Law in the Global Marketplace: Intellectual Property and Related Issues

FRAND in Europe: *Huawei vs ZTE* decision

Hosted by: Hogan Lovells
Overview

• Why the decision is important
• What does the *Huawei vs ZTE* decision say?
• Does it help patent holders or implementers?
• How do the national courts implement it?
• What does the European Commission think?
• What patent holders / implementers should do
Why the decision is important
FRAND in Europe – important as a defense against being enjoined

- (F)RAND is relevant for the amount that implementers have to pay for using Standard Essential Patents (SEPs)
- In Europe important as defense against injunctions
Europe: Injunctions under SEPs

- In many countries: No four factor (eBay) test or similar (DE, NL)
- Injunction is automatically granted when infringement finding
- This applies even if the patent holder is an NPE
- Courts also apply this with SEPs
- However, defendant can argue that not granting a FRAND license and seeking injunction is a violation of antitrust rules (= FRAND defense)
Decision applies in all Europe

- *Huawei vs ZTE* applies throughout Europe which is rare in patent law
  - Court of Justice for the European Union has limited jurisdiction on patent law (most of patent law is national law)
  - FRAND defense based on antitrust law which is European Union law (article 102 TFEU = Treaty on the Functioning of the European Union)
What does the *Huawei vs. ZTE* decision say?
Huawei vs ZTE: rules for license negotiations

**SEP Holder**

**(P1)** Prior to proceedings: **alert** implementer of infringement
- designate SEP
- specify way of infringement

**(P2)** Prior to proceedings: **FRAND offer**
- specify amount of royalty
- way in which royalty is calculated

**(P3)** **Reject** counter-offer

**Standard Implementer**

**(I1)** Express **willingness** to conclude a licence on FRAND terms

**(I2)** If not accept: **FRAND counter-offer**

**(I3)** Adequate **security**
- including past acts
- render accounts
Huawei vs ZTE: rules for license negotiations

**At any time:** Implementer has to respond diligently
- in line with recognized practice
- in good faith
- no delaying tactics
Huawei vs. ZTE: Consequences of violation

SEP Holder

(P1) Infringement alert

(P2) FRAND offer

(P3) Rejection counter-offer

Antitrust defence

Standard Implementer

(I1) Expression of willingness to conclude a licence

(I2) FRAND counter-offer

(I3) Adequate security

No antitrust defence
Huawei vs. ZTE: Consequences of violation

SEP Holder

- (P1) Infringement alert
- (P2) FRAND offer
- (P3) Rejection counter-offer

Standard Implementer

At any time: SEP user does not respond diligently / in good faith, or employs delaying tactics

- (I1) Expression of willingness to conclude a licence
- (I2) FRAND counter-offer
- (I3) Adequate security

Antitrust defence

No antitrust defence

At any time:

- SEP user does not respond diligently / in good faith, or employs delaying tactics
Third party determination possible

- Advocate-General had proposed that no injunction should be granted if the implementer unilaterally undertakes to have a third party determine the FRAND terms.
- Decision does not explicitly adopt such rule.
- *Huawei vs ZTE*: parties *may* request third party determination by *common agreement*. 
Challenging of validity, essentiality and use

• Implementer cannot be criticised for:
  – Challenging validity
  – Challenging essentiality
  – Challenging actual use
  – Reserving the right to do so in the future
Dominance

• The rules established in Huawei vs. ZTE only apply for SEPs which render a dominant market position

• Decision is silent as to what are the requirements for dominance
  – Huawei had not contested that the LTE patent in question rendered a dominant position
FRAND rate

• The decision is also entirely silent as to how FRAND license fees are to be determined
Does the decision help patent holders or implementers?
When reading in a reasonable way: Pro implementer

- Makes clear that validity challenge is possible
- Seeking injunction is a clear abuse unless proprietor complies with conditions

"55. In such a situation, in order to prevent an action for a prohibitory injunction or for the recall of products from being regarded as abusive, the proprietor of an SEP must comply with conditions which seek to ensure a fair balance between the interests concerned."
Deadlock possible

• If the implementer does it right the Huawei/ZTE rules seem to result in a deadlock
  – Neither of the offers is accepted
  – Implementer needs to deposit security
  – But: patent holder does not get any money
  – Implementer can continue its business

• This urges the patent holder to negotiate in a reasonable way
How do the national courts implement the decision?
"Prior to the proceedings"

- German courts had to deal with cases where the patent holder did P1 (alert) and P2 (FRAND offer) after filing of the lawsuits.

