

# SEPs & FRAND after Huawei/ZTE

Report from the Venice Judges' Forum:

Mark van Gardingen

Brussels (EPLAW), 24 November 2017



# SEP's & FRAND panel in Venice

## Moderator:

- Rian Kalden, Court of Appeal Judge (NL)

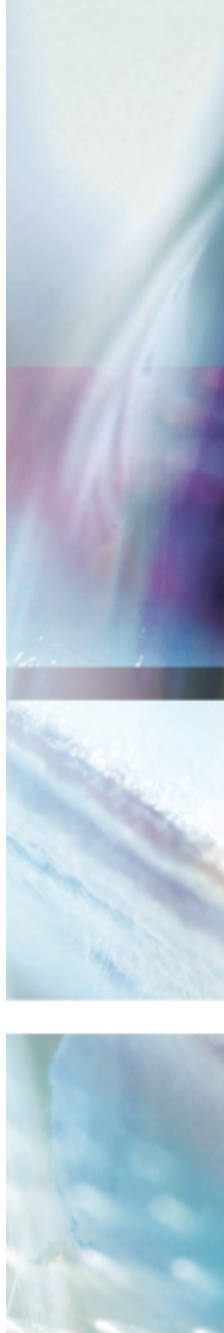


## Panelist:

- Tilman Müller-Stoy (DE)
- Tankred Thiem (IT)
- James Marshall (UK)
- Mark van Gardingen (NL)



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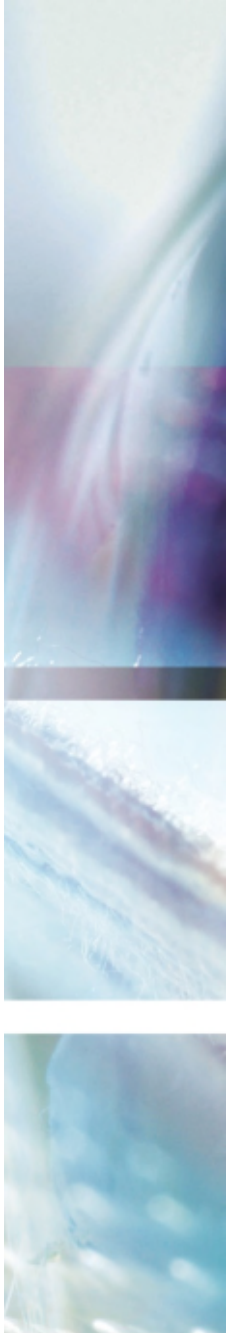
# Background

## Europe divided:

- BGH in *Orange Book* (2009)
- District Court The Hague in *Phillips v. SK Kassetten* (2010)
- European Commission in *Motorola and Samsung* (2014)

## Solution:

- CJEU in *Huawei Technologies v. ZTE* (C-170/13)



# Summary Huawei / ZTE

- SEP holder must notify SEP user of alleged infringement
- SEP user must state willingness to enter into license agreement
- SEP holder must make specific FRAND offer
- SEP user must respond diligently, in good faith, without delay
- If rejected by SEP user, SEP user must promptly submit FRAND counteroffer
- If rejected by SEP holder, SEP user must provide security and render accounts
- SEP user may not be criticized for challenging validity and essentiality
- Parties may by agreement request 3rd party to determine royalty

# However: many open questions...

## For instance:

- Prior notification by SEPee always necessary?
- Can FRAND offer be done pending litigation?
- Just one round (offer / counter-offer) or is there room (or an obligation) to negotiate?
- Determination FRAND before or after invalidity/essentiality defence?
- What is FRAND? How does one determine? (e.g. whole portfolio? Worldwide, Europe-wide, national? Etc.)
- What is the standard of judicial review?

