
Application of the FRAND objection following the FCJ judgments FRAND-Einwand and FRAND-Einwand II, Düsseldorf District Court, judgments dated May 11, 2021 – docket nos. 4b O 83/19, 4b O 23/20, and 4b O 49/20 –
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With its judgments of May 11, 2021, docket nos. 4b O 83/19, 4b O 23/20, and 4b O 49/20, the Düsseldorf District Court follows the guidelines of the German Federal Court of Justice (FCJ) regarding the application of FRAND objections and refrains its previous assessment approach. So far, the Düsseldorf District Court had only set low standards for the infringer's declaration of a willingness to take a license with regard to the obligations introduced by the European Court of Justice by means of the decision *Huawei v. ZTE*; the District Court had focused its examination on the FRAND license offer of the SEP owner. Now, in line with the FCJ, the implementer's willingness to take a license also is a decisive aspect of the District Court's examination, with an overall consideration of the conduct of both parties during licensing negotiations taking place.

1. Facts and circumstances of the case

The decisions were based on facts and circumstances which are mostly similar:

The plaintiffs are two different proprietors of patents which are essential for the MPEG-4 Advanced Audio Coding (AAC) Standard. In both cases, the defendants are the European and German distributing company of a Chinese group which sells, inter alia, smartphones and tablets.

The standard-essentiality of the three patents-in-suit and, thus, the infringement by the attacked embodiments, were mostly undisputed in all three cases.

Licensing for the plaintiffs' standard-essential patents (SEPs), including the patents-in-suit, is offered via a patent pool issued by Via Licensing Corporation. There is a standard license agreement on the licensing of the patent pool, determining the license fees; both are published on the website of Via Licensing. The AAC pool has more than 900 licensees, and ancillary terms exist in addition to the standard licensing terms in some cases.

The defendants had already taken a license for the SEPs of both plaintiffs through Via Licensing in 2005, which license was, however, terminated early by Via Licensing in 2007. In 2016, Via Licensing re-initiated licensing negotiations with the defendants by sending the standard license agreement governing the AAC pool. Subsequently, both plaintiffs sent lists of their SEPs as well as claim charts regarding certain AAC pool patents to the defendants. One of the plaintiffs additionally sent a bilateral draft agreement with the defendants, the other plaintiff refused to do so upon the defendants' request. After several years of unsuccessful licensing negotiations, the plaintiffs filed the complaints in 2020, asserting, inter alia, claims for injunctive relief. After the complaints had been filed, further negotiations among the parties followed, in the course of which the defendants also presented



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counter-offers for the first time, which the plaintiffs rejected, however. The defendants also provided security for the counter-offer vis-à-vis one of the two plaintiffs.

2. Decision by the Düsseldorf District Court

The Düsseldorf District Court dismissed the defendants' FRAND objection in all three cases and granted the plaintiffs' requests for injunctive relief.

The Düsseldorf District Court did indeed confirm that the patents-in-suit are patents essential for the AAC Standard and, as such, give rise to a dominant market position of the plaintiffs; the Court stated that this could be gathered from the fact that the implementation of the ACC Standard by Google is a required prerequisite of the "GMS" certification which, in turn, is a prerequisite for the use of Google applications such as the Google Play App Store. Due to the large market share of the Android operating system and a lack of alternatives, the Düsseldorf District Court deemed this an essential function from the perspective of end users.

However, the Düsseldorf District Court did not find an abuse of a dominant market position by the plaintiffs, since, according to the Court, the defendants had not demonstrated their willingness to take a license at any point until the oral hearing ended, while the plaintiffs had not failed to fulfil their obligations in terms of conduct.

According to the Düsseldorf District Court, the plaintiffs did indeed fulfil their obligation to notify the defendants of their infringement by sending the lists of the plaintiffs' SEPs and selected claim charts in 2016/2017.

