

De facto
master of
things



Patents and standards



Contents

- 3 Patents and standards
- 4 Enforcing standard-essential patents
- 5 Conduct of the parties in the enforcement of SEPs
- 6 What does FRAND mean?
- 7 Takeaways

Meissner Bolte
Patentanwälte Rechtsanwälte
Partnerschaft mbB

Sitz der Gesellschaft: Bremen (Hollerallee 73, 28209 Bremen)
Registergericht: Amtsgericht Bremen PR 393 HB

Registered Seat: Bremen (Hollerallee 73, 28209 Bremen)
Register Court: Local Court Bremen PR 393 HB

Patents and standards

Today, standards are indispensable in many fields of technology as they enable and ensure the interoperability and compatibility of systems, networks and their components.

Technical standards are usually negotiated and established by standard setting organisations, so-called *de jure standards*. Well-known examples are the telecommunications standards GSM, GPRS, UMTS or LTE, which are administered by the European Telecommunications Standards Institute (ETSI). Apart from this, technical solutions can develop into standards simply by virtue of their market penetration, so-called *de facto standards*; whereby the operating systems Google Android or Apple iOS may serve as examples.

Individual technical aspects of standardized technologies are often protected by patents. It is not unusual for a modern telecommunications standard to be covered by several thousand patents of different holders.

Some standard-relevant patents may be essential for a standard in a strict sense of the word, namely if they concern a technical aspect in the standard which is not optional and which cannot be replaced by another technical solution having the same effect, so-called *standard-essential patents* ("SEPs").

Further, as an exclusive right, a SEP can afford its holder with a dominant position with regard to the access to the standardised technology. This is the case, if the patent provides an essential functionality of the standard, which is so fundamental that an offer of a product without this functionality is not considered a competitive product by customers. For example, mobile telephones that do not work according to the GSM or GPRS radio standards are virtually unsaleable in Europe. The same applies to software applications that are not compatible with the Apple iOS or Google Android operating systems. Patents that are essential to the GSM or GPRS *de jure standards*, or to the Apple iOS and Google Android *de facto standards* will usually give their holders a dominant market position for the technology defined by the standard. This is because by enforcing the exclusionary rights under the SEP, the SEP holder can exclude third parties from using the standard.

Whether or not the SEP conveys a dominant market position for its holder must be examined on a case-by-case basis. For this assessment, it is irrelevant whether the patent has been declared 'essential' to the standard by a standard setting organisation.

Enforcing standard-essential patents

It's one striking advantage of SEPs that infringement does not need to be proven in detail in patent infringement proceedings. If the patent claim maps to the technical specifications of the standard and the attacked product or process makes use of the standard, this is usually sufficient for proof of infringement. This ease in proof can be particularly helpful in technically complex infringement cases.

However, if the SEP affords its holder a *dominant market position* with respect to the standardised technology, the SEP holder is not entirely free to enforce his patent. Rather, he is obliged under EU competition law rules to grant any interested third party a right of use to his SEP on

fair, reasonable and non-discriminatory terms ('FRAND'). This is because the access to a standardised technology shall be open to anyone on reasonable license terms.

Against this background, the standard implementer can argue that enforcing the SEP amounts to an abuse of the dominant market position, as the SEP holder is under the legal obligation to grant a licence to the SEP to any willing licensee on FRAND terms (so-called FRAND defense or "FRAND objection"). The SEP holder can, however, avert the objection by offering the implementer, who has declared his willingness to take a licence, a right to use the SEP on FRAND terms.

What standard-implementers should know about the FRAND objection:

- The enforcement of SEPs basically follows the same rules, regardless of whether the patent is essential for a **de jure standard** or a **de facto standard**. In individual cases, however, there may be deviations in the enforcement of patents essential to a **de jure standard**.
- The FRAND objection is an additional means of defense for the sued implementer. If the objection is well-founded, the SEP holder's claims to injunction, recall and destruction are unenforceable and the claims will be dismissed as 'currently unfounded'.
- The user bears the burden of proof with regard to all facts justifying the FRAND objection, including the standard-essentiality of the SEP and the existence of a dominant market position. If the implementer fails to establish this, e.g. because the plaintiff's patent does not create a dominant market position, the FRAND objection is inapplicable.
- The FRAND objection may only be raised against the claims for injunction, recall and destruction, as only these have the potential to exclude third parties from using the standard. In contrast, the claims for accounting and damages for past use of the SEP remain unaffected by the FRAND objection and can always be enforced without restriction.
- In principle, it is the implementer's responsibility to submit a fully formulated license offer under FRAND conditions, in which he documents his willingness to license. However, under exceptional circumstances, the SEP holder may be obliged to submit the first FRAND licence offer. This is particularly the case if a large number of patents are relevant to the standard in question - a situation that often arises in relation to **de jure standards**, where numerous patents can potentially qualify as SEPs.
- In addition to the FRAND objection, the user may invoke non-infringement and lack of legal validity of the SEP.

