” could excessively limit the SEP holders’ right to run a business and to lead free negotiations with their counterparties. Not even the European Commission in its “Guidelines on the applicability of Article 101 TFEU to horizontal co-operation agreements” has provided technical guidance with regard to the determination of FRAND terms, limiting itself to define the objective they are supposed to serve (§ 282 ff.). In any event, since the determination of FRAND rates represents mainly a contractual issue, national courts and arbitrators may be the most appropriate entities to gradually establish the criteria, which otherwise, if imposed by the ECJ, could result in an excessive regulation and could be perceived as an unnecessary limitation by the companies.

Secondly, a question arises on another crucial point of the judgement: how can the alleged infringer present an offer corresponding to non-discriminatory terms if he does not have access to the possible licensing agreements signed by the SEP holder with other parties with reference to the patent at issue? If determining FRAND rates proves to be hard for the SEP holder, as observed above, in practice it could turn out to be impossible for the alleged infringer, since he has no access to relevant data to this end. An answer to this issue has not been given by the ECJ.

The third open question concerns the issue of dominance. Is the owner of a SEP always dominant? In Huawei v ZTE, the ECJ did not address this issue, because “the questions posed by the referring court relate only to the existence of an abuse” (§ 43). Previously, in his Opinion to the Court, Advocate General Wathelet incidentally wrote that “the fact that an undertaking owns an SEP does not necessarily mean that it holds a dominant position (…), and that the presumption of dominance of the SEP holder should always be rebuttable (§ 57-58). However, since the referring court had posed no question concerning the existence of a dominant position, the Advocate General did not go further with his reasoning. The ECJ has not clarified to date the extent to which holding a SEP amounts to a dominant position of its owner; the assessment offered by the European Commission in its Motorola case remains the

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latest reference on this issue. According to this
decision, the mere holding of a SEP does not
confer dominance on its own, but “two factors
are of particular importance for this assessment: first,
the indispensability of the (…) standard on which
(…) the SEP reads for manufacturers of standard-
compliant products, and, second, the industry lock-in to
that standard”. Since the ECJ was not called to
judge upon Motorola and Samsung cases, stakeholders will have to wait to see this matter
explicitly solved by the Court.

5. CONCLUSION

This ruling is going to have a great practical
impact, first of all in Germany but, more in
general, for the application of Article 102 to
SEPs all around Europe. Having confirmed
that Article 102 can have far reaching
implications for the licensing behaviour of SEP
owners, it can be expected that patent litigation
in Europe will be characterized by creative
competition law defences until greater clarity
on key questions11 (such as what is going to
happen in licensing a portfolio of patents rather
than a single patent and what exactly
constitutes FRAND terms) will emerge12.

11 LAW RANCE, SOPHIE - BOND, EDWIN, The Huawei v
ZTE case - The CJEU responds but questions remain, in

12 See UK Case Law post Huawei Judgment of July 2015:
UK High Court, 5 April 2017, Unwired Planet, Ltd v
Huawei Technologies Co Ltd & Ors; UK High Court, 29
January 2016, Unwired Planet International Ltd v
Huawei Technologies Co Ltd & Ors; UK High Court, 23
November 2015, Unwired Planet International Ltd v Huawei
Technologies Co Ltd & Ors; UK High Court, 22 March
2016, Unwired Planet International Ltd v Huawei Technologies
Co, Ltd & Ors; UK High Court, 29 April 2016, Unwired
Planet International Ltd v Huawei Technologies Co Ltd & Ors;
UK High Court, 24 April 2015, Unwired Planet
International Ltd v Huawei Technologies Co, Ltd & Ors.