# Situation in Italy (Tankred Thiem)

## Two cases after Huawei:

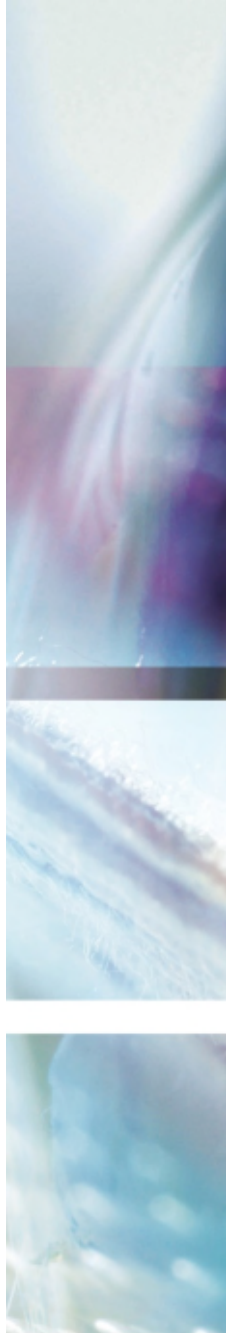
- Court of Appeal Torino (3 January 2017)
  - Not standard-essential, but possibly *de facto* commercially standard: dominant market position?
  - CoA: *de facto* standard / dominant market position not proven. Patentee can enforce, FRAND offer not required
- High Court Torino (4 March 2016)
  - SEP, no injunction: no prior notification to the defendant, but to its parent company. Not good enough
  - Prior notification must be detailed



# (Situation in Italy)

## Answers to some of the open questions:

- Prior detailed notification required (to the defendant)
- Prior FRAND offer required (not pending proceedings)
- No guidance on how many rounds of negotiations parties have to go through after offer & counter-offer, “but engaging in real negotiations is advisable for SEP holder”



# Situation in Germany (Tilman Müller-Stoy)

## A lot of (divergent...) case law in DE

20 cases in Düsseldorf (LG, OLG), Mannheim (LG) and Karlsruhe (OLG), providing (different) answers to some of the open questions.

For instance:

- Prior notification required for injunction?
  - Mannheim: Yes, no negotiations under threat of injunction. Düsseldorf: No, pending litigation possible
  - In Mannheim more details required than in Düsseldorf

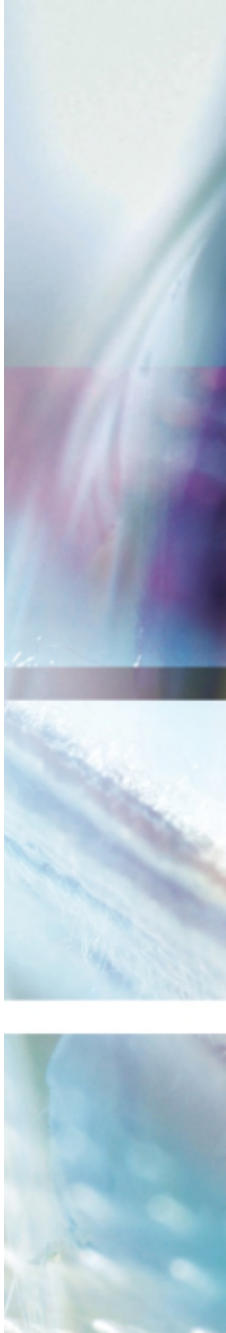


# (Situation in Germany)

- FRAND offer (SEPee)
  - Must be entire written agreement (all provisions)
  - Must contain explanation why royalty = FRAND
  - Industry practice / comparable licenses very relevant (e.g. for entire portfolio / worldwide offer)
  - Can be changed pending litigation?
    - Düsseldorf: Yes. Mannheim: (probably) No
- FRAND counter-offer (defendant)
  - Similar requirements as for FRAND offer
  - Security (bond) must be in order (incl. for past damages) as soon as SEPee rejects counter-offer

# (Situation in Germany)

- **Judicial standard of review FRAND defence:**
  - Düsseldorf: full evaluation
  - Mannheim: manifest errors
- **Burden of proof:**
  - Defendant must prove market dominance & abuse
  - SEPee has secondary burden to prove non-discrimination, and full burden to prove justification of any unequal treatment



# Situation in UK (James Mashall)

## High Court 5-4-2017, Unwired Planet v. Huawei: Court set FRAND terms:

- Only *one* single set of FRAND terms; but a FRAND offer does not have to be the one single set determined by the court, but must be good enough to negotiate about

Note: Court determined: all offers and counteroffers were **not** FRAND

- SEPee's FRAND undertaking can be relied upon as a defence, regardless competition law defence
- Bringing proceedings without notice of any kind will be an abuse
- EUCJ in Huawei: not a rigid set of rules, but a scheme
- Prior written detailed license proposal advisable but not absolute requirement

## (Situation in UK)

- Very detailed royalty rate determination, per product, for the entire portfolios for 2G, 3G and 4G, worldwide (but distinguishing between “major markets” and “other markets”)
- UK Court will grant an injunction if defendant is not prepared to take a license on the Court determined FRAND terms
- “FRAND-injunction”: injunction, but:
  - Proviso that it will cease to have effect as soon as the defendant accepts the Court-determined license
  - Stayed pending appeal

