
FRAND objection: German Federal Court of Justice, judgment dated May 5, 2020 – docket no. KZR 36/17

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By its recently published judgment dated May 5, 2020, docket no. KZR 36/17, the German Federal Court of Justice for the first time interpreted and applied the requirements that were defined by the ECJ in its “ZTE vs. Huawei” decision (C-170/13, hereinafter *ECJ decision*). Contrary to the case law of the courts of lower instances to date, the German Federal Court of Justice imposes high requirements with regard to the alleged patent infringer’s willingness to take a license. As regards other aspects, in contrast, it confirms the position of the courts of lower instances.

I. Facts and circumstances

The Plaintiff is the proprietor of an extensive portfolio of standard-essential patents. This also includes the present patent-in-suit, which has been declared essential for the GPRS mobile phone standard and for which the Plaintiff has made a licensing commitment on fair, reasonable and non-discriminatory (FRAND) terms towards the ETSI standard setting organization.

In three letters in December 2012 and in 2013, the Plaintiff indicated infringement of the patent-in-suit to the Defendant’s parent company and offered a license on FRAND terms to it. The Defendant’s parent company only responded to this in December 2013, expressing the hope that one might enter into negotiations, and requesting information about a discount. Subsequently, negotiations

on a license took place and several license offers were exchanged. However, after the conclusion of an agreement had failed, the Plaintiff asserted its rights in court.

II. Lower Courts

The Regional Court of Düsseldorf entirely found for the Plaintiff in response to its complaint for injunctive relief, recall and destruction, information and rendering of accounts as well as determination of the obligation to pay damages (judgment dated November 3, 2015 – 4a O 93/14). In doing so, the Regional Court of Düsseldorf dismissed the Defendant’s defense of compulsory license under antitrust law, since, contrary to its obligations arising from the ECJ decision, it had not rendered accounts of its previous acts of use and did not provide a security for this. In view of this, the Regional Court of Düsseldorf did not determine whether the Plaintiff, in turn, had fulfilled its obligations arising from the CJEU decision.

Upon the Defendant’s request, the Higher Regional Court of Düsseldorf stayed the enforcement of the first-instance judgment (order dated January 13, 2016 – I-15 U 66/15). In the opinion of the Higher Regional Court of Düsseldorf, it was not permissible for the Regional Court of Düsseldorf not to determine whether the Plaintiff had met its requirements arising from the CJEU decision, particularly its obligation to make a FRAND license offer, before reviewing the Defendant’s obligations regarding accounting and a provision of security.



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In the appellate proceedings, the Higher Regional Court of Düsseldorf confirmed infringement of the patent-in-suit, but partially dismissed the complaint as currently unfounded due to the Defendant's defense of compulsory license under antitrust law (judgment of March 30, 2017 – I-15 U 66/15). The Higher Regional Court of Düsseldorf arrived at the conclusion that the Defendant had sufficiently declared its 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 Defendant compared to a third-party licensee.

III. The Decision of the German Federal Court of Justice

The German Federal Court of Justice confirmed infringement of the patent-in-suit, but dismissed the Defendant's defense of compulsory license under antitrust law and thus reversed the judgment of the Higher Regional Court of Düsseldorf to the extent to which its finding was to the Plaintiff's disadvantage.

As the reason for dismissing the defense of compulsory license under antitrust law, the German Federal Court of Justice stated that the Defendant had not declared its willingness to conclude a license agreement on FRAND terms. For this, the German Federal Court of Justice requires the infringer to clearly and unambiguously declare its willingness to conclude a license agreement on reasonable and non-discriminatory terms to the patent proprietor and to cooperate in the license agreement negotiations in a purposeful manner. The Defendant failed to do so, by not reacting to the Plaintiff's indication of infringement at all at first and later

declaring its willingness to take out a license merely in a non-committal or conditional manner.

Finally, the German Federal Court of Justice also found, in an *obiter dictum*, that the Plaintiff's license offer may possibly have been non-discriminatory according to the findings of the courts of lower instances, since the unequal treatment compared to the third-party licensee may be justified.

IV. Analysis

In its decision, the Federal Court of Justice addresses a number of questions which have so far been disputed between the different courts of lower instances, specifying the obligations of the parties in the context of a dispute about standard-essential patents.

1. Dominant market position

The Federal Court of Justice first confirms the established case law according to which a dominant market position is given if a patent is standard-essential and its technical teaching furthermore cannot be substituted by a different technical design of the product (marg. 58). In the view of the Federal Court of Justice, this is the case for the patent-in-suit, which is essential for the GPRS standard. In particular, the GPRS standard cannot be substituted by predecessor or successor standards (marg. 59).

The Federal Court of Justice furthermore rejects the Plaintiff's argument that a dominant market position cannot be present because the infringer can use the teaching of the patent, and thus access the market, even without a license. The Federal Court of Justice finds that the market entry barrier is

already provided by the fact that it is unreasonable for a company to be active on the market without a license (marg. 63).

Finally, the Federal Court of Justice clarifies that the dominant market position ends upon the expiration of the patent (marg. 65).

2. Abuse of the dominant market position

The Federal Court of Justice first confirms its decision “Orange-Book-Standard”, according to which an abuse of a dominant market position is given if the infringer has made an unconditional license offer under terms and conditions which the patent holder cannot reject without violating the prohibition of abuse or discrimination (marg. 71 with reference to BGHZ 180, 312, marg. 27, 29 - Orange-Book-Standard).

With reference to the decision by the European Court of Justice in the case “ZTE vs. Huawei” (C-170/13), the Federal Court of Justice then introduces another situation where the assertion of a SEP can be abusive, namely if the infringer is not yet ready to conclude a license agreement, but the patent proprietor itself has not made sufficient efforts to enable the willing infringer the conclusion of a license agreement on FRAND terms (marg. 72).

On this basis, the Federal Court of Justice comments on several obligations set by the European Court of Justice and specifies them as follows:

a. Notification of infringement by the patent holder

Concerning the infringement notification, the Federal Court of Justice mainly confirms the current case law of the courts of lower instances:

- It is sufficient for the infringement notification to describe the infringement action and the attacked embodiment (marg. 85).
- Detailed technical or legal explanations are not necessary. The infringer must only be put in the position to evaluate the infringement accusation itself, or by external advice (mar. 85).
- The presentation of the infringement allegation by “claim charts” is generally sufficient, but not mandatory (marg. 85).
- The patent holder can expect the infringer to respond within a short time frame if the provided information is not sufficient to evaluate the infringement accusation (marg. 87).
- It can be sufficient to provide the notification to the parent company of the infringer (marg. 89).

b. Willingness to take a license by the infringer

Contrary to the previous case law of the court of lower instances, the Federal Court of Justice sets significantly stricter requirements to the infringer’s declaration of willingness to take a license. Mere “lip service” is not sufficient in this regard:

- The infringer must clearly and unambiguously declare its willingness to conclude a license agreement under reasonable and non-discriminatory terms and must subsequently contribute to the negotiations with determination (marg. 83).
 - The mere consideration of concluding a license agreement or enter into negotiations about it is not sufficient (marg. 83).
 - In other words: *“a willing licensee must be one willing to take a FRAND license on whatever terms are in fact FRAND”* (marg. 83 with reference to EWHC, decision dated April 5, 2017, [2017] EWHC 711 (Pat), marg. 708 - Unwired Planet v Huawei).
 - While the infringer can reserve the right to challenge the alleged infringement and the validity of the patent-in-suit, it cannot make the willingness to take a license conditional to this (marg. 96).
- c. FRAND license offer by the patent holder**
- Even though the decision of the Federal Court of Justice did not depend on the Plaintiff's license offer, the Federal Court of Justice also made several general comments in this regard:
- The infringer has the burden of presentation and proof for obstruction or discrimination by the patent holder. The patent holder has the burden of presentation and proof for the justification of a non-equal treatment (marg. 76).
 - The patent proprietor may be required to substantiate its license request, to enable the infringer the verification of the license request (marg. 76).
 - A portfolio license offer is harmless, as long as it does not include non-standard-essential patents and the royalties are calculated in a way that does not discriminate a user that only wants to develop a product in a restricted geographic area (marg. 78).
 - Negotiations about a worldwide portfolio licenses are common practice and also benefit the user from an efficiency standpoint (marg. 78).
 - If the patent proprietor provides a portfolio license offer, the patent proprietor must provide the same information for the portfolio as in the infringement notification for the patent-in-suit, i.e., the patents, the infringement action and the attacked embodiments, but not any further technical or legal details (marg.98).
 - The scope, level of detail and timing of the information depends on the individual circumstances and in particular on the reaction of the infringer (marg. 79).
 - The patent proprietor is not generally required to grant licenses to all uses on equal terms. Reasonable terms are generally not objectively defined but are the result of a negotiated market processes. Thus, the serious and determined contribution of the infringer in the negotiations is crucially important (marg. 81).
 - The lack of legal enforceability of patents and threatened personal or economical disadvantages can justify the licensing of a portfolio under more beneficial terms (marg. 102).

3. Legal consequences of the defense of compulsory license

Also as an *obiter dictum*, the Federal Court of Justice finally establishes that the patent holder's claim for damages is not limited to the result of a determination under the license analogy measurement (marg. 110).

By this, the Federal Court of Justice rejects the previous case law practice of the Düsseldorf court of lower instances, according to which the defense of compulsory license could also be asserted against the claims for information and accounting if the Plaintiff requested information about costs and profits.

Summary and outlook

The decision of the German Federal Court of Justice is welcome, since it provides legal certainty with regard to key questions on the requirements of the defense of compulsory license under antitrust law.

It is particularly to be emphasized that the German Federal Court of Justice creates an appropriate balance between hold-up and hold-out by clearly rejecting passive behavior of the parties or dilatory tactics, which have occurred rather frequently due to the first-instance case law. The German Federal Court of Justice rightly uses realistic negotiations as a basis, specifically ones in which parties that are seriously interested in a license agreement being concluded converge sensibly and do not act in an inherently obstructing manner.

By this, the German Federal Court of Justice moves considerably closer to the case law of the patent dispute courts of the United Kingdom, as is apparent not least from the specific reference to a decision of the High Court of England and Wales (J. Birss).

Nonetheless, the decision of the German Federal Court of Justice is to be read with caution, specifically with two reservations:

On the one hand, the German Federal Court of Justice decided on an individual case, the specific circumstances of which in the context of an overall consideration of the parties' behavior were decisive for the dismissal of the defense of compulsory license under antitrust law.

On the other hand, while the German Federal Court of Justice did specify the parties' obligations in more detail in part, as was established above, it has become apparent in the past that any court decision on the requirements of the defense of compulsory license under antitrust law raises new questions. Thus, while the present decision is an important start, the end of the path to handling the defense of compulsory license under antitrust law in a manner that provides certainty of the law has by no means been reached.