
FRAND-Einwand II: German Federal Court of Justice, judgment dated November 26, 2020 – docket no. KZR 35/17

Reported by *Prof. Dr. Tilman Müller-Stoy* and *Dr. Jan Bösing*

Following the decision *FRAND-Einwand* of May 5, 2020, docket no. KZR 36/17, the German Federal Court of Justice had to deal with the dispute between Sisvel and Haier and decide on Haier's FRAND defense for a second time. With its new decision *FRAND-Einwand II* (judgment dated November 26, 2020 – KZR 35/17), the German Federal Court of Justice did not only confirm its decision *FRAND-Einwand*; it also seized the opportunity to provide a landmark decision, including a detailed and extensive reasoning, regarding the parties' scheme of obligations based on the decision of the Court of Justice of the EU (CJEU) in the case "ZTE vs. Huawei" (C-170/13, hereinafter referred to as "*CJEU decision*"). The decision by the German Federal Court of Justice provides practitioners with legal certainty over numerous contentious issues in the form of guidelines without taking the necessary leeway for the required consideration of each individual case. The decision also is a further significant step towards a harmonization of European case law, particularly with regard to the United Kingdom and the Netherlands. Thus, there is justified hope that the decision will make an essential contribution to a harmonization of the requirements for the FRAND defense, not only with respect to German courts of lower instances but also with respect to other European courts.

1. Facts and circumstances of the case

The facts and circumstances of the case are largely identical with those of the previous decision *FRAND-Einwand*.

The plaintiff is the proprietor of an extensive portfolio of standard-essential patents. It also includes the patent-in-suit of this case, which had been declared essential for the mobile communication standard UMTS and for which the plaintiff had made a licensing commitment to the standard setting organization ETSI under fair, reasonable and non discriminatory (FRAND) conditions.

In three letters in December 2012 and in the year 2013, the plaintiff notified the defendants' parent companies about the infringement of the patent-in-suit and offered them a license on FRAND terms. The defendants' parent companies only responded to them in December 2013, expressing the hope to enter into negotiations and asking for information about an "early bird discount". An exchange about a license followed, in which the defendants' side requested, inter alia, the detailed demonstration of the alleged infringement of the portfolio patents and only declared its willingness to take a license under the conditions of an actual infringement and the actual legal validity of the patents asserted in litigation.

In the further course of events, the parties also exchanged license offers: The plaintiff consistently offered a worldwide portfolio license, while the defendants' counter-offers



Prof. Dr. iur.
Tilman Müller-Stoy
*Attorney-at-Law,
Certified IP lawyer,
Commercial Mediator
(MuCDR), Partner*



Dr. Jan Bösing
*Attorney-at-Law,
Partner**

BARDEHLE PAGENBERG
Partnerschaft mbB
Patentanwälte Rechtsanwälte

Prinzregentenplatz 7
81675 München
T +49.(0)89.928 05-0
F +49.(0)89.928 05-444
info@bardehle.de
www.bardehle.com

ISO 9001 certified

were limited with regard to the licensed intellectual property rights and the territorial scope, meaning that they merely offered to take a selective license.

After the conclusion of an agreement had failed, the plaintiff took legal action against the defendants and, particularly, asserted claims for injunctive relief, recall and destruction.

2. Lower courts

The Regional Court of Düsseldorf granted the plaintiff's entire requests for injunctive relief, recall and destruction, information and rendering of accounts, and for the determination of the obligation to pay damages (judgment dated November 3, 2015 – 4a O 144/14). In this regard, the Regional Court of Düsseldorf rejected the defense of compulsory license under antitrust law by the defendants, stating that the defendants had not rendered any accounts for the past acts of use and had not provided any security for them contrary to their obligations under the CJEU decision. Against this background, the Regional Court of Düsseldorf left the question of whether the plaintiff, in turn, had fulfilled its obligations under the CJEU decision unanswered.

Upon request of the defendants, the Higher Regional Court of Düsseldorf stayed the enforcement proceedings under the first-instance judgment (decision dated January 13, 2016 – I 15 U 65/15). In the opinion of the Higher Regional Court of Düsseldorf, the Regional Court of Düsseldorf should not have left the question of whether the plaintiff had fulfilled its obligations under the CJEU decision – particularly its obligation to make a FRAND license

offer – unanswered before examining the defendants' obligations regarding rendering of accounts and provision of security.

In the appeal proceedings, the Higher Regional Court of Düsseldorf confirmed the infringement of the patent-in-suit, but partially dismissed the complaint as unfounded at the time due to the defendants' defense of compulsory license under antitrust law (judgment dated March 30, 2017 – I 15 U 65/15). The Higher Regional Court of Düsseldorf came to the conclusion that the defendants had sufficiently declared their willingness to take a license, but that the plaintiff had subsequently not made a license offer on FRAND terms, since the plaintiff's license offer discriminated against the defendants in favor of a third-party licensee.

