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# FRAND Update – How German courts are handling SEP cases

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# AGENDA



**I. Background**

**II. German (and European) case law – dancing the  
FRAND Dance**

**III. Practice tips**

**IV. Recent developments**

# I. Background

## **A very incomplete list of recent SEP cases filed before German courts**

- Avanci (Conversant, Nokia, Sharp) v. Daimler (2019/LTE)
- Nokia v. Lenovo (2020/H.264)
- Nokia v. Oppo (2021/5G)
- Access Advance (GE, Dolby, IP Bridge, Philips) v. Vestel (2021/H.265)
- GE, Mitsubishi v. Xiaomi (2022/H.265)

# I. Background

## **Injunctions in patent law suits in Germany**

- SEP owner may force implementing company into unbalanced license terms with threat of an injunction (or injunction in hand)
- In German practice, if liability is found, there is practically always an injunction
- Court can deny an injunction in case of "disproportionate hardship", but no cases are known where this has ever happened

# I. Background

## FRAND defense

- Defendant may argue that the SEP owner violated its obligation grant licenses under the SEP to anyone under FRAND terms
- It is a defense against the claim for injunctive relief (cease-and-desist order, recall of products, destruction)
- SEP owner can still claim damages for past infringement, typically limited to FRAND, but not a single case is known where a German court ever determined how much is FRAND damages

=> German SEP cases are all about avoiding an injunction

## II. German/EU landmark cases

### **German Federal Court of Justice (FCJ): *Orange Book* (2009)**

FRAND defense can be based on antitrust law: denial to grant FRAND license may be abuse of dominant position

- ...even if SEP owner has no dominant position on the market for the concerned products, and
- ...even if the standard is only a de-facto standard or alternatives to the standard are available

## II. German/EU landmark cases

### **FCJ: *Orange Book* (2009)**

However, the court set high hurdles for the FRAND defense:

- (1) Defendant must make an unconditional offer (in particular: no condition of validity)
- (2) License fee may be left open for determination by a court, but defendant must pay sufficiently high license fees in escrow account
- (3) How much is FRAND? Defendant may need to go to the upper limit of the FRAND range to be on the safe side

## II. German/EU landmark cases

### **Court of Justice of the European Union (CJEU): *Huawei v. ZTE* (2015)**

- Huawei filed complaint against ZTE based on infringement of a SEP (LTE standard) before the Regional Court of Duesseldorf
- ZTE had offered to conclude a license agreement under the condition that the patent is found infringed
- Court referred the case to the CJEU, basically asking if the German Orange Book-case law was still applicable in view of an EU Commission decision in *Motorola ./ Apple* (2014)



