

Studienvereinigung Kartellrecht
Internationales Forum Kartellrecht
3. und 4. April 2014, Brüssel

Neue Entwicklungen bei Standard-essentiellen Patenten (FRAND- Lizenzbedingungen)

Joachim Bornkamm
until Feb.2014
Pres.Judge
Federal Court of Justice
Karlsruhe, Germany
3 April 2014

■ Introduction

- Can it be a valid defence for a defendant in patent infringement proceedings to claim that he would be entitled to a compulsory licence under antitrust law?
- Two objectives
 - Exclusionary right of patent holder: In case of infringement a permanent injunction should be granted
 - Abuse of a dominant market position
 - provision in German Antitrust law
 - Article 102 TFEU
- Two possible answers
 - Yes (But under what conditions will it be a valid defence?)
 - No (If defendant thinks that he is entitled to a compulsory licence, he should first claim such a licence in court before making use of the patent)

- The Standardized Tight Head Drum Case of the Bundesgerichtshof
 - Four prominent German producers of chemicals agreed on a procedure for a new standard for special drum for chemical liquids
 - All four bring in their technology, one is selected for patent protection
 - This drum will be considered to be the standard in the industry
 - Free licence for the other three companies
 - Licence is refused to an Italian competitor
 - Since customers demand drums of the new standard Italian competitor uses technology without a licence
 - Plaintiff (holder of the standard patent) asks for injunctive relief and damages
 - Judgment of BGH (13 July 2004 - KZR 40/02)

- The Standardized Tight Head Drum Case of the Bundesgerichtshof (...)
 - Judgment of BGH (13 July 2004 - KZR 40/02)
 - Patent holder can be forced by competition law to grant a licence to competitors or other firms because of his market power
 - Compare IP cases with restriction of ordinary property by antitrust law: Since in German antitrust law a supplier holding a dominant market position can be under a legal obligation to supply customers with his goods
 - The patent holder should be in no better position than an ordinary proprietor
 - Plaintiff was in dominant market position

- The Standardized Tight Head Drum Case (Standard Spundfass) of the Bundesgerichtshof (...)
 - Judgment of BGH (13 July 2004 - KZR 40/02) (...)
 - As a dominant player the plaintiff must not discriminate nor cause an inequitable impediment to his customers by not supplying them with the goods or services he offers in the market without having good reason for doing so
 - Whether there are good reasons for treating customers in a different manner or whether an impediment is inequitable is answered by a balance of convenience
 - It is only with this balance of convenience that the particular interests of a right holder of IP rights comes into the game
 - Defendant was clearly being discriminated against

- Standards set by Bundesgerichtshof differ somewhat from case law of CJEU concerning copyright law
 - Decisions of CJEU (Magill, IMS Health)
 - Refusal to grant a licence constitutes an abuse under the following conditions
 - The refusal to licence must prevent the emergence of a new product
 - The refusal must have been unjustified
 - The refusal must lead to the elimination of competition in a secondary market

■ The Orange Book Standard Case of the Bundesgerichtshof

— Facts

- Philips Electronics was owner of a patent for the manufacture of single and multiple rewritable optical media (CDR and CDRW)
- Patent held to be valid in validity proceedings
- Basic patent needed by every manufacturer of normal CDR and CDRW
- Market: Demand for this technology which Philips can offer by granting a licence
- Philips enjoys a dominant position in the market
- Philips has granted such a licence to many undertakings on the basis of a standard licence agreement
- Regional Court at Mannheim and Higher Regional Court at Karlsruhe granted injunctive relief, destruction and damages

- The Orange Book Standard Case of the Bundesgerichtshof (...)
 - Caveat as to the facts
 - Little dispute that defendant actually made use of the patent
 - Validity was not an issue
 - Nothing in the decision suggests that the patent in question was a standard essential patent in the sense of a standard chosen by a SSO out of a number of possible technologies
 - No contractual liability of patent holder involved
 - Difference as to dominant market position
 - Either a patent holder whose technology is in no way unique, but one of a number of possible technical solutions
 - Or a patent holder whose technology is unique
 - Difference when it comes to stating abuse