The District Court found that the defendants were not willing to take a license afterwards, however. In this respect, the Düsseldorf District Court gives overall consideration to the defendants' conduct, making reference to the decisions of the German Federal Court of Justice FRAND-Einwand and FRAND-Einwand II. According to the Court, the defendants only responded to the notification of infringement and declared their willingness to take a license more than three years after said notification, specifically only after the complaint had been served. The Court continued that the required serious willingness to take a license could be gathered neither from said response nor from the subsequent communication. Particularly, the Court found, the defendants used dilatory tactics in the form of the unjustified demand for additional information regarding the patent portfolios, the calculation of the demanded license fees as well as on comparable license agreements. The Court also deemed the demand for a bilateral license offer from one of the plaintiffs unjustified, since the AAC pool offer constituted a license offer, and the defendants did not convincingly demonstrate why a bilateral offer was absolutely necessary. According to the Court, the defendants' counter-offers, which were made only briefly before the oral hearing, cannot be considered to be an expression of a new-found willingness to take a license, as one counter-offer was based on invalid sales figures and the other counter-offer would have put the defendants in a better position than other licensees, a circumstance for which the defendants had not provided any justification.

In contrast, the plaintiffs' conduct did not demonstrate an unwillingness to grant a license, in the opinion of the Düsseldorf

District Court, which stated that the plaintiffs made a license offer to the defendants accepted by large parts of the market, specifically by making the AAC pool offer, and even demonstrated an openness towards amendments to the terms of the agreement. Additionally, the Court stated, the plaintiffs always reacted to any (unjustified) additional demands made by the defendants, providing further information such as comparable agreements.

Ultimately, the Düsseldorf District Court did not find any inconsistency between the standards for examination on which the judgments were based and the previous

practice of the Düsseldorf District Court. The Court stated that one single declaration of a willingness to take a license by the infringer was not sufficient even under the previous practice, i.e. the case would not have been assessed differently under the previous practice. Thus, the Düsseldorf District Court did not see any reason why the proceedings should be stayed against the background of the order for reference to the European Court of Justice issued by the parallel chamber 4c (order of November 26, 2020, 4c O 17/19, GRUR-RR 2020, 32508).

Comments

a. Adaptation of the assessment criteria to the German Federal Court of Justice

As had been expected, the Düsseldorf District Court adapted its previous practice regarding FRAND objections to the guidelines of the German Federal Court of Justice following the latter's decisions *FRAND-Einwand* and *FRAND-Einwand II*.

Previously, the Düsseldorf District Court had examined the parties' obligations established by the European Court of Justice in a strictly chronological/consecutive manner. Only very low standards had been set for the infringer's declaration of willingness to take a license – a simple and not clearly unserious declaration by the infringer had been sufficient. Therefore, in most cases, the focus was on the examination of the license offer made by the SEP owner and the requirement of a positive finding that said offer was actually

compliant with FRAND terms in all and any respects. This often presented SEP owners with major challenges and resulted in a situation in which a significantly higher number of FRAND objections were successful before the Düsseldorf District Court than before the District Courts of Munich I and Mannheim.

Now, the Düsseldorf District Court expressly refrains from this approach and, in line with the guidelines of the German Federal Court of Justice, focusses its examination on both parties' willingness to conclude a license agreement in the context of an assessment of the overall conduct of each respective party. What is decisive is whether the infringer clearly, unambiguously, and continuously puts its willingness to conclude a license agreement with the SEP owner on fair, reasonable and non-discriminatory terms into action. The Düsseldorf District Court examines this by means of an overall consideration, in the course of which any

counter-offer that may exist is also taken into account. Additionally, the Düsseldorf District Court assesses – and apparently attributes the same importance to – the question of whether the SEP owner fulfilled its obligations in order to conclude a license agreement on FRAND terms.