Conduct of the parties in the enforcement of SEPs

Obligations of the SEP holder

In its decision *Huawei Technologies / ZTE* (Case C-170/13), the CJEU established a code of conduct, which the SEP holder is required to follow before he can assert his claims for injunction, recall and destruction in court. In its decision *FRAND Defense* (K ZR 36/17), the German Federal Supreme Court recently interpreted this code of conduct. The decision is binding for the patent infringement courts in the application and assessment of the FRAND objection.

The following may be taken from the FRAND Defense decision:

- If a large number of patents is relevant to the standard in question, i.e. the patent situation is unclear, the SEP holder has to notify his SEP(s) to the standard implementer and explain as to how (i.e. by which products) the SEP(s) are infringed. *In practice, claim charts, mapping the patent claim to the relevant portions of the standard document, have proven helpful in explaining the use of the patent in a concise but comprehensible way.*
- If, in reply to the notice of infringement, the implementer declares that he/she is willing to take a license on FRAND terms, the SEP holder is regularly required to submit to the implementer a fully formulated and finalized license offer that meets FRAND requirements.
- According to the CJEU, the SEP holder must comply with his or her obligations of conduct prior to filing the infringement complaint. However, in Germany it is an accepted practice to first bring an action for rendering of account and damages arising from the SEP, as these claims are not subject to the FRAND objection. German Courts consider this initial action as a sufficient notice of infringement in the sense of the CJEU's code of conduct. *Once the implementer's term to reply to the infringement notice has expired, the SEP holder can extend his complaint to claims for injunction, recall and destruction of infringing products. If, however, the implementer declares his willingness to take a license, a corresponding offer must be submitted to him. The FRAND nature of the offer can then be discussed during the ongoing infringement proceedings, which considerably accelerates the negotiation process.*

Obligations of the standard implementer

The key obligation of the implementer is to show willingness to take a license to the asserted SEP(s) on FRAND terms, if he wants his FRAND defense to succeed. Thus, the implementer needs to avoid any conduct that could call his continued willingness to license into question. In this respect, case law sets high standards.

In more detail:

- Once the implementer has received a notice of infringement from the SEP holder, he needs to review immediately and declare his/her willingness to conclude a license on FRAND terms. *This declaration of willingness must be clear and unambiguous. Non-binding declarations of intent or declarations subject to conditions are insufficient. As a general rule, two months are considered sufficient to react to the notice of infringement. If the implementer takes more time to respond, he runs the risk of being considered unwilling to take a FRAND license, which will result in the loss of his FRAND objection. This failure is unlikely to be curable in the further course of the proceedings.*
- If, in response to a declared will to take a license, the SEP holder submits a license offer, which the implementer considers to be un-FRAND, the implementer must respond promptly by submitting a FRAND counter-offer and, if he is already using the patent, needs to provide security for accrued license fees based on his counter-offer.

It follows that, in addition to attacking the validity of the SEP, the implementer's defence should focus on demonstrating that the SEP holder's license offer is un-FRAND. If the implementer fails to do so, or if he is considered unwilling to take a FRAND licence, the SEP holder's claims cannot be considered abusive under competition law rules and the infringement court will grant an injunction. This may be illustrated by the following table:

		Implementer		
		FRAND	UN-FRAND	UNWILLING TO LICENSE
SEP holders	FRAND	INJUNCTION	INJUNCTION	INJUNCTION
	UN-FRAND	INJUNCTION DISMISSED	INJUNCTION DISMISSED	INJUNCTION

What does FRAND mean?

The question of what is FRAND cannot be answered in general, but must be assessed in each individual case. However, the following common criteria can be derived from the relevant decisions of the German courts of instance:

