THE ENFORCEMENT OF STANDARD ESSENTIAL PATENTS IN GERMANY – A STOCKTAKING

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In July 2015, the European Court of Justice (CJEU) issued a long-awaited judgment answering questions as to the requirements an owner of a standard essential patent (SEP) is able to enforce its SEP without a breach of European Antitrust Law. As the owner of an SEP basically has the obligation to license its SEP under fair, reasonable and non-discriminatory (FRAND) conditions, it is not in any way possible for the owner to enforce its SEP without taking any prior effort in entering into a FRAND license agreement. Given that this landmark ruling deviated substantially from the German courts’ previous case law and that it still left a number of issues unaddressed, it was unclear at the time how the national courts were going to implement the CJEU’s judgment.

As the following explanations demonstrate, there exists, in some points, a considerable level of discrepancy in the case law of the different courts. Consequently, although the decision of the CJEU aimed to outline and harmonize the requirements which need to be fulfilled by both parties, open questions remained which were answered in a different manner by the national courts.

In the following, we will set out FAQs aimed to answer the typical questions which arise when a company is confronted with infringement allegations in the context of SEPs. These FAQ shall only be a very first guidance on how to react when receiving an infringement allegation from an SEP owner, but can certainly not substitute a detailed analysis of the circumstances in the specific case.

WHEN IS THE PATENTEE ALLOWED TO SUE A COMPANY BASED ON THE INFRINGEMENT OF AN SEP?

In that regard, it must be distinguished between the different claims an SEP owner has in case of patent infringement. The CJEU held that it is not abusive to claim for damages and rendering of accounts before starting any license negotiations. Therefore, a claim for damages and/or rendering of accounts can be filed anytime. The reason therefore is that such a claim does not prevent a company from manufacturing and distributing the attacked products, as an injunction or claim for destruction would do.

Contrary, the SEP owner can only claim for an injunction and/or destruction of the attacked products if it runs through the different steps set out by the CJEU first, which will be described in more detail below. Especially, the owner of an SEP would need to try to initiate license negotiations by sending an infringement notification to the respective company before filing any complaint. The SEP owner would further need to make considerable efforts in order to arrive at a FRAND license agreement. However, in case the attacked
company fails to fulfill any of the duties below described, the SEP owner is allowed to claim for an injunction and/or destruction of the attacked product.

**WHAT DOES A COMPANY NEED TO DO IF IT RECEIVES A NOTIFICATION ALLEGING THE INFRINGEMENT OF AN SEP?**

If a company receives a notification alleging the infringement of an SEP, it should, as a very basic consideration, aim to comply with the requirements set out by the CJEU in order to be able to preserve the FRAND-defense in possible infringement litigation. If the FRAND-defense is successful, the court cannot issue an injunction against the attacked company, but will rather reject the complaint as being currently unfounded.

In a first step, the CJEU requires any attacked company to declare its willingness to license. Willingness to license does not mean any admission of the alleged patent infringement and/or the validity of the SEP. It is only meant to be a very general statement to be willing to start license negotiations on FRAND terms. The attacked company is therefore free to challenge the infringement attack, the standard essentiality and/or the validity of the SEP notwithstanding this “willingness-declaration”.

**HOW MUST THE RESPONSE LOOK LIKE AND WHEN MUST THE RESPONSE BE SENT?**

Attention should be taken with respect to the wording of the “willingness-declaration” as well as with respect to the timing of the response. The German courts are of the opinion that the willingness to license cannot be subject to any condition. It is therefore not possible to hinge its willingness on the fact that the SEP is infringed and/or valid. Caution should further be taken with respect to any comments on the amount of the royalty rate or on further terms of the license agreement. Such comments may be considered as an indication that the company is actually unwilling to license.

With respect to the timing, the attacked company should act very quickly. The German courts are rather not willing to give more than four to six weeks for the response. The more detailed the notification of the SEP owner is, the shorter the timeframe for the response. Therefore, in a recent judgment of the Regional Court of Mannheim, a timeframe of ten weeks was considered to be too long, although it included the regular summer holiday month in France.

The reason why the courts only accept such a surprisingly short timeframe is that they do not see the purpose of this timeframe in permitting a full infringement and validity analysis of the SEP (the infringement/validity can be challenged while the negotiations take place). The decision whether willingness to license exists can rather be made on a summary examination in order to verify whether the allegations of the SEP owner are basically conclusive, as this “willingness-declaration” is considered to be a pure starting point for the license negotiations under FRAND terms.

It should be finally pointed out that the customers can rely on the “willingness-declaration” of their manufacturer/supplier. In such a case, it is not necessary for the customer to declare its own willingness, as it is common commercial practice that the manufacturer/supplier will negotiate a license for all of its supplying activity, but not to let each of the customers make their own license agreement. The same applies with respect to a corporate group; the parent company can start negotiation for and on behalf of the whole group.