3. Decision of the German Federal Court of Justice

To summarize briefly, the German Federal Court of Justice confirmed the infringement of the patent-in-suit, but rejected the defense of compulsory license under antitrust law of the defendants – as it already did in the previous decision *FRAND-Einwand* – and consequently reversed the judgment of the Higher Regional Court of Düsseldorf to the extent to which it resulted in the plaintiff's disadvantage.

The German Federal Court of Justice again essentially justifies the rejection of the defense of compulsory license under antitrust law by stating that the plaintiff did not abuse its dominant market position by filing the complaint for injunctive relief, recall and destruction, since the defendants were not sufficiently willing to take a license.

Confirming its decision *FRAND-Einwand*, with regard to the willingness to take a license, the German Federal Court of Justice demands that the infringer has to clearly and unambiguously declare its willingness to conclude a license agreement on FRAND terms and then has to purposefully participate in the license negotiations (marg. no. 57). The Court stated that the examination criterion in this regard was the consideration what a reasonable party that is interested in a successful conclusion of the negotiations, doing justice to both parties' interests, would do to promote this goal in each one of certain stages of the negotiations (marg. no. 59). If the SEP owner provides a license offer, the infringer has to deal with it in such a way that it can be recognized that the infringer pursues the goal of a result that is in accordance with the interests of both parties. In contrast, the Court said, it was not relevant whether every aspect of the content of the initial offer was already FRAND (marg. no. 72).

In this context, and with reference to corresponding case law of the highest courts in the United Kingdom and the Netherlands, the German Federal Court of Justice considers itself in line with the principles established by the European Court of Justice and therefore considers a renewed referral, as suggested by the defendants, to be unnecessary.

Based on these principles, the German Federal Court of Justice negates the defendants' necessary willingness to take a license, as they initially did not respond to the plaintiff's notification of infringement at all and later merely declared their willingness to

take a license in a non-binding or conditional manner. According to the Court, the counter-offers for a license did not establish sufficient willingness to take a license either, since they were limited with regard to the licensed intellectual property rights, the licensees and the territory without any factual reasoning and, therefore, the defendants could not assume that the counter-offers would lead to an agreement.

The German Federal Court of Justice also rejects the "patent ambush" objection asserted by the defendants. The Court justifies this by stating that the objection can only be directed against the party which caused the "patent ambush", which was not the plaintiff but its legal predecessor in the present case. It also said that, outside the protection of succession pursuant to Sec. 15(3) German Patent Act, objections against the previous patent owner cannot be used as a defense against the new patent owner (marg. no. 131). Moreover, in the view of the German Federal Court of Justice, the defendants would have had to establish indications that the standard would have been worded differently, had the patent applicant not held back the information, which was not established (marg. no. 132).

4. Analysis

With this decision, the German Federal Court of Justice does not only respond to criticism of the previous decision *FRAND-Einwand*. Furthermore, it seizes the opportunity to provide a landmark decision regarding the parties' scheme of obligations in FRAND cases and provides practitioners with numerous practical

guidelines on almost 60 pages, the aspect of doing justice to the individual case not being neglected any point. In addition, the judgment will probably make an essential contribution to the harmonization of European case law on FRAND cases. Thus, there definitely is reason to be proud of our highest civil court.

4.1 Antitrust law considerations

A point of criticism regarding the previous decision *FRAND-Einwand* was that the German Federal Court of Justice assessed the issue of an abusive exploitation of a dominant market position by the SEP owner almost exclusively based on the infringer's willingness to take a license, i.e. by means of the infringer's conduct. In order to provide a more extensive legal reasoning for this approach, in the new decision *FRAND-Einwand II*, the German Federal Court of Justice makes reference to its case law on the access to an infrastructure facility of a market dominator (German Federal Court of Justice, order dated December 11, 2012, KVR 15/01 – *Fährhafen Puttgarden I*):

An SEP owner must enable an infringer that is generally willing to take a license to conclude a license agreement on reasonable terms (marg. no. 53). Since the infringer is entitled to a contractual permission for the use of the protected technical teaching on FRAND terms, an abuse of market dominance only exists if the dominant market player completely rejects the requested access or insists on unreasonable conditions for the access (marg. no. 54).

The German Federal Court of Justice also uses this parallel between its antitrust case law and the current case as a basis for justifying its opinion that the SEP owner is allowed to initially present an offer that is possibly not yet in line with FRAND terms in every aspect. The Court states that this is because the presence of FRAND terms cannot be examined abstractly in the context of the FRAND objection, but rather only emerges from constructive discussions and negotiations by both parties (marg. no. 74).