- The Orange Book Standard Case of the Bundesgerichtshof (...)
 - Caveat as to the facts (...)
 - Defendant only offered to conclude a licence agreement after having been taken to court for infringement
 - Damages for the past would also be an issue

- The Orange Book Standard Case of the Bundesgerichtshof (...)
 - Judgment of BGH (6 May 2009 - KZR 39/06)
 - English Translation of judgment
 - [2010] 41 IIC (International Review of Intellectual Property and Competition Law) 369
 - <http://www.ipeg.eu/blog/wp-content/uploads/EN-Translation-BGH-Orange-Book-Standard-eng.pdf>
 - Defence allowed in principle (reference to Standard Spundfass [Tight-head Drum Case])
 - But even if patent holder (plaintiff) is under an obligation to grant licence, the defendant must not make use of the patent without paying a licence fee
 - Defendant who comes up with the compulsory licence defence must make an unconditional offer to conclude licence agreement and pay a (F)RAND licence fee
 - Defendant must behave in a way as if he had concluded a licence agreement

- The Orange Book Standard Case of the Bundesgerichtshof (...)
 - Judgment of BGH (6 May 2009 - KZR 39/06) (...)
 - The user has to pay at least the licence fee which he considers fair or give security (pay into a blocked bank account)
 - If user wants some certainty that no infringement is granted (because court may consider a higher licence fee fair and non-discriminatory) he should underwrite for a higher payment without accepting the fee asked for by the patent holder
 - Since defendant had not acted in the way described above,

Studvereinigung Kartellrechte
Internationales Forum Kartellrecht
3. und 4. April 2014, Brüssel

Court Press Release of 6 May 2009
Compulsory Licence Antitrust Objection allowable in principle
in Patent Infringement Process

Whoever produces something in accordance with a patented industry standard can defend themselves against a patentee's complaint with the "compulsory licence antitrust objection". This means that the user of the patent can assert that by means of the patentee's refusal to allow use of the patent, the patentee is abusing a dominant position. The user must show he has unsuccessfully endeavoured to obtain a licence under reasonable conditions and that the patentee, by refusal of a licence, is infringing the competition law prohibition and without good reason discriminating against or impeding other undertakings. He may however only use the patent in anticipation of the illegally denied licence agreement, if he fulfils the obligations of the requested agreement, in particular by payment of a reasonable licence fee to the patentee or at least by a guarantee thereof. This has been decided today by the cartel bench of the federal court.

Philips Electronics is the owner of a patent for the manufacture of single and multiple rewritable optical media (CDR and CDRW). This is a basic patent which every manufacturer of normal CDR and CDRW has to use and hence Philips has a market dominant position. Philips has granted to many undertakings a patent licence on the basis of a standard licence agreement.

The defendants have made and distributed CDR and CDRW without such a licence. They have complained that Philips demanded excessive licence fees, which are discriminatory because other undertakings have better terms. In this way Philips is said to be abusing its dominant position.

The local and regional courts decided the defendants must refrain from dissemination and production of the patent infringing articles, which are to be destroyed, and moreover, they determined that the defendants must pay Philips compensation. The opposing claim remains unsuccessful.

...

Studienvereinigung Kartellrecht
Internationales Forum Kartellrecht
3. und 4. April 2014, Brüssel

Court Press Release of 6 May 2009
Compulsory Licence Antitrust Objection allowable in principle
in Patent Infringement Process

...

The Federal Court has in principle allowed the compulsory licence anti-trust objection against the restraining order request from the patentee. The licensing practice of a market dominant patentee is subject to misuse of competition controls (Art 82), said the Court. The patentee may not discriminate against an undertaking that wishes to obtain a licence agreement so as to be able to offer products through use of the patent, by demanding higher licence fees compared to those paid by others, without good reason. If the patentee infringes this discrimination prohibition, he will be denied any claim for restraint under patent law. Any infringement action arising from the patent would constitute, just as much as the denial of agreement to the offered licence agreement, an abuse of a dominant position.

According to this decision, the illegal refusal by the patentee to enter into a patent licence agreement does not give the discriminated undertaking the right to use the invention without compensation. Should production of the patented invention already have started without the discriminated party having instigated its own legal claim for agreement to a licence agreement, it must act as if the patentee had already accepted the offered agreement. This means that appropriately calculated licence fees must be paid regularly during the use of the patent, to the patentee or at least deposited in its favour. Otherwise the patentee can legally forbid the patent infringement. If the undertaking is not prepared to provide compensation, for which it would be obliged under a non-discriminatory licence agreement, then the patentee would not be acting abusively by bringing a restraining order under the patent.

