



Patent wars update in Europe: Abuse of dominant position for standard essential patents?

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CJEU provides guidance on seeking injunction in relation to SEPs under FRAND (Huawei v. ZTE)

Standards are found in many technologies, not least in electronics such as smartphones and computers, and in communication technologies. A standard is basically a document that sets out requirements for a technical item, service or process. The technical requirements are typically set by an organization through a standard-setting process, taking into account the interests of developers, manufacturers, consumers and governments. Standard-setting can enable efficient technological advancement while securing competition and public access to technological products and services. The EU promotes standardization as a tool for European competitiveness.

A standard essential patent (SEP) is a patent claiming an invention that is needed to comply with a standard. It is not uncommon, in particular in the telecommunications and electronics sector, that standards are dependent on technology that is covered by patents. Products or services using the standard are therefore required to license the technology. It is evident that a patent covering a widely used standard could have a significant value. To ensure that implementers have access to the standardized technology, and, at the same time, that the SEP holder is fairly compensated for making the technology accessible, there is often an agreement in the standard setting process stating that the SEP holder has an obligation to license to any

implementer on fair, reasonable, and non-discriminatory (FRAND) terms.

It is not always a straightforward task to decide what FRAND means in terms of royalties for a specific SEP. There are several techniques and approaches that can serve as a starting point for calculating a suitable FRAND level. Nevertheless, conflicts sometimes arise in these situations if the parties cannot agree on what constitutes a suitable level of royalties. Patent holdup refers, generally, to the situation where the patent holder blocks competitors from using an SEP as a tool in the license negotiations for obtaining high compensation, and, more specifically, in the case where FRAND agreements are in place, to the situation where the SEP holder has made false promises to license on FRAND terms but then uses the threat of injunction for maximizing compensation that exceeds FRAND levels. In principle, under a FRAND agreement the SEP has agreed to license on FRAND terms.

In these situations it is possible that the patent holder uses the threat of injunction. General speaking, seeking injunction is a legitimate remedy against infringement. Access to court decisions and intervention is a fundamental right in many jurisdictions. However, since the FRAND agreement includes an obligation to license on fair terms, seeking injunction is not necessarily compatible with the FRAND agreement. The threat of an injunction can lead to negotiated royalties in excess of the true economic contribution of the patent holder.

Orange Book Standard (Germany, 2009)

In Germany, courts have, for the past years, taken a patent friendly approach in relation to seeking injunction for infringement of FRAND-encumbered SEPs, relying on the *Orange Book Standard* decision, which introduced the 'willing licensee' test. According to the test, the infringer must have made an unconditional offer which the patent holder cannot reject; and must have complied with the obligations on which the use of the licensed subject matter depends - this basically puts the entire burden on the alleged infringer.

Motorola and Samsung decisions (European Commission, 2014)

More recently, in 2014, the European Commission took a markedly different approach in two cases involving Motorola (Case AT.39985-Motorola - Enforcement of GPRS standard essential patents) and Samsung (Case AT.39939-Samsung - Enforcement of UMTS standard essential patents). The Commission held that seeking injunction in relation to FRAND-encumbered SEPs may constitute an abuse of the market power (violation of Article 102 TFEU). The CJEU has held that an exercise of an exclusive right by the proprietor may, in 'exceptional circumstances', involve abusive conduct. In this case the Commission considered the GPRS standard-setting context to constitute 'exceptional circumstances' that distinguish the case from non-FRAND-encumbered technology. The alleged infringer had showed itself willing to license by proposing several license offers. The threshold for willingness is much lower than in *Orange Book Standard*.

Huawei v. ZTE (CJEU, 2015)

On July 16, 2015, the Court of Justice of the European Union (CJEU) delivered its judgment in C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*. The dispute regarded a patent owned by Huawei that was essential to the LTE (4G) mobile communications standard. The District Court of Düsseldorf was in doubt whether to apply the *Orange Book Standard* approach or the approach of the European Commission, and therefore referred a set of questions to the CJEU. In the CJEU judgment, the court set out the obligations of both parties in the assessment of abuse of an SEP holder seeking injunctive relief. The obligations are provided in a series of negotiation steps that need to be taken by the parties to retain their rights.

- 1) Before bringing any action, the SEP holder must alert the infringer by specifying what patent is infringed and how.
- 2) After the alleged infringer has expressed its willingness to license, the SEP holder must present a written offer to license on FRAND terms. This includes specifying a royalty and how it has been calculated.
- 3) The alleged infringer then has to respond in good faith without any delaying tactics.
- 4) If an agreement still cannot be reached, the amount of royalty may be determined by a third party.

The decision can be described as a middle ground between the *Orange Book Standard* decision and the European Commission's position in *Motorola* and *Samsung*. In Germany it will be more difficult to obtain injunctions for FRAND-encumbered SEPs since the burden of alerting and initially making an offer has moved to the patent holder in relation to the *Orange Book Standard* decision. However, the court also emphasized that seeking injunction in itself only constitutes an abuse of a dominant position in exceptional circumstances. Although the rules are clearer after the guidance of the CJEU, a number of questions remain unanswered. A general negotiation process has been laid out by the court, but the exact definition of a willing licensee is not completely clear e.g. in relation to delaying tactics and non-serious license offers.

If you have any questions you are very welcome to contact your patent attorney at HØIBERG A/S.



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