

Fordham Intellectual Property Law Institute**Annual Conference on Intellectual Property Law and Policy on March 27 - 28, 2008****Wolfgang von Meibom****“European Case Law on FRAND Defence in Patent Infringement Proceedings”****I. Introduction**

1. Licensing standard essential patents under fair, reasonable and non-discriminatory terms and conditions – FRAND Conditions – increasingly are a “hot topic” in Europe. There are certainly various reasons for this development. Just let me point to two aspects which I consider to be quite important:
2. Firstly, computer and communication technologies have become crucial and continue to be more and more important for our everyday life and for our economies. In these sectors, standardisation is extremely important to allow for inter-operability between various products, transmission technologies and so on. In addition, we see a very high number of patented technology in these sectors.
3. Secondly, this combines with a more recent development we experience especially in Europe: We see an increasing importance of non-producing patent owners aiming solely to exploit patent portfolios mostly acquired from third parties. These companies – often referred to as “patent trolls” – are often focusing on standard essential patents, trying to maximise profit by exploiting the typical lock-in situation which is the consequence of setting industry standards.
4. It seems that also the European Commission as Europe’s watchdog in competition matters is becoming increasingly aware of this situation. You will know that the Commission has reacted positively to a complaint filed by a number of important players in the mobile phone industry and is investigating Qualcomm’s licensing practice under European antitrust law. Another important case currently pending with the European Commission is the Rambus case, which focuses on “patent ambush”. Both proceedings will be very important both for applying European cartel law to licensing of standard essential patents as well as specifying the application of FRAND concepts and the procedural rules set up by the relevant standard setting organisations (SSOs).

5. These activities of the European Commission are very important. However, on a day to day basis the battles currently are lost and won in patent infringement proceedings. So it is important to see how the FRAND concept is developing and how standard setting organisations might adopt their IPR rules to enforce the system. If you are attacked under standard essential patents or allegedly standard essential patents or if you intend to assert yourself essential patents, it is of crucial importance to know how to apply or react to the FRAND defence in patent infringement proceedings.
6. This is what I would like to talk about now, and please let me do this in two sections:
 - What is our experience with regard to the admissibility of a FRAND defence?
 - What are the preconditions for successfully applying the FRAND defence?

II. Admissibility of a FRAND Defence

1. There is one legal position in Germany specifically according to which you simply cannot raise a FRAND defence in patent infringement proceedings. In a nutshell, the argument is that a user of standard-essential patents might be entitled to a licence under fair and non-discriminatory terms – be it under cartel law or directly as a result of a patent owner’s FRAND commitment and he you might complain to the national competition authorities or file a complaint with the European Commission. He might even start legal proceedings asserting his claim for a licence. But according to this legal position, you are not allowed to use standard essential patents unless you actually have agreed on a licence with a respective patent owner.
2. This legal argument is superseded by a number of court decisions in Germany. First of all, the German Federal Supreme Court has ruled that you are entitled to use the claim for a licence against the patent owner’s claims for damages. The Supreme Court, however, left it open whether this also applies to the patent owner’s injunction claims. Insofar, we have not yet applicable case law of the Supreme Court. However, we have a number of decisions issued by

District Courts, especially by the District Court of Düsseldorf, which is, as you might know, besides Munich and Mannheim, the most important District Court in patent matters.

3. According to this case law of the Düsseldorf court – I might call it the court’s settled case law – the claim for a licence actually can be used as a defence against a patent owner’s injunction claim. I believe this is the correct approach. A patent owner who is obliged to grant a licence under reasonable and non-discriminatory terms but refuses to do so, should not be allowed to assert its patents. It appears to me that it is clearly abusive to treat someone as an infringer of standard essential patents who would be licensed and thus allowed to use the patents if only the patent owner fulfilled its legal obligations to grant a licence. The Düsseldorf court follows this approach, the Mannheim court currently denies the possibility to raise claims for a licence as a defence against injunction claims. However, the Mannheim court accepts such claims to be raised as a counterclaim. Also the Higher District Court of Karlsruhe, which is the court of appeal for decisions in Mannheim, is at least inclined to accept to defence.

In summary, therefore, there are good chances in Germany to raise a claim for a licence as a defence against injunction claims.

4. In addition, I would like to add one specific point regarding the FRAND defence: As you know, ETSI, the European Telecommunications Standardisation Institute, provides for a FRAND commitment to be given under Section 6.1 of the ETSI IPR rules. Patent owners are not obliged to provide this FRAND commitment, but if they refuse to do so they risk that their respective patent will not be included into the standard. The patent owner’s FRAND commitment under the ETSI rules provides for its obligation to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions. As you further will know, ETSI is located at the Côte d’Azur in the South of France. Therefore, the ETSI IPR rules are subject to French law. I do not want to go into details but according to French law, there are very good arguments that a FRAND commitment under the ETSI rules results in a licence agreement between the patent owner and interested third parties even before they have agreed on specific FRAND terms. This licence agreement can come into force just by using truly essential patents to implement a standard in question.

5. The consequence of such FRAND licence is that any third party is directly entitled to use patents which are subject to an ETSI FRAND commitment. Until now, however, German courts have not yet ruled on this specific point.

III. Preconditions for Applying the FRAND Defence

1. Having clarified that you are entitled to raise a FRAND defence in patent infringement proceedings, the question now is how to make it work.
2. According to the current case law of the German courts, it is crucial that the potential licensee submits a specific and reasonable licensing offer to the patent owner. It is not entirely clear yet what has to be understood as “reasonable”. In Düsseldorf, we understand it is sufficient to submit an offer which is within a certain bandwidth of what market players would consider reasonable. The Mannheim and Karlsruhe courts require more: Accordingly, potential licensees have to submit an offer at the most upper level of what can be considered reasonable. This logic was applied to a cartel law defence and I have strong reservations against applying it also to a FRAND defence. This logic would force potential licensees to come up with very high licensing offers and they would risk to commit themselves to clearly excessive conditions.
3. As a further precondition for a successful FRAND defence, potential licensees have to demonstrate in court that the patent owners terms and conditions for the essential patents in question are not reasonable or discriminatory.
4. Let me start with the second aspect, the aspect of discrimination: Here the concept is rather clear. Potential licensees have to demonstrate that they are treated not in the same way as other licensees. The patent owner then has to demonstrate that such unequal treatment is justified. In case it is not justified, the FRAND defence is successful. However, the first step of demonstrating unequal treatment is not an easy task as terms and conditions often are not transparent.
5. The other aspect of specifying “reasonable” or “non-reasonable” terms and conditions is much more complex. In that regard, we were able to obtain a very positive decision before the District Court of Düsseldorf in the case of Siemens vs. Amoi. As far as I know, this was the

first decision ever where a FRAND defence was raised successfully. Beyond the specific case, it is important to know that the Düsseldorf court acknowledged that FRAND means limiting the cumulative burden which is the result of all standard essential patents. The court did not venture into deciding on a specific maximum cumulative rate. However, the court stressed that the patent owner has to provide for some sort of “escape clause” according to which the royalties are reduced in case the overall cumulative rate exceeds a certain level.

6. I believe this decision is an important basis for specifying FRAND conditions: The cumulative aspect is crucial and should be a cornerstone in determining “reasonable” terms and conditions.

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