**WHICH NEXT STEP IS REQUIRED BY THE SEP OWNER IF THE ATTACKED OWNER IS WILLING TO LICENSE?**

If the attacked company provides a “willingness-declaration” to the SEP owner, the SEP owner must, as a next step, provide the attacked company with a specific license offer. With respect to that offer, the courts consider very detailed information to be necessary in order to be compliant with the decision of the CJEU. This information aims to enable the attacked company to understand whether the SEP owner’s offer is FRAND compliant.
Consequently, the license offer must first and foremost contain a royalty rate and the basis of its calculation. It is therefore not sufficient to ask that the royalty rate is determined by a court or another independent third party. In order to enable the attacked company to recalculate the royalty, further, information about comparable license agreements (if any) must be provided. A need for confidentiality must not prevent the SEP owner from providing this information. If confidentiality is an issue, the SEP owner must conclude an NDA with the attacked company’s counsel in order to enable the counsel to understand whether the license offer is FRAND. In such a case however, the counsel would be not allowed to disclose the confidential content to its client (the attacked company).

It is basically common sense between the German courts that the license offer does not necessarily need to be limited to the claimed SEP, but can be extended to the (worldwide) patent portfolio of the SEP owner presupposed that the attacked product is sold worldwide and that there exists a certain likelihood that all patents of this portfolio are infringed. This must be shown with claim charts for a representative cross section of the portfolio (normally on the basis of 10 to 15 patents). The High Court of Wales and England, in a recent decision, pointed out that, in such a case, it cannot be expected from the SEP owner to conclude a separate license agreement for every single patent, as this would lead to massive administrative effort.

However, depending on the volume of the sales in the different regions, different royalty rates for different regions may be necessary. If the attacked company can show a reasonable interest that a global portfolio license is not useful for its purposes, the license must nevertheless be limited to the claimed SEP.

**DOES THE ATTACKED COMPANY NEED TO RESPOND IF THE SEP OWNER’S OFFER IS CONSIDERED TO BE NON-FRAND?**

This question is highly disputed in the case law. Whilst some benches of the Regional Courts are of the opinion that a response is also necessary if the offer of the SEP owner is non-FRAND, the Higher Regional Courts on Appeal tends to the view that a response is only necessary if the offer is FRAND (no final decision has been published in this regard so far). However, again another bench of the Regional Court of Mannheim is of the opinion that it is only possible to refrain from a response if the offer is obviously non-FRAND.

What’s more, the High Court of England and Wales recently handed down a decision completely adverse to the German approach, arguing that it cannot be expected that the offer of the SEP owner is indeed FRAND. It is rather the purpose of the negotiation procedure to arrive in the end at terms which are FRAND.

As can be seen from the above notes, the development of the case law is ongoing and it is not possible to predict at this stage how this question will be decided by the Federal Court of Justice in the future. We therefore strongly recommend to respond to the license offer of the SEP owner in a duly and diligent manner irrespective of whether the license offer of the SEP owner is considered to be FRAND. This means that if the attacked company is to refuse the license offer of the SEP owner, the company is required to provide a full counteroffer to the SEP owner. In that regard, the same level of detail must be provided as it is necessary for the initial offer of the SEP owner. Therefore, the counteroffer must especially contain the royalty and the basis for its calculation.

**WHAT HAPPENS IF BOTH PARTIES WILL NOT AGREE ON THE LICENSE TERMS?**

If the SEP owner refuses the counteroffer of the attacked company, it is possible, on common agreement, that the royalty rate is determined by a third party. However, until the point of the refusal of the counteroffer, the attacked company would need to provide an adequate security for previous and future acts of use of the SEP. With respect to the amount of the security, there is a high uncertainty within the current case law. While the Regional Court of Mannheim held in one decision that a security in the amount of the counteroffer...
might be sufficient (depending on the circumstances), the Regional Court of Dusseldorf required a security in the amount of the license offer of the SEP owner.
As an act of maximum precaution, a security in the amount of the SEP owner’s offer should be provided.

**WILL THE COURT, IN A POSSIBLE LAW SUIT, DECIDE WHICH TERMS ARE FRAND IN THE CERTAIN CONTEXT?**

In their initial decisions, the Regional Courts appeared to hold the opinion that the CJEU did not want the courts to decide which royalty rate and/or which terms are FRAND. However, the Higher Regional Courts, so far, are rather of the opinion that the courts indeed have the duty to decide which terms and which royalty rate are FRAND. They nevertheless are of the opinion that there is normally not only one “true” set of FRAND terms. The SEP owner rather has some discretion in finding the terms and conditions of the license agreement. Consequently, the courts only reassess whether the SEP owner used its discretion in an unduly manner.

Contrary to that point of view, the High Court of England and Wales recently decided that, according to its opinion, there can be only one “true” set of FRAND terms. It would lead to an unacceptable uncertainty if one were to accept that the SEP owner has discretion in finding the correct terms and conditions for the FRAND license agreement. Consequently, the High Court of England and Wales made a full review of the terms and conditions of the license offers of both parties and even calculated the royalty rates in the specific circumstances.

As can be seen from the above considerations, the implementation of the CJEU’s decision in this area of law still remains very much in flux. So far, the Federal Court of Justice has not had the possibility to hand down a judgment and to align the differing case law. Therefore, the discrepancies in the case law of the different courts should be well considered when handling with FRAND cases.

In case you have any additional questions, require further input or seek for advice or support, please do not hesitate to contact us.

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