- Surprisingly, the courts ignored the "prior to the proceedings" requirement (in preliminary opinions):
  - Munich and Mannheim court: not required that alert (P1) before filing; before service suffices as German rules say that lawsuit is "pending" only after service.
  - Munich court in SLC vs LG: FRAND offer (P2) 3 months after service suffices.
What are the requirements for the alert (P1)?

- **Huawei/ZTE** states: designate SEP and specify way of infringement
- Most practitioners: "specify way of infringement" requires providing claim charts
- Munich court in *SLC vs LG* (preliminary view): *Huawei/ZTE* does not require a detailed analysis of the infringement
What is required for offer (P2) to be FRAND?

- So far no decision in Europe how to determine FRAND
- Mannheim court in SLC vs Deutsche Telekom (preliminary view): Patentee's royalty offer is FRAND if in line with what patentee concluded with other manufacturers
- This was also majority view at this year's European judges' conference
- Implementers state: existing licenses were concluded under the threat of an injunction
Is a worldwide offer FRAND?

- Mannheim court avoided taking a position in SLC vs Deutsche Telekom
- Mannheim court said that the implementer had no right to object for the reason of good faith
  - The implementer had made a Germany only offer
  - but had said that they were happy to discuss a global offer as well
- In theory, a global offer would require considering what is (F)RAND under the case law in the US, China etc.
What is required for an appropriate counter offer (I2)?

- Mannheim court in *SLC vs Deutsche Telekom* (preliminary view): *Huawei/ZTE* counter-offer must state a specific royalty
- The implementer had left it to the patent holder to determine the rate (which was the common practice under the *Orange-Book-Standard* supreme court decision)
Is a single-patent counter offer FRAND?

• Majority view at European judges' conference: single patent offer not FRAND as portfolio licensing is the usual practice
• Another argument against single patent licensing: forces patent holder to litigate every single patent
What timing is required in order that the implementer is diligent?

- Six months to send a counter-offer (I2) not in line with Huawei/ZTE (Munich court in SLC vs LG)
- Security (I3) must be provided as soon as counter-offer rejected; 3 months later is too late (Mannheim court in SLC vs Deutsche Telekom)
When does the SEP render dominance?

• Düsseldorf court said in *France Brevets*:
  – Test is whether the standard is indispensable for the implementer to remain competitive?
  – Indicator that indispensable is significant market penetration – at least 50%?
  – In the case, the patent was on NFC
  – It was not regarded indispensable, and an injunction was granted
What does the European Commission think?
What does the European Commission think?

- Commission is the European competition watch dog
- Can fine parties who enjoin others based on SEP patents
- Commission employees said in personal capacity:
  - *Huawei/ZTE* should not be read narrowly
  - SEP holder has exchanged monopoly for inclusion in standard
  - Quid pro quo: the threat of injunction needs to be removed
What does the European Commission think?

• Third party determination (rate setting) offer is still a safe harbour:

"If there is no agreement, if you are the licensee and as part of the offer you say that if the patentee doesn't agree, you are willing to have it determined by a third party, logically you are a willing licensee and the injunction should be off the table. It is not said in the judgment, but it logically follows."
What patent holders/implementers should do
What patent holders should do

• Provide the implementer with claim charts
• Claim charts for all patent families of the portfolio offer
• FRAND offer in line with licenses concluded with other parties
• Interesting strategy: File for damages first and extend action later to request injunctive relief
What implementers should do

• Create track record of diligence
  – Respond quickly and properly to every notification
  – Always in writing
  – If response takes longer, explain in writing why this time was necessary
  – Don't postpone steps which hurt but are unavoidable, e.g. the placing of security

• Run invalidity attacks
  – Combination of deadlock/lack of cash flow and risk of invalidation is a motivation for the patent holder to settle
What implementers should do (II)

- Contact European Commission
  - Commission interprets *Huawei/ZTE* much more implementer friendly than the German courts
  - Patent holders know that they can be fined by the Commission
  - possible that Commission fines a patent holder who enforces a judgement issued based on a wrong interpretation of *Huawei/ZTE*

- Make an offer for third party determination
  - As Commission seems to regard it as a safe harbour
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