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# Evaluation of FRAND terms and conditions in recent case law

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# Outline

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- 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

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- **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 13<sup>th</sup>, 2004 – BGH KZR 40/02 – Standard Bung Barrel
  - February 13<sup>th</sup>, 2007 – LG Düsseldorf 4a O 124/05 – Siemens v. Amoi
  - **May 6<sup>th</sup>, 2009 – BGH KZR 39/06 – Orange-Book-Standard**
  - October 23<sup>rd</sup>, 2009 – LG Mannheim 7 O 125/09 – IPCom v. Nokia
  - May 27<sup>th</sup>, 2011 – LG Mannheim 7 O 65/10 – Philips v. SE
  - December 9<sup>th</sup>, 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

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## Approach of the Federal Supreme Court (Orange-Book-Standard, May 6<sup>th</sup>, 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

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## 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

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- ➔ 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

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- **European Commission investigations against Samsung's litigation against Apple based on SEPs and the respective Statement of Objections ([http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm)):**
  - 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

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- **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?

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- **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?

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- **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?**

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Thank you for your attention!

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