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Case C-170/13: Huawei Technologies ./. ZTE Corp.

Court of Justice of the European Union (CJEU) essentially follows Attorney General's opinion regarding FRAND defense

In its Judgment of July 16, 2015 (Case C-170/13), the CJEU followed the Attorney General's opinion of November 20, 2014 regarding the so called "FRAND defense", thereby limiting the power of the owners of a so called Standard-Essential Patent (SEP).

These SEPs are patents which cover (parts of) a standardized technology, therefore are necessarily used by products which comply with the standards and for which the patent owners have irrevocably declared their willingness to license these SEPs on FRAND terms vis-à-vis the respective standard organization.

According to the judgment of the CJEU, before seeking an injunction against an alleged infringer,

- the SEP-owner must make a written specific licensing offer on FRAND terms and that offer must contain all the terms normally included in a license in the sector in question, including the precise amount of the royalty and the way in which that amount is calculated, and
- the alleged infringer must respond to that offer in a diligent and serious manner. If it does not accept the SEP holder's offer, it must promptly present the latter with a reasonable counter-offer in writing in relation to the clauses it disagrees with.

Furthermore,

- these license agreements may be negotiated and concluded *ex post*, i.e. after the use of the patent protected technology has begun;
- whether the owner of a SEP holds a dominant position is to be determined on a case-by-case basis;
- from the point in time at which the infringer's counter-offer of a FRAND term license is rejected by the patentee, the alleged infringer has to provide appropriate security, for example by providing a bank guarantee or by placing the amounts necessary on deposit; the calculation of the guarantee has to include the alleged infringer's potential damages for past infringements, for which the alleged infringer must be able to render account;

- where no license agreement is reached on FRAND terms following the counter-offer by the alleged infringer, the parties may request that the amount of the royalty be determined by an independent third party;
- parallel to the negotiations or after the license agreement has been concluded, the alleged infringer may still contest infringement and/or challenge the validity of a SEP;
- claims for damages for past acts of infringement are not in violation of anti-trust laws, even if based on a SEP.

Vossius & Partner is excited to have been able to successfully support ZTE in these proceedings before the CJEU.

The ruling of the court will certainly have a strong impact on current and future SEP litigation at national courts. SEP owners will need to start reasonable license negotiations with an alleged infringer. Only if the alleged infringer is unwilling to negotiate a license or is unduly delaying the license negotiations, the SEP owner will be able to successfully take legal action against the alleged infringer. The alleged infringer will further be able to contest infringement and attack the validity of the SEP without losing the right to demand a license on reasonable and non-discriminatory terms from the SEP owner.

For a real SEP scenario, i.e. a scenario in which the proprietor of a patent, essential to a standard established by a standardization body, has given an irrevocable undertaking to that body to grant a license to third parties on FRAND terms, it thus can be said that the "Orange Book" case law of the German Federal Supreme Court has been overruled by the CJEU. Whether this will also be true for other scenarios where no real SEP is involved, but which only relate to a patent covering a de-facto-standard, will have to be seen. In contrast to the Attorney General, the CJEU did not comment on the question whether the ownership of a SEP gives rise to a rebuttable presumption of a dominant position.

The full text of the CJEU decision can be found via:

<http://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=8396>

Vossius & Partner will keep you updated about any further developments. Should you have any questions, please do not hesitate to contact us.

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