

First SEP Injunction against German Car Manufacturer



District Court of Mannheim, dec. of August 18, 2020, case docket 2 O 34/19

On August 18, 2020, the District Court of Mannheim handed down the first judgment in the current litigation campaign of *Nokia vs. Daimler*. Despite Daimler's FRAND defense, the Court enjoined Daimler from using a certain technology in Daimler cars that is essential to the LTE mobile communication standard.

The decision is remarkable in several respects. It is the first permanent injunction granted against a major German car manufacturer that is based on a standard-essential patent (SEP). It is also the first verdict of a lower patent infringement court after the German Federal Supreme Court's (FSC) interpretation of the CJEU's "*Huawei / ZTE regime*" in its recent *FRAND-Defense* decision (FSC, dec. of May 5, 2020, docket KZR 36/17). The Mannheim judgement comes down despite a formal request by the German Federal Cartel Office (case no. P-66/20) to stay the infringement proceedings and refer questions to the CJEU.

A. FACTS OF THE CASE

The patent-in-suit concerns a synchronization system of a network base station and a mobile communication module, which is essential to the 4G (LTE) mobile telecommunication standard. Nokia had given a FRAND-declaration for the patent vis-à-vis ETSI and informed Daimler of the patent in mid 2016, with a first license offer in December 2016. Daimler noted in reply that the suppliers of the communication modules embodying the patented technology would be the suitable addressees to contact and negotiate a license with. Subsequently, Nokia held license discussions with Daimler's suppliers in 2017 - 2019. Daimler did not take an active part in these negotiations, but trusted in a solution on supply-chain level. As these negotiations failed, Nokia offered a "have-made" license to Daimler in February 2019, wherein the license rate was calculated based on the value the patented technology would provide to the car as a whole ("inventive benefits approach"). After Nokia filed the complaint for patent infringement, Daimler made a license counter-offer in May 2019 with Daimler as the licensee. This offer was based on the purchase price for the communication module that Daimler paid to its suppliers ("component approach").

In the course of proceedings, some of Daimler's suppliers filed a request with the German Federal Cartel Office to initiate an investigation against Nokia, arguing that Nokia would abuse its market power by refusing to license the willing suppliers despite Nokia's FRAND-declaration. In an unprecedented move, the German Federal Cartel Office formally called up on the Mannheim Court to stay the proceedings and refer certain questions to the CJEU for clarification. With its pre-formulated questions, the German Federal Cartel Office seeks to clarify, in essence, whether it amounts to an abuse of a dominant position under Art. 102 TFEU if a holder of a SEP for which a FRAND-declaration has been given, refuses to license a willing supplier, while at the same time enforcing its claim for injunction against the end-product manufacturer.

B. THE DECISION

The District Court of Mannheim grants Nokia's claims for injunction, recall, destruction and rendering of account. The attacked communication modules built into Daimler cars are found to infringe the patent-in-suit. The case is not stayed in view of the nullity complaint pending against the patent-in-suit at the German Federal Patent Court (FPC, docket 5 Ni 25/19).

Daimler's FRAND defense is rejected. Based on Daimler's conduct before and during the proceedings, the Court considers Daimler "unwilling to take a license on FRAND terms" as is required under the regime established by the CJEU in *Huawei/ZTE* (C-170/13, para. 63). In the eyes of the Court, Daimler's pointing to the suppliers, and rther, its fundamental objection to the "inventive benefits approach" as suggested by Nokia would be "indicative" for Daimler's unwillingness to take a FRAND license. Even though Daimler finally offered to take a license itself, the terms offered based on the component approach would not be FRAND, given that this approach would not take sufficient account of the benefits that the patented invention would bring to the car. Daimler could also not rely on the suppliers' offers. Given that these also followed the "component approach", these offers would have to be considered un-FRAND as well.

The Court goes on to turn down Daimler's competition law argument that Nokia would need to sue the suppliers first, before asserting the patent against Daimler. In the view of the Court, it would be standing case law that a patent owner is free to enforce its patent against any infringer in the supply chain, if no specific circumstances would apply (cf. FSC, I ZR 98/06, *Tripp-Trapp-Stuhl*). In this respect, the Court was neither convinced by Daimler's submission that licensing the suppliers (and not the OEMs) would be customary in the automotive space, nor that these licenses were commonly based on the "component approach". In the eyes of the Mannheim Court, the licenses concluded with OEM car manufacturers by the Avanci pool (to which Nokia is a member) would show the exact opposite, given that these licenses were based on the "inventive benefits approach". Thus, the Mannheim Court did not see Nokia obliged to primarily deal with Daimler's suppliers.

Being consistent in its reasoning, the Mannheim Court rejects the German Federal Cartel Office's request to refer questions to the CJEU. Art. 267 subsection 2 TFEU would offer discretion to the lower courts whether or not to refer. Given that the patent-in-suit has a remaining term of about seven years, and considering that the CJEU will likely take several years to decide on any submitted questions, Nokia's right to an effective enforcement of its exclusionary rights would be jeopardized by a referral to the CJEU for most of the remaining term of the patent.