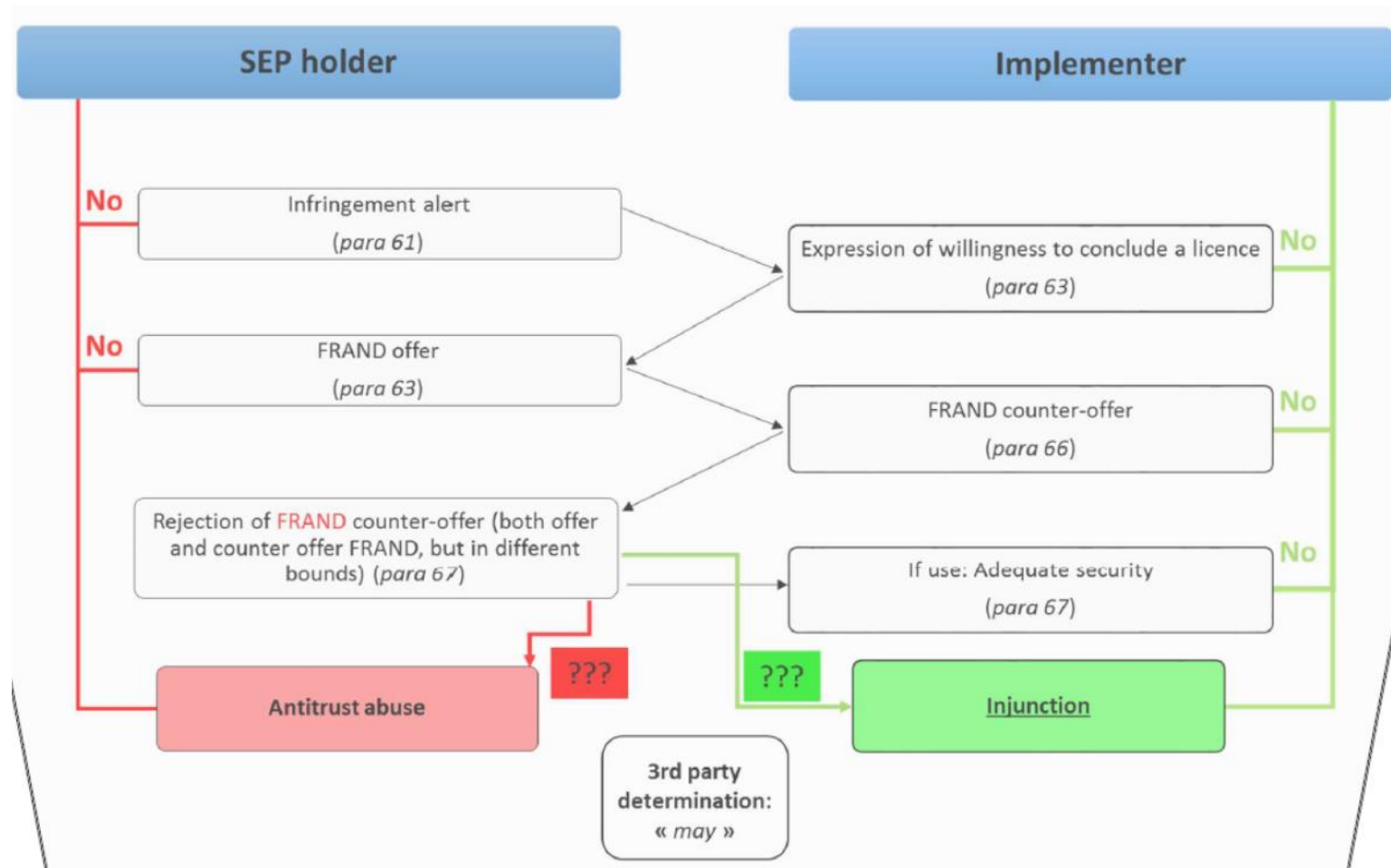
## II. German/EU landmark cases

### **CJEU: *Huawei v. ZTE* (2015)**

Introduction of the “FRAND dance”

- (1) SEP owner must notify the infringer about the SEP in question and the infringement
- (2) Infringer must express willingness to take a license
- (3) SEP owner must make specific, written license offer under FRAND terms
- (4) Infringer must react and make a counter-offer under FRAND terms (and render accounts and provide security)

## II. German/EU landmark cases



Taken from: Nicolas Petit: *Huawei vs. ZTE -- Judicial Conservatism at the Patent-Antitrust intersection*

## II. German/EU landmark cases

### **CJEU: *Huawei v. ZTE* (2015)**

Hurdle for raising FRAND defense has become lower:

- Plaintiff needs to make a first license offer, and if that offer is not FRAND, defendant does not need to make a FRAND counter-offer
- Defendant's FRAND (counter-)offer must still be unconditional, but defendant may reserve the right to challenge validity of the patent after conclusion of license agreement
- Deposit can be made in form of a bank guarantee, not only in cash

## II. German/EU landmark cases

### **FCJ: *Sisvel v. Haier* (2020)**

- Plaintiff Sisvel notified defendant Haier in December 2012
- Haier replied in December 2013 by e-mail (“*we hope to have a formal negotiation with you*”, “*You mentioned that there will be a discount if we sign the license timely. Please let me know the information such as specific discount amount and the current license royalty arrangement...*”)
- Further letters by Haier, in particular in January 2016 (willingness to take a FRAND license if court confirms infringement and validity)

=> Court found that Haier was not a “willing licensee” (because of delaying tactics) and denied FRAND defense