# Situation in the Netherlands (*moi*)

## Summary case law *before* Huawei v. ZTE

- FRAND defence treated as “abuse of rights” or “breach of pre-contractual good faith” defence, rather than as antitrust “abuse of dominant position”
- Users of a standard must take initiative, should ask for a FRAND license *before* they come to market

*Huawei: initiative from SEP owner, user can be on the market*

- As long as the user is not *unreasonable* in (counter-) offers for FRAND license, SEP owner not entitled to an injunction

*Huawei: after counter-offer, 3<sup>rd</sup> party can determine FRAND conditions*

- No security / escrow payments necessary

*Huawei: if user rejects offer and makes counter-offer, security required*

# Asus / Philips (“discovery” PI, 2016)

- Philips filed 3 merits cases against Asus in The Hague, alleging infringement of 3 SEPs
- Asus raised FRAND defence (+ nullity and non-infringement defence), but had no access to evidence about “ND”
- Asus therefore filed claim for disclosure of copies of license agreements with 3rd parties, to be able to assess (FRA)ND
- Judge rejects discovery for lack of (urgent) interest: FRAND defence only relevant if and when the Hague Court finds the invoked SEPs are valid and infringed. Makes sense, but practical?...



# Archos / Philips (merits case, 2017)

- Philips made a (detailed) FRAND offer for its UMTS/3G and LTE/4G SEPs (USD 0.75-1 per mobile phone), willing to discuss and negotiate
- Archos rejected the offer, initially without counter-offer or negotiation
- Archos counter-offered in proceedings: EUR 0.07/phone, Philips rejected
- Archos subsequently filed separate proceedings claiming a DJ that Philips's offer is not FRAND, and that its own offer *is*.

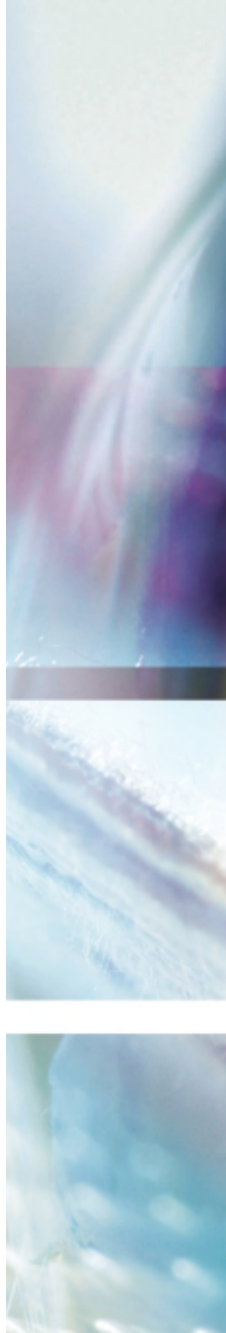
## (Archos/Philips, c'd)

- Court finds burden of proving non-FRANDlyness in a DJ case is on Archos, and that Archos did not meet this burden.
- Standard judicial review: “*stated with sufficient substantiation*”
- Insufficiently substantiated (also in view of the evidence Philips filed) that Philips’s offer is *not* FRAND. Under same standard, the Court could not decide that Archos’s offer of only 1/10th of Philips’s *is* FRAND.
  - **Note:** Court explicitly mentions Archos did not argue that the burden of proving that offered conditions are FRAND as a pre-condition of enforcement should be on Philips... Such an argument would have made sense: see e.g. par. 63 Huawei)
- So Court did not decide what actually *is* FRAND

# (Archos/Philips, c'd): Some guidance

- FRAND = bandwidth of conditions. Court finds important that Philips was prepared to negotiate about its 'opening' offer, and that Archos was not
- A relevant factor: *number* of SEPs of Philips in relation to all relevant SEPs
- Another relevant factor: *technical* value of the SEPs, compared to the closest free/cheaper technical alternative, assuming there was no standard (but: seems difficult to assess)
- *Fixed fee* per mobile phone can be reasonable, but so can be a *percentage* over the sales price (even though sales prices may go up for reasons unrelated to the SEPs at issue, e.g. brand, design, camera), or over the "*ssppu*" (smallest saleable patent practicing unit)
- Higher rates for past ('unlicensed') compared to future not allowed

End



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