Finally, the Mannheim Court holds that Daimler would not be eligible to a use-up period for the cars with the infringing communication modules. The pertinent case would not stand up to the requirements of the test established by the Federal Supreme Court in the *Wärmetauscher* decision (docket X ZR 114/13). While it would be true that the attacked communication modules are relatively small components that are not essential for the functioning of the car (1st leg of the *Wärmetauscher* test), Daimler did not show serious attempts to agree on a license for the patent or work on alternative technical solutions (2nd leg of the *Wärmetauscher* test), despite having knowledge of the patent-in-suit and the potential infringement situation since 2016. In any case, a use-up period would not be necessary as Daimler's potential losses as a consequence of a preliminary enforcement of the injunction would be sufficiently accommodated by the requirement of the enforcement security, which the Mannheim court sets to an unprecedented amount of EUR 7 billion (!). (This high amount is reflecting Daimler's exposure as in fact most of Daimler's present and future cars use the infringing modules and, thus, are subject to the injunction).

C. COMMENT

While the Mannheim Court is likely lauded by SEP holders for its novel and brave take on the "willingness to license" obligation of the SEP implementer, this approach also raises fundamental questions.

To put it simply, the Mannheim Court considers Daimler as an "unwilling licensee" because its license counter-offer (and the counter-offers of its suppliers) based on the component approach would be un-FRAND in the eyes of the Court. It is to be assumed that the Court arrives at this finding on the basis of the FSC's decision in the *FRAND-Defense* case (FSC, docket KZR 36/17, para. 92) where it is stipulated that the implementer's request "to take a license on FRAND terms" must not be

mere 'lip service'. Instead, the implementer is expected to make a timely and unconditional statement to take a FRAND license on whatever terms are in fact "FRAND". In addition to that, the implementer has to demonstrate its continuing willingness throughout the proceedings by actively taking part in the negotiation of FRAND license terms (BGH, docket KZR 36/17, para. 83). In essence, the defendant has to turn 'rhetoric into action'. Thus, anything in the conduct of the defendant that may be considered as delaying tactics bears the risk of rendering the defendant "unwilling" to license, which will directly result in a loss of his FRAND defense.

Apparently, this was what the Mannheim Court had in mind when assessing Daimler's conduct in the proceedings.

Still, the Mannheim Court's reasoning to that effect cannot be followed, as it unduly intermingles the willingness to license on the one hand with the parties' discussion of what are in fact FRAND terms in the given case on the other. Of course, the defendant must show willingness to negotiate FRAND license terms that will lead to a fair reward of the SEP holder. However, "willingness to license" cannot be understood to mean that the defendant has to accept whatever the SEP holder believes to be FRAND. It should be recalled that under the *Huawei/ZTE* regime of the CJEU it is generally for the SEP owner - not the implementer - to make a first license offer, explain how the license fee is calculated, and establish why he believes his terms are FRAND (CJEU, C-170/13, para. 63; BGH, docket KZR 36/17, para. 72, 76). This obligation implies a review by the infringement court of whether the SEP holder has sufficiently fulfilled its obligations with respect to his offer made to the defendant (Appeals Court of Karlsruhe, docket 6 U 183/16, para. 122; Appeals Court of Düsseldorf, docket 2 U 31/16, 5th headnote; leaning in that direction: FSC, KZR 36/17, para. 75). The requirement of detailed review is a direct consequence of the underlying competition law issue: The SEP holder would abuse its dominant position and violate Art. 102 TFEU by enforcing the claim for injunction, if his license offer is not FRAND (CJEU, C-170/13, para. 55, 58; FSC, KZR 36/17, para. 69).

The Mannheim Court, however, does not review the FRAND-nature of Nokia's license terms in detail, but simply assumes that the "inventive benefits approach" would be the right take on a fair reward for the SEP holder in the present case. Thus, avoiding a detailed assessment of Nokia's offer can be seen as a shortcoming of the Mannheim judgment.

But how should the Mannheim Court have dealt with Daimler's conduct instead? It is submitted that the prevailing question underlying the lawsuit - and virtually every SEP infringement case in the automotive space - is not one of "willingness to license". What appears to be decisive, instead, is whether the SEP holder is obliged to license the SEP not to the OEM car manufacturer, but to the willing suppliers of the infringing component. This, again, is a question of competition law. It is true that, as a basic rule, a patent owner is free to assert his patent against any infringer, regardless of its position in the supply chain (cf. FSC, I ZR 98/06, *Tripp-Trapp-Stuhl*). The situation may likely be different, however, where the patent leads to a dominant position on the technology market (which many SEPs do) and the SEP holder has given a FRAND declaration for the SEP (which is the case for most SEPs). Interestingly, the Appeals Court of Karlsruhe (who will also

here the appeal in the present case) already opined in 2015 that a SEP holder who has given a FRAND declaration for his patent, may likely be required to address its license offer predominantly to the component supplier, if this supplier has declared willingness to take a FRAND license (Court of Appeals Karlsruhe, docket 6 U 44/15, “*Mobile Phones*”). This is because denying to license a willing licensee not only contradicts the SEP holder’s FRAND declaration. Moreover, such a conduct may very well amount to an unfair obstruction and discrimination against the willing supplier under Art. 102 TFEU (CoA Karlsruhe, loc. cit., referring to the Opinion of the Advocate-General of the CJEU in the *Huawei/ZTE* case).

