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## EU update



**Kit Burden \***

DLA Piper UK LLP, London, UK

### ABSTRACT

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This is the latest edition of the DLA Piper column on developments in EU law relating to IP, IT and telecommunications. This news article summarizes recent developments that are considered important for practitioners, students and academics in a wide range of information technology, e-commerce, telecommunications and intellectual property areas. It cannot be exhaustive but intends to address the important points. This is a hard copy reference guide, but links to outside web sites are included where possible. No responsibility is assumed for the accuracy of information contained in these links.

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## 1. Patents

Dr. Markus Gampp, LL.M., Partner, DLA Piper.

### 1.1. Huawei v ZTE – CJEU landmark decision provides new ground rules for asserting standard-essential patents in Europe

In a landmark decision issued on July 16, 2015, the Court of Justice of the European Union (CJEU) provided new guidelines on how patent infringement courts in Europe should deal with patent proprietors seeking injunctions or the recall of products on the basis of an (alleged) infringement of a standard-essential patent (SEP) if those SEP proprietors have made a commitment to a standards body to grant third parties a FRAND-license.

The CJEU was asked to answer five questions submitted by the Regional Court of Düsseldorf (Germany) referring to the obligations of an SEP proprietor and an alleged infringer existing with respect to negotiations over a license under fair, reasonable and non-discriminatory terms. Contrary to recent German case law, but in line with the opinion of Advocate General Wathelet provided last fall, the CJEU held that an SEP proprietor cannot, without abusing its dominant position, file an

action for prohibitory injunction or for the recall of products before – on its own initiative – initiating and working toward the conclusion of a FRAND-license agreement.

#### 1.1.1. Background

SEPs are patents essential to implement a specific industry standard. Therefore, it is not possible to manufacture products that comply with a certain standard without making use of the technologies covered by these patents. This may give companies owning SEPs significant market power. As a result, standards bodies generally require their members to commit to license SEPs on fair, reasonable and non-discriminatory (so-called “FRAND”) terms. In March 2013, the Düsseldorf Regional Court had to rule over a case where Huawei holds an SEP to the LTE standard developed by the European Telecommunications Standards Institute (ETSI). Huawei is a member of ETSI, notified the patent to that institute and made a commitment to ETSI to grant licenses to third parties on FRAND terms. ZTE marketed base stations with LTE software in Germany and was therefore allegedly making use of Huawei’s patent. Since discussions between Huawei and ZTE regarding the conclusion of a licensing agreement on FRAND terms were unsuccessful, Huawei brought an action for infringement against ZTE before the Düsseldorf Regional Court, seeking inter alia an injunction prohibiting continuation of the infringement. According

For further information see: <http://www.dlapiper.com/>

\* DLA Piper UK LLP, 3 Noble Street, London EC2V 7EE, UK. Tel.: +44 (0) 8700 111 111; fax: +44 (0) 20 7796 6666.

E-mail address: [kit.burden@dlapiper.com](mailto:kit.burden@dlapiper.com)

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to ZTE, the action for a prohibitory injunction constitutes an abuse of a dominant position, since ZTE is willing to negotiate a license.

In order to seek clarity and guidance from the CJEU on the compliance of the German case law with European antitrust regulations, the Düsseldorf Regional Court referred five questions to the CJEU seeking to ascertain whether and, if so, under which circumstances an action for infringement brought by an SEP proprietor against a manufacturer of products which comply with that standard constitutes an abuse of a dominant position for the purposes of EU competition law where the patent holder has made a commitment to grant licenses on FRAND terms.

On November 20, 2014, Advocate General Wathelet held in his opinion that a proprietor of an SEP, who made a commitment to a standards body to grant third parties a FRAND-license, is obligated to make a written license offer on FRAND terms to the alleged infringer prior to seeking an injunction or making a request for corrective measures. This offer must contain all the terms normally included in a license in the sector in question, including the amount of the royalty fee. If the alleged infringer does not respond to that offer in a serious way and/or if the conduct of the alleged infringer is purely tactical and/or dilatory, the proprietor of an SEP will not abuse a dominant position in making a request for corrective measures or seeking an injunction. However, the alleged infringer must still have the right to request that the FRAND terms will be fixed either by a court or an arbitration tribunal. Further, the alleged infringer may reserve the right, after entering into a FRAND agreement, to challenge the validity, use and essential nature of that patent.