Based on the available judgments, it is not yet possible to assess with certainty whether this amended approach will tip the balance of power between infringers and SEP owners in favor of the latter, as is already the case at the District Court of Munich I, for example. For the Düsseldorf District Court explicitly states in its judgments that the facts and circumstances underlying these decisions are so unambiguous that the decisions would not have been any different even according to the previous practice. This is because, even previously, the Düsseldorf District Court dismissed FRAND objections regarding patents which are essential for the AVC/H264 Standard and are licensed via an established license pool, arguing that the pool's standard license agreement which existed in those cases, too, complies with FRAND requirements because of its acceptance by a plurality of licensees (e.g. Düsseldorf District Court, judgment dated November 9, 2018, 4a O 15/17).

So, the most recent case law of the German Federal Court of Justice still needs to undergo stress testing regarding its impact on the practice of the Düsseldorf Court. However, the trend clearly is that raising successful FRAND objections will become more difficult for infringers and that Düsseldorf will become a more attractive location for complaints for injunctive relief by SEP owners again.

b. Other findings

Apart from the fundamental question of assessment criteria, the judgments include other interesting findings regarding FRAND objections:

(1)

The Düsseldorf District Court leaves the question of whether the case law of the European Court of Justice is applicable to *de-facto* standards unanswered, since FRAND declarations towards the standardization organization ISO/IEC existed regarding the patents-in-suit of the present cases as well. However, the Düsseldorf District Court finds, *obiter dictum*, that it does not see any factual reason for not applying the case law of the European Court of Justice to *de-facto* standards. The reason for this is, according to the Court, that the obligations regarding the conduct result from the dominant market position which, in term, is established based on the actual situation on the market, irrespective of how it came about.

With this statement, the Düsseldorf District Court contradicts the currently prevailing opinion that the *Orange-Book-Standard* case law of the FCJ (judgment dated May 6, 2009, KZR 39/06, GRUR 2009, 694), according to which (instead of the SEP owner) the prospective licensee first has to make a FRAND offer, continues to be applicable to *de-facto* standards.

(2)

Regarding the infringement notification of the SEP owner, the Düsseldorf District Court confirms its previous case law under which the indication of the publication number of

the patent-in-suit, the attacked embodiment, and the act of use (within the meaning of Secs. 9 et seq. German Patent Act) of which the implementer is accused is sufficient. The Düsseldorf District Court also is of the opinion that a notification of infringement addressed to the parent company of the defendants meets the requirements.

(3)

Regarding the offer of a license agreement by the SEP owner, the Düsseldorf District Court deems sufficient an offer which does not stipulate the specific amount of the lump-sum compensation payments for the past. Due to the requirement of a „specific” license offer indicating the license fee, set by the European Court of Justice, some of the courts of lower instances have postulated that only a license offer that can immediately be accepted, i.e. an offer without any “blanks” meets the requirements of the European Court of Justice. The exception regarding a lump sum for the past now accepted by the Düsseldorf District Court is understandable insofar as said sum requires information on the scope of the acts of use – which the SEP owner needs from the infringer. If the infringer refuses to disclose said information, it does not constructively contribute to the negotiations and, hence, must not invoke any “blanks” in the license agreement to argue a lack of willingness to grant a license by the SEP owner.

(4)

In the context of the willingness to grant a license of the SEP owner, the Düsseldorf District Court found that, should SEP owners disclose information on their licensing practice, they are obliged to do so correctly and without leaving anything out. However, the Court states, SEP owners do not have to present any agreements with licensees that distribute different products than the infringer does, or any license agreements which have already expired. Additionally, according to the Düsseldorf District Court, one single incorrect information – which is corrected later – does not automatically mean that the SEP owner is unwilling to grant a license. The Court continues that, rather, this also has to be part of the overall consideration of the parties’ conduct.

(5)

If a license offer for an SEP patent pool has been presented to the infringer, the refusal to provide a bilateral license offer by the SEP owner only constitutes abuse if the infringer is able to demonstrate a legitimate interest in a bilateral license in order to offer its products in a competitive manner.