In addition, suing the end-product manufacturer while denying a license to the willing supplier could be seen as a disproportionate (i.e. un-FRAND) measure. This is because the end-product manufacturer, who is usually less informed about the technology and pertinent patent situation with respect to component supplied to him, may be more inclined to accept disproportionate license terms, or alternatively, terminate the supply relationship with the unlicensed supplier. This, however, would put an undue pressure on the component supplier and could seriously affect its relationship to the end-product manufacturer (CoA Karlsruhe, loc. cit.). These considerations were initially submitted by the EC Commission in its Motorola decision (Com., OJ C 2014, 2892, para. 280). Also, several judgments of the FSC confirm the “undue pressure” argument (cf. FSC, docket I ZR 187/16, “*Ballerinaschuh*”, para. 92; FSC, docket I ZR 123/06, “*Fräsautomat*”, para. 17). Last but not least, the German Federal Cartel Office seems to take this view, motivating it to ask the Mannheim Court for a stay of the case and a referral of this question to the CJEU.

Considering all this, and recalling the *Huawei/ZTE regime* of the CJEU which the parties have to follow, the relevant legal issue is not one of willingness to license. Rather, the question to ask is whether Daimler as the end-product manufacturer is the correct addressee for Nokia’s license offer (1st leg of the *Huawei/ZTE regime*). If Nokia would need to license Daimler’s suppliers in order to avoid a violation of Art. 102 TFEU, Daimler’s drawing on the willingness of its suppliers clearly would have merits and could not be simply ignored by the Court.

With this mind, it is somewhat surprising that the Mannheim Court does not discuss the decision of the Appeals Court Karlsruhe, the FSC decisions, or the request of the Cartel Office in more detail. In fact, from a competition law perspective (which lies at heart of the FRAND-defense), asking the CJEU for a clarification would have seemed a sensible thing to do. Yet, the Mannheim Court obviously tried to avoid this route.

Daimler has meanwhile filed for a provisional stay of enforcement with the Appeals Court of Karlsruhe. Given the deficiencies of the Mannheim decision, such a stay seems likely. In any case, Nokia will be hesitant to provisionally enforce the injunction for the time being. The costs for providing a security bond of EUR 7 billion may be one reason. However, the fear of sanctions by the German Cartel Office may be a relevant aspect for Nokia, as well.

D. OUTLOOK

Meanwhile, the automotive patent wars continue to rage elsewhere. Nokia is suing Daimler also before the District Courts in Düsseldorf and Munich; so are Conversant and Sharp, who are, like Nokia, members of the Avanci pool. These litigation campaigns are part of the Avanci pool strategy to get all major car manufacturers to agree to the Avanci standard pool license. Having BMW, Audi, VW under license (to name but a few) the pool has been quite successful lately. One has to note that this comes without the Avanci standard pool license terms ever being seriously tested on their FRAND characteristics.

Most recently, the District Court of Munich joined sides with the Mannheim Court and also granted Sharp an injunction against Daimler (District Court Munich, dec. of Sept. 10, 2020, docket 7 O 8818/19). The reasoning of that decision is similar to the one of the Mannheim Court. In light of this, the Mannheim and Munich venues prove themselves as particularly SEP-holder-friendly and are therefore likely to attract further SEP cases in the near future.

In Düsseldorf, on the other hand, the SEP holders’ efforts may see a setback. Informed circles expect the District Court of Düsseldorf to stay a further case of Nokia vs. Daimler and refer the pertinent questions to the CJEU. This decision is due to come out on November 12, 2020. It remains to be seen if other German infringement courts will follow suit, though, given that Art. 267 section 2 TFEU provides lower courts with discretion to refer.

Implementers’ hopes are meanwhile lying with the German lawmaker, who is driving for a revision of the German Patent Act. Among others, it is planned to make the grant of an injunction (which currently is the automatic consequence if infringement is established) subject to a proportionality test. If this becomes law, German courts will have to take defendant’s foreseeable hardships of a sales ban as well as justified third party interests into account prior to granting an injunction. However, given that the lawmaker’s official aim of the revision is to cast the test of the *Wärmertauscher* decision into law (which reserves a refusal of the injunction to exceptional cases, s. above), it remains open as to how and what extent German infringement courts will actually apply the proportionality test to the benefit of implementers.

Leaving revisions of the German Patent Act aside, the questions of who to license in the supply chain and which license model to apply (component vs. inventive benefits) will likely be dominating the SEP discussion in Germany in the near future. A clarification by the CJEU and/or the EU Commission to that effect will therefore be welcomed by many stakeholders involved. ■

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