#### 1.1.2. Decision

The CJEU points out that the decision needs to strike a balance between maintaining free competition and the requirement to safeguard the proprietor's intellectual property rights. Taking into consideration the large number of SEPs composing a standard, it is not certain that an alleged infringer will necessarily be aware that it is using the teaching of an SEP. Further, as the SEP proprietor is better placed to check whether its offer complies with the FRAND requirements than is the alleged infringer, the CJEU places the burden of initiating FRAND license negotiations on the SEP proprietor. Following up on the proposals of Advocate General Wathelet, the CJEU held that an SEP proprietor, who made a commitment to a standards body to grant third parties a FRAND-license, does not abuse its dominant position in seeking an injunction or the recall of products only when complying with the following obligations prior to bringing such an action:

- First, the SEP proprietor shall alert the alleged infringer designating the claimed SEP and the allegedly infringing products or services.
- Second, if the alleged infringer expresses its willingness to conclude a FRAND license agreement, the SEP proprietor shall send a written offer for a license on such terms, specifying, in particular, the amount of the royalty fee and the way of its calculation.
- It is then for the alleged infringer to diligently respond to the proprietor's offer, in accordance with the recognized

commercial practices in the field and in good faith, which must be determined on the basis of objective factors and which in particular implies that there are no delaying tactics.

Does the alleged infringer not want to accept the proprietor's offer, it has to submit to the SEP proprietor a specific counter offer promptly and in writing, which corresponds to FRAND terms. Where this counter offer is rejected by the proprietor, but the alleged infringer is still using the teaching of the SEP, the alleged infringer has to provide appropriate security in accordance with recognized commercial practices from the point at which the counter offer is rejected. The security can be provided in the form of a bank guarantee or by depositing the necessary amounts. Further, where no agreement is reached, the SEP proprietor and the alleged infringer may – by common agreement – request that the royalty fee be determined by an independent third party.

In that context the CJEU stresses that an alleged infringer shall still have the right, independent of the possible conclusion of a FRAND license agreement, to challenge the validity of the patent and/or its standard essentiality and/or the actual use of its teaching by the accused products and services. The court bases its reasoning on the fact that the standardization body does not evaluate the validity and the actual essentiality of the patent for the standard in question. Further, the right to challenge the use, validity and/or essentiality follows from the right to effective judicial protection.

Moreover, the CJEU holds that an SEP proprietor does not abuse its dominant position if it brings an action for infringement seeking (only) the rendering of accounts and/or an award of damages in respect of past acts of use, as these actions do not have a direct impact on products appearing or remaining on the market.

#### 1.1.3. Comment and outlook

The CJEU's decision considerably deviates from German case law developed in recent years pursuant to the German Federal High Court of Justice's "Orange Book Standard" decision (2009). According to German case law, an SEP proprietor may file an action for prohibitory injunction without any prior duties and "only" needs to wait for an offer by the alleged infringer after filing the action. The alleged infringer must make an unconditional offer for entering into a FRAND-agreement which a reasonable SEP proprietor then shall accept. If the alleged infringer already uses the invention, it is further forced to "behave like a licensee". Therefore, the alleged infringer, *inter alia*, must deposit the license fees in advance and is not allowed to challenge the validity of the SEP.

With this decision, the CJEU attempts to find a middle ground between an over-protection of the SEP proprietor as arguably expressed by the case law of the patent infringement courts, in particular in Germany, and an under-protection of the SEP-proprietor. There were concerns of the latter in view of the recent decisions of the European Commission concluding the investigations against Samsung and Motorola (April 2014). According to the European Commission, the alleged infringer must only show willingness to enter into a FRAND-license, which arguably opens the door for stalling tactics and makes enforcement of an SEP a very steep uphill battle. Consequently, while the decisions of the European Commission

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