Client Alert

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First German Decisions Applying the ECJ's *Huawei v. ZTE* Framework on Injunctions for Standard Essential Patents

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Two recent German court decisions address requirements for obtaining injunctions based on standard essential patents (SEPs), applying the rules established by the European Court of Justice in its *Huawei v. ZTE* decision.[1] The ECJ's decision sets out a specific process for an SEP owner to avoid claims of abuse of a dominant position when seeking injunctive relief in the EU under FRAND-committed SEPs.[2]

The ECJ's decision established a general framework, and it is up to the EU member states' national courts to apply and implement the ECJ's guidelines and to resolve the questions that the ECJ's decision left open. Some of these questions have now been addressed by the Regional Court of Düsseldorf in two decisions in *Sisvel v. Haier*[3] and the Regional Court of Mannheim in its decision in *Saint Lawrence Communications v. Deutsche Telekom*[4] – the first German cases applying the *Huawei v. ZTE* framework. All three decisions are currently under appeal,[5] and the Higher Regional Court of Düsseldorf has already issued a ruling suspending the enforcement of the Regional Court's injunction in *Sisvel v. Haier* based on evident flaws in its application of the *Huawei v. ZTE* requirements.[6]

Both patentees seeking to enforce SEPs in Europe and potential defendants that may face actions for injunctive relief under SEPs in Europe should pay close attention to the current decisions and the further proceedings in these cases, which will provide further guidance on how national courts will apply the *Huawei v. ZTE* principles.

BACKGROUND – PROCESS UNDER *HUAWEI V. ZTE*

In its *Huawei v. ZTE* decision, the ECJ held that the owner of an SEP that is subject to a FRAND commitment must follow a specific process when seeking injunctive relief under the SEP. Pursuing an injunction without following this process will constitute an abuse of dominant position (pursuant to Art. 102 TFEU), thereby warranting denial of the injunction. In an attempt to balance the interests of the patent owner and the allegedly infringing standard-implementer, the ECJ's decision requires each of them to take the following specific steps:

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[1] European Court of Justice, judgment of 16 July 2015, case no. C-170/13 – *Huawei v. ZTE*.

[2] *See* Client Alert "The European Court of Justice on Enforcement of FRAND Patents: *Huawei v. ZTE*" (27 July 2015).

[3] Regional Court of Düsseldorf, judgments of 3 November 2015, case nos. 4a O 93/14 and 4a O 144/14 – *Sisvel v. Haier*.

[4] Regional Court of Mannheim, case no. 2 O 106/14 – *Saint Lawrence Communications v. Deutsche Telekom*.

[5] Higher Regional Court of Düsseldorf, case nos. I-15 U 65/16 and I-15 U 66/16; Higher Regional Court of Karlsruhe, case no. 6 U 220/15.

[6] Higher Regional Court of Düsseldorf, orders of 13 January 2016, docket nos. I-15 U 65/15 and I-15 U 66/15.

1. Before bringing an action for injunctive relief, the **SEP owner** must notify the alleged infringer of the alleged infringement by designating the SEP(s) at issue and specifying the way in which it has been infringed;

2. The **alleged infringer** then must express its willingness to take a license on FRAND terms or else the SEP owner may pursue an injunction;

3. If the alleged infringer has expressed its willingness to take a license on FRAND terms, the **SEP owner** must make a specific, written offer for a license on FRAND terms specifying, in particular, the royalty and the way in which it is to be calculated;

4. The **alleged infringer** (if it continues to use the patent in question) then must diligently respond to that offer in accordance with recognized commercial practices in the field and in good faith, and without delaying tactics;

5. If the **alleged infringer** rejects the SEP owner's offer, it must make a specific, written counteroffer on FRAND terms; and

6. If the alleged infringer's counteroffer is rejected, the **alleged infringer** must, as of that time, provide appropriate security (including for past use) and be able to render an account of its acts of use.

Thus, the SEP owner may seek an injunction without abusing its dominant position if (a) the SEP owner has provided specific notice to the alleged infringer and the alleged infringer has *not* expressed its willingness (or has expressed its unwillingness) to take a license on FRAND terms, or (b) the SEP owner has provided specific notice, the alleged infringer has expressed its willingness to take a license on FRAND terms, the SEP owner then has provided a specific FRAND offer, *and* the alleged infringer has *failed* to do any of the following: (i) diligently respond without undue delay, (ii) make a specific FRAND counteroffer, or (iii) provide appropriate security and accounting as of the time the counteroffer was rejected (including for acts of past use). If both parties took all required actions, no injunction may issue, even if they do not reach an agreement on FRAND terms. During this process, the alleged infringer may challenge the validity or essentiality of the asserted SEPs or its actual use of those SEPs or reserve its rights to do so in the future.

REGIONAL COURT AND HIGHER REGIONAL COURT DECISIONS IN *SISVEL V. HAIER*

In two related cases, the Regional Court of Düsseldorf granted Sisvel's motion for an injunction against German and European distribution companies of the Haier group, enjoining them from selling the accused UMTS- and GPRS-compliant smartphones and tablets in Germany.

Sisvel asserted a German patent based on a European patent application. The patent was subject to Sisvel's FRAND declaration to the European Telecommunication Standard Institute (ETSI). The defendants offer smartphones and tablets in Germany that implement the UMTS and GPRS standards adopted by ETSI.

Sisvel runs various patent licensing programs, including a wireless licensing program that includes more than 350 patents originally acquired from Nokia that Sisvel claims have been declared essential to second, third, and fourth generation wireless standards (including GSM, GPRS, UMTS, and LTE).[7] Sisvel informed Haier, the defendants' parent company, of its patent licensing program several times in 2012 and 2013. Negotiations in 2014 ended without an agreement, with defendants rejecting several written license offers by Sisvel without making a counter-proposal. Sisvel continued to offer licenses in 2015 during the pending court proceedings, but the defendants continued to reject all of them without making any counteroffers. At the oral hearing on 29 September 2015, the defendants provided a bank bond (EUR 5,000) and documentation of the revenue from sales of the allegedly infringing products.

The Regional Court of Düsseldorf granted the injunction, finding that the accused products practiced the asserted patent and rejecting the defendants' FRAND defense. Without deciding whether the SEP at issue resulted in a dominant position pursuant to Art. 102 TFEU, the court held that Sisvel's seeking of injunctive relief did not constitute abