



CJEU C-170/13 & Bird & Bird

Background and Consequences of
Huawei vs. ZTE

Prior German case law

Federal Supreme Court decision of May 6, 2009 "Orange-Book-Standard"

- Abuse of dominant market position admissible objection
- Injunction for infringement of SEP abusive and inadmissible provided
 - user makes unconditional FRAND license offer
 - user already fulfils contractual duties of a licensee, accounting, royalties (escrow)
 - user may leave the amount of royalties to patentee, under court review
- Strict application of decision in German first instance courts for all SEP cases:
 - no condition that patent is actually infringed; no reservation of nullity action
 - prior to license offer full damages and not only FRAND royalties
- Consequence: Orange-Book-Standard objection mostly failed

Main proceedings

- In 2011, Huawei sued ZTE for patent infringement at Regional Court Dusseldorf claiming an injunction
- Patents in suit standard essential to LTE standard (SEP)
- Commitment to license on fair, reasonable and non-discriminatory terms (FRAND)
- ZTE's objection: misuse of a dominant market position according to Art. 102 TFEU (Treaty on the Functioning of the European Union) because Huawei rejected license offer (EUR 50)
- According to court, ZTE did not meet "Orange-Book" requirements and thus no abuse



Commission press release of Dec 21, 2012 (Samsung)

"While recourse to injunctions is a possible remedy for patent infringements, such conduct may be abusive where SEPs are concerned and the potential licensee is willing to negotiate a license on Fair, Reasonable and Non-Discriminatory (so-called "FRAND") terms."

- According to court, ZTE may have met Commission's requirements and thus there may be an abuse
- With order of March 21, 2013, Regional Court Dusseldorf referred questions to CJEU for preliminary ruling according to Art. 267 TFEU

Referral proceeding before the CJEU

- Parties, Commission and all member states invited to make observations
- Written submissions by parties, ZTE, The Netherlands, Portugal and the Commission
- Oral Hearing on September 11, 2014 with pleadings by parties, The Netherlands, Finland
- Opinion of Advocate General on November 20, 2014
- Judgment on July 16, 2015



Decision of July 16, 2015 CJEU C-170/13

1. Art. 102 TFEU must be interpreted as meaning that the proprietor of a patent essential to a standard established by a standardisation body, which has given an irrevocable undertaking to that body to grant a license to third parties on (...) FRAND terms, does not abuse its dominant position, within the meaning of the article by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:
 - prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and
 - where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

Decision of July 16, 2015 CJEU C-170/13

2. Art. 102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding a patent essential to a standard established by a standardisation body, which has given an undertaking to the standardisation body to grant licences for that patent on FRAND terms, from bringing an action for infringement against the alleged infringer of its patent and seeking the rendering of accounts in relation to past acts of use of that patent or an award of damages in respect of those acts of use.

Issues



- Exact method of negotiations open
- Application only to cases where FRAND commitment was given, "Orange-Book" may still apply to SEPs without commitments and de facto standards
- What if patent is amended in opposition, FRAND commitment still applies?
- Possible misuse by bringing the action seeking injunction even where not claimed at last oral hearing
- "Warning letter" before bringing action to alleged infringer
- Specific FRAND offer of patentee only after user's willingness to conclude a licensing agreement on FRAND terms (different to Advocate General)

Issues



- Patentee's license offer must specify royalties and calculation, this should not include a reasoning of calculation (?)
- User has to diligently respond in time and good faith, possibly make FRAND counter offer
- User may still challenge validity and infringement (No.69)
- Arbitration offer of user is not sufficient,
- SEP does not necessarily provide a dominant market position

Still open

- What is FRAND?
- Global vs national license
- Portfolio vs single licence
- ...



Recent Decisions

(Regional Court Mannheim, 2 O 103/14 of March 10, 2015)

- NPE sues network provider based on SEP (speech coding standard AMR-WB) for selling standard compliant phones; Defendant declares: not willing to negotiate license
- Court: Leaves open whether opinion of Advocate General opinion is to be followed – conditions for abusive conduct not met in the case due to lack of willingness to negotiate
- Immaterial whether device manufacturers could successfully raise FRAND defense: This defense prohibits seeking injunction against a standard user willing to negotiate but does not result in exhaustion of rights of patentee against downstream customers.
 - Injunction granted!

Recent Decisions

(Regional Court Düsseldorf, 4b O 140/13 of March 26, 2015)

- NPE sues mobile manufacturer based on SEP (NFC technology) for selling standard compliant phones; Defendant raises FRAND defense.
- Court decides that the mere possession of an SEP does not provide a market dominant position as such.
- Defendant failed to demonstrate a market dominant position of the plaintiff.
 - Injunction granted!

Thank you & Bird & Bird

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Huawei v ZTE

Reflections and Questions

Jemima Stratford QC

Brick Court Chambers

29 July 2015





7 Questions

- (1) Dominance
- (2) Two-sided dialogue
- (3) Disputed validity, essentiality and infringement
- (4) An action for a prohibitory injunction

7 Questions contd.

- (5) Confidential negotiations
- (6) Portfolio issues
- (7) Transient abuse

Thank you

Jemima Stratford QC

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