- FRAND does not describe a specific set of licensing conditions, but should be understood as a range within which the licensing conditions may vary without being unfair, unreasonable or discriminatory. However, FRAND does not only refer to the license fee and the way it is calculated, but to all contractual terms of the license offer.
- Global portfolio licenses, i.e. the licensing of a bundle of patents that are validated worldwide, can be FRAND. However, according to the German Federal Supreme Court, portfolio licenses must be limited to SEPs. The inclusion of non-essential patents in the offering is only permissible to the extent that no license fee is charged for them.
- In general, and in particular in the case of global portfolio licences, it is recommended to include appropriate royalty rates for different world regions in the licence offer, as well as provisions to amend the scope of the license in order to adequately reflect the dynamic development of the actual situation of patent protection in certain countries or regions. Termination clauses in cases of attacks on the validity of the licensed SEPs are unlikely to be FRAND and should therefore be avoided.
- If licenses have already been granted to the SEP in question, German courts focus on the non-discrimination prong of FRAND. In that case, the offered license must not discriminate against the implementer in comparison to existing or former licensees, i.e. the licence terms must not put the implementer in a unjustified disadvantage vis-à-vis the earlier licensees of the SEP.
- If the holder regularly offers his SEP portfolio right on standard terms and conditions and if these license conditions have already been accepted by relevant market players, such conditions have a good chance to be considered FRAND. For instance, German courts have already accepted the standard license terms of the patent pools MPEGLA and Avanci to be FRAND.
- If the licence offer in question differs from the conditions previously granted to third parties with regard to the SEP, it is up to the SEP holder to explain and prove why the unequal treatment is objectively justified and does not discriminate against the implementer in the given case.
- The **Düsseldorf Court** is very demanding with regard to the proof of the FRAND nature of offered license terms, and in particular, on the way license fees are calculated if they deviate from previous agreements. The practice of the **Mannheim Court** and **Munich Court**, on the other hand, appears less strict to that effect. To give an example, pursuant to **The Guidelines for the assessment of the FRAND Defense**, which are issued by the Munich Court, the implementer (and not the SEP holder) is obliged to prove that a licence offer by the SEP holder is “simply unacceptable”.
- In order to enable the user to assess the SEP holder’s offer for a potential discrimination, the German courts require the SEP holder to submit all licences that have been concluded in respect of the SEP or the offered SEP portfolio. This applies before the **Düsseldorf Court** even for licences concluded by a former SEP holder. **Buyers of SEP portfolios** should take this into account in the buying process and make suitable contractual arrangements. For example, the purchaser should reserve a right of disclosure of earlier-concluded license agreements, if so ordered by a competent court.

Takeaways

- Enforcing SEPs is enjoying unbroken popularity in Germany, given that the requirements for the establishment of infringement are low. Moreover, a first-instance grant of an injunction by a German patent infringement court often facilitates a global out-of-court settlement between the parties.
- The user of a standardized technology can counter the attack from an SEP with a license objection based on EU competition law ("FRAND objection"). The objection constitutes an additional means of defence that is available to the implementer in addition to contesting the patent infringement and the validity of the asserted SEP. However, the requirements for an effective FRAND objection are high, as was recently re-emphasised by the Federal Supreme Court in its decision 'FRAND Objection'. The burden of proof for all circumstances justifying the objection lies with the implementer. In addition, the implementer needs to show genuine willingness to take a license on FRAND terms at all times during the proceedings.
- German courts construe the FRAND objection purely from an antitrust law perspective. They only decide on the question whether the enforcement of the SEP amounts to an abuse of a dominant market position. The negotiation and conclusion of a FRAND licence is of secondary importance. In fact, different to the patent courts in the UK, no German court has so far evaluated, calculated and fixed FRAND terms in a specific case.
- Against this backdrop, the SEP holder has a realistic chance to obtain a provisionally enforceable injunction in Germany within 10 to 15 months from the filing of the action. The German procedure thus affords him with a considerable time advantage over comparable disputes in other jurisdictions, for example in the UK or the US.

OFFICES

Germany

AMBERG

Marienstrasse 3
92224 Amberg
T +49 9621 69 02 50
F +49 9621 69 02 57 0
E mail@amberg.mb.de

EGMATING

Keltenring 4
85658 Egmating
T +49 8095 87 48 68 6
F +49 8095 87 48 68 7
E mail@mb.de

NUREMBERG

Bankgasse 3
90402 Nuremberg
T +49 911 21 47 25 0
F +49 911 24 36 86
E mail@nuernberg.mb.de

AUGSBURG

Bahnhofstrasse 18 1/2
86150 Augsburg
T +49 821 99 17 80
F +49 821 99 21 64
E mail@augsburg.mb.de

GERA

Berliner Strasse 1
07545 Gera
T +49 365 77 30 96 00
F +49 365 77 30 96 01
E mail@gera.mb.de

OSNABRUECK

Rolandsmauer 9
49074 Osnabrueck
T +49 541 35 06 10
F +49 541 35 06 11 0
E mail@meissnerbolte.de

BREMEN

Hollerallee 73
28209 Bremen
T +49 421 34 87 40
F +49 421 34 22 96
E mail@meissnerbolte.de

HAMBURG

Alter Wall 32
20457 Hamburg
T +49 40 89 06 36 00
F +49 40 89 06 36 01 0
E mail@meissnerbolte.de

UK

In co-operation with
Meissner Bolte (UK) Ltd.

DUSSELDORF

Kaiserswerther Strasse 183
40474 Dusseldorf
T +49 211 81 98 48 0
F +49 211 81 98 48 70
E mail@duesseldorf.mb.de

MUNICH

Widenmayerstrasse 47
80538 Munich
T +49 89 21 21 86 0
F +49 89 21 21 86 70
E mail@mb.de

HEBDEN BRIDGE

4a Top Land Country Business Park
Cragg Vale, Hebden Bridge
HX7 5RW, United Kingdom
T +44 1422 84 45 98
F +44 1422 84 52 89
E mail@meissnerbolte.co.uk