4.2 Willingness to take a license

Once again, the focus of the decision is on the question of the infringer's willingness to take a license. In this regard, the German Federal Court of Justice first of all confirms its criterion from the decision *FRAND-Einwand*, according to which the infringer must clearly and unambiguously declare its willingness to take a license and must then purposefully participate in the license negotiations (marg. no. 57). What is striking, however, is that the German Federal Court of Justice does not repeat the quote "*a willing licensee must be one willing to take a FRAND license on whatever terms are in fact FRAND*" from (marg. no. 83 of) the decision *FRAND-Einwand* here. It was this quote, inter alia, from which individual courts of lower instances derived that only the conduct of the infringer has to be examined, while the conduct of the SEP owner and, particularly, its license offer only need to be reviewed secondarily when examining FRAND objections. By refraining from making this quote, the German Federal Court of Justice seems to indicate that this interpretation was not intended in this way.

In line with this, the German Federal Court of Justice subsequently repeatedly mentions that both parties have to be willing to take/grant a license, that the requirements with regard to the parties' conduct are mutually dependent and that the envisaged license agreement takes into account the interests of both parties. According to the Court, what is decisive is what a reasonable party would do at the respective time to promote the conclusion of an agreement that does justice to both parties' interests (marg. no. 59). Thus, the German Federal Court of Justice demands that both negotiating parties converge to the same extent and approach and respond to each other in accordance with practice customary in commerce when honestly trying to conclude a license.

Thus, if the SEP owner provides a license offer, the infringer particularly has to examine it with regard to the intellectual property rights as well as the amount and calculation method of the royalty. In this context, the German Federal Court of Justice also measures the infringer's reaction against what can be expected from the infringer in good faith for promoting the conclusion of the agreement that is in accordance with the interests of both parties (marg. no. 71). However, if the license offer obviously does not adhere to FRAND terms, the responsibility is, in turn, reversed. In this case, the SEP owner has the obligation to react to a corresponding explanation by the infringer in a way that appropriately promotes the conclusion of a license agreement on FRAND terms.

With these explanations, the German Federal Court of Justice again confirms that an infringer regularly cannot restrict

itself to disputing that the license offer of the SEP owner is FRAND, but must constructively work towards the conclusion of the agreement. Mirroring this, however, the SEP owner must also demonstrate its willingness to negotiate and take legitimate interests of the infringer into account.

The German Federal Court of Justice thus manages, in a proper and convincing manner, to adequately balance both parties' interests and to prevent cases of "hold-out" as well as cases of "hold-up" in the future, or, alternatively, "sanction" them accordingly.

4.3 Compliance with the CJEU decision

In reaction to the decision *FRAND-Einwand*, the defendants in the present case requested the referral of specific questions to the European Court of Justice. Not least for this reason (and against the background of a pending constitutional complaint against the previous decision in this regard and of a referral to the European Court of Justice from Düsseldorf), the German Federal Court of Justice obviously considered itself compelled to establish in some detail that and why its case law is in line with the case law of the European Court of Justice, which it convincingly achieves.

In the opinion of the German Federal Court of Justice, the CJEU decision defines requirements under which a violation is regularly excluded, i.e. a "safe harbor" for SEP owners. The court states, however, that, deviating from this, particular circumstances can also justify either more or less strict conduct obligations (marg. no. 65).

Moreover, it is stated that the CJEU does not necessarily require the primary examination of the license offer of the SEP owner regarding its FRAND compliance. According to the Court, this is because the refusal of a FRAND license offer can only give rise to an abuse of market dominance if the infringer is continuously willing to take a license (marg. nos. 66, 68).

Finally, the requirements of the German Federal Court of Justice with respect to the infringer's reaction to a license offer by the SEP owner also are in line with the

CJEU decision. In this regard, the German Federal Court of Justice makes reference to the infringer's obligation to react to the license offer without using dilatory tactics, as defined by the CJEU (marg. no. 77). The German Federal Court of Justice furthermore considers this to be the gateway for an assessment of the infringer's willingness to take a license based on the circumstances of the individual case (marg. no. 78).

Summary and outlook

The present decision, which is convincingly substantiated in its depth, may well be called a milestone, and will have a significant impact on the application of the law in Germany and elsewhere. It rejects the schematic and partly very formal solutions that occurred in the case law of the courts of lower instances on a well-founded legal basis. It creates extensive legal clarity and certainty without removing the flexibility necessary for decisions on individual cases. Therefore, the decision is to be welcomed in its entirety.

Unfortunately, due to the circumstances of the case at issue, the German Federal Court of Justice did not have any reason to comment on further important FRAND issues that are of great relevance in practice, such as the question of discrimination, specific license conditions, or the "correct" royalty calculation. Nevertheless, the decision prepared the ground for subsequent decisions on these issues, inter alia, by making reference to the opinion of Advocate General Wathelet (marg. no. 68), according

to which an "Orange Book" license offer by the infringer, i.e. the offer of a specific royalty along with the possibility for the SEP owner of having the FRAND conformity reviewed under Sec. 315 German Civil Code, ought to be considered a sufficient willingness to take a license and, thus, as a "safe harbor" for the infringer. In any case, the decision *FRAND-Einwand II* will have to lead to the harmonization of the requirements of the courts of lower instances regarding the FRAND defense and, thus, remedy the currently very unsatisfactory situation of the same facts and circumstances being assessed differently by different courts of lower instances.