## II. German/EU landmark cases

### **FCJ: *Sisvel v. Haier* (2020)**

- Willingness is an internal state – how is it determined?  
→ By overall analysis of actions and general behavior
- In particular: does defendant apply delay tactics? Must behave like someone who tries to get a license under the patent, not like someone who wants the patent owner to go away
- License offer and counter-offer are part of overall analysis! If defendant's counter-offer is (clearly) un-FRAND, this may indicate that his initial expression of willingness was not meant seriously

## II. German/EU landmark cases

### **FCJ: *Sisvel v. Haier* (2020)**

- Since this decision, defendant's willingness to conclude a license agreement has come into focus
- Defendant's expression of willingness to take a license and his FRAND counter-offer need to come in a timely fashion
- Courts of Munich and Mannheim (not: Dusseldorf) now examine defendant's counter-offer first. If clearly un-FRAND, defendant is found unwilling and FRAND defense is denied, even if plaintiff's offer was also un-FRAND. → Reversal of *Huawei* test order!

## IV. Practice tips

### **SEP owner's perspective**

- Notification to infringer should include selected claim charts
- Prepare complete license offer early
- React to communications quickly; put the ball back into SEP user's court
  - If he reacts comparatively slowly, that might make him look unwilling
- Rationale behind royalty rate used in the license offer should be explained in side letter

## IV. Practice tips

### **SEP owner's perspective**

- Ideally rate should be based on existing license agreements
- Some patent owners contact smaller companies first, which likely take license at high royalty rate because litigation would be too expensive for them
- Only afterwards they go after the bigger fish, arguing that the high rates are FRAND because many licensees accepted it
- Courts love to see comparable licenses because they have no idea about how much could be FRAND



## IV. Practice tips

### **SEP user's perspective**

- Take practice of German courts seriously, even if negotiations take place outside of Germany
  - There is a fair chance that the SEP owner chooses Germany as a venue if he wants to litigate
- Engage German counsel early on
- React to communications quickly – avoid appearance of “delaying tactics”

## IV. Practice tips

### **SEP user's perspective**

- Reply with counter-offer, explain reasons for deviations from offer of the plaintiff
- Ideally rate of counter-offer should be based on existing comparable license agreements
- Ask who existing licensees are and challenge plaintiff's rates if his existing licensees are predominantly small or inexperienced
- May leave rate open, to be determined by a court
- Render accounts and provide security

## V. Recent developments

### **Regional Court of Munich: *Conversant v. Daimler* (2020)**

- Conversant asserted SEPs against car manufacturers and refused to license suppliers
- Court found that Daimler cannot rely on supplier's FRAND offer to plaintiff, found that Daimler was unwilling and issued an injunction
- In a similar case of *Nokia v. Daimler*, the Regional Court of Dusseldorf referred the CJEU the question of whether or not an SEP owner can freely decide at which level in the supply chain to exclusively issue a license
  - But case was settled in the meantime

## V. Recent developments

### **Regional Court of Munich I: *InterDigital v. Xiaomi* (2021)**

- Anti-suit-injunction (ASI) requested by Xiaomi was granted by People's Court in Wuhan (China) on September 23, 2020, prohibiting InterDigital to assert its SEPs against Xiaomi in all countries, also outside of China
- Regional Court of Munich I issued a preliminary (anti-anti-suit) injunction on November 9, 2020, confirmed by judgment of January 28, 2021 – the ASI will not be adhered to in Germany
- Consequence for “FRAND dance”: Infringer requesting an ASI can generally be regarded as “unwilling” to take a license

## V. Recent developments

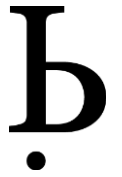
### **Regional Court of Dusseldorf: *Access Advance v. Vestel* (2021)**

- Dispute between members of Access Advance patent pool regarding infringement of HEVC/H.265 standard
- Court found that the pool license offer is not FRAND (under the aspect of double-licensing), even though many licensees had accepted it previously, and dismissed claim for injunctive relief
- Court granted Vestel's counter-claim for damages based on the violation of the Plaintiffs' obligation to grant license under FRAND terms



**Thank you very much!**

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