Evaluation of FRAND terms and conditions in recent case law

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Outline

1. The decision Orange-Book-Standard of the German Federal Supreme Court and its follow up

2. Antitrust approach and interrelation with patent litigation

3. Who shall determine FRAND?
1. Orange Book and Follow-Up

- **General Rule**: injunction follows finding of infringement ("as of right")
  - §§ 9 S.1, 139 (1) of the German Patents Act (PatG)
  - Art. 3 (2), 11 Dir. 2004/48/EC: discretion / proportionality disregarded

- **Exception**: Collision of patent and antitrust law in case of standards
  - July 13th, 2004 – BGH KZR 40/02 – Standard Bung Barrel
  - February 13th, 2007 – LG Düsseldorf 4a O 124/05 – Siemens v. Amoi
  - **May 6th, 2009** – BGH KZR 39/06 – Orange-Book-Standard
  - May 27th, 2011 – LG Mannheim 7 O 65/10 – Philips v. SE
  - December 9th, 2011 – LG Mannheim 7 O 122/11 – Motorola v. Apple
  - May 2, 2012, LG Mannheim 2 O 240/11 - Motorola v. Microsoft
  - March 21, 2013, LG Düsseldorf 4b O 104/12 – Huawei v. ZTE
1. Orange Book and Follow-Up

**Approach of the Federal Supreme Court (Orange-Book-Standard, May 6th, 2009 – BGH KZR 39/06):**

- Defendant must make a license offer that plaintiff cannot reject without violating antitrust law, i.e. demanding unreasonable royalty rates or discriminating license towards other licensees

- Defendant must meet the “upper limit” of what could be considered as a bandwidth of FRAND licensing conditions:
1. Orange Book and Follow-Up

Settled Requirements (Federal Supreme Court, May 6, 2009 – Orange-Book-Standard)

- (F)RAND offer
  - binding
  - unconditional (i.e. independent from infringement and validity decision)
  - (F)RAND royalty rate or discretion of patentee subject to court control (§ 315 of the German Civil Law Act – BGB)
  - “common” terms and conditions

- Licence offer must be “lived”: Behavior like licensee
  - Rendering of account
  - (Escrow) payments
1. Orange Book and Follow-Up

- Risk of evaluation of what is FRAND (and therefore risk of an injunction) lies with defendant.

- Subject matter in proceedings is offer of defendant and not whether (possible) licensing demands by plaintiff are in line with his FRAND requirements.

- Infringement Court will (usually) not establish what is FRAND (!) but (only) whether plaintiff could demand more than what plaintiff has offered.

- In practice, most FRAND defenses have failed not because of rate offered but other terms and conditions of the license offer.
2. Antitrust approach and patent litigation

  - Does enforcement (by way of injunction) of SEPs violate European Antitrust law and/or the patentee’s FRAND obligation?
  - Concept of the “willing licensee“, but prerequisites seem to be lower than Orange-Book-Standard criteria:
    - SEP
    - FRAND-declaration
    - “Willing licensee“
  - No decision yet, but likely no decision on what is FRAND either
2. Antitrust approach and patent litigation

- Effect on (pending) patent infringement litigation?
  
  - Art. 16 Regulation No. 1/2003: “national courts must also avoid giving decisions which would conflict with a decision contemplated by the Commission in proceedings it has initiated”: stay.
    Rejected by Regional Court Düsseldorf (4a O 54/12)

  - Regional Court Düsseldorf Huawei / ZTE, docket no. 4b O 104/12, March 21, 2013: Reference to European Court of Justice according to Art. 267 II TFEU

  - Other courts have rejected such motions previously (e.g. LG Mannheim)

  - Shall antitrust investigation have an effect on patent litigation?
3. Who shall determine FRAND?

- **Infringement courts**
  - pro: generally sufficient experience from determining damages
  - contra: tend to avoid the issue (at least in Germany)

- **Antitrust authorities**
  - Pro: broad set of fact finding tools available
  - Contra: tend to be focused on the admissibility of an injunction based on SEPs and not so much on rates
  - impractical (duration)

- **SSOs**
  - Contra: not considered as key purpose (focus on development of technical standards)
  - But: possibly by way of compulsory arbitration etc
3. Who shall determine FRAND?

- **Parties:**
  - Pro: best fit to determine FRAND (market place) and find a commercially sensible solution

  **provided that**

  level playing field is established for negotiations: no injunction if „willing licensee“

  **Key legal (not economic) question: when is a licensee sufficiently „willing“ to take right of injunction away from him?**
Thank you for your attention!

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