...

Studienvereinigung Kartellrecht
Internationales Forum Kartellrecht
3. und 4. April 2014, Brüssel

Court Press Release of 6 May 2009
Compulsory Licence Antitrust Objection allowable in principle
in Patent Infringement Process

...

Particular difficulties often arise in clarifying the level of allowable licence fees. As the undertaking which is reliant on the licence does not know at what level reasonable fees should be fixed, the Federal Court considers it allowable to offer to the patentee, not an exact objectively calculated licence fee, but a fair and reasonable estimate and at the same time to deposit an amount, which corresponds to or might even exceed the objectively calculated fee. In many cases the patent infringement process can thereby be relieved of the dispute over the level of licence fees. Whether the licence fee established by the patentee complies with the limits set by competition law can be, where necessary, left to a later process. If a sufficient amount has been deposited it is enough for the determination of the court to refuse a patent infringement claim, that the patentee is obliged to take up the licence agreement offer and to fix the fees at a fair and reasonable level.

In the present case, the decision about the complainant is continuing because they have not even deposited the licence fees calculated at 3% by themselves or the amounts claimed by Philips. Whether Philips have abused their dominant market position by demanding a higher fee is not for the Federal Court to decide under these circumstances.

■ Open questions after Orange Book Standard

- May the defendant offering a (F)RAND licence agreement and following the rules set up in Orange Book still claim non-infringement?
 - Unconditional offer: no offer for a licence agreement under the condition that defendant is indeed infringing the patent
 - As long as licence agreement has not been concluded defendant may deny infringement
- May the defendant claim that the patent is invalid?
 - Nothing in the Orange Book Judgment
 - Normally licence agreements may contain a no-challenge clause
 - This might be different with SEPs
- What constitutes a (F)RAND licence fee?
 - Nothing in the Orange Book Judgment
 - Proceedings before Judge Robart and before the Regional Court at Mannheim

■ Open questions after Orange Book Standard (...)

— Do we have to modify the Orange Book Principles?

- to be discussed: Does the offer of the defendant have to be on the safe side or does an offer suffice which seems sufficient from the point of view of the defendant?
- no-challenge clause
- Defendant must be able to challenge the question of infringement
- It should be possible to limit the offer for a licence agreement to the country of patent protection

— How does one calculate FRAND-licence?

- Nothing in Orange Book
- Proceedings before Judge Robart in Seattle und before LG Mannheim

■ Open questions after Orange Book (...)

— How can one facilitate the search for FRAND-Licence?

■ Arbitration

— Kann SSO Richtlinien be of help?

■ SSOs are afraid of competition authorities

■ Rightly so?

— Agreement of prices is a hard core cartel

— However: Selection of standards is also hard core cartel

— Question: Exempted according to Art. 102 (3) TFEU?

— Possible argument: Selection of standard can only be justified under Art. 101(3) TFEU, if owner of the SEP cannot use patent as a hold-up

■ Latest Development in Europe

- Statement of Objections sent to Motorola on potential misuse of SEPs
 - http://europa.eu/rapid/press-release_IP-13-406_en.htm
 - Statement of Objections sets out the Commission's preliminary view that under the specific circumstances of this case - a previous commitment to license SEPs on FRAND terms and the agreement of Apple to accept a binding determination of the terms of a FRAND licence for SEPs by a third party - recourse to injunctions harms competition. The Commission is concerned that the threat of injunctions can distort licensing negotiations and lead to licensing terms that the licensee of the SEP would not have accepted absent this threat. This would lead to less consumer choice

■ Latest Development in Europe (...)

– Reference to CJEU by Regional Court at Düsseldorf of 21 March 2013

■ German text: <http://openjur.de/u/617729.html>

■ What constitutes abuse of a dominant market position by holder of a SEP?

– Is it sufficient just to declare willingness to negotiate a licence agreement?

– Does the offer to conclude such an agreement have to include all items which are generally included in such agreements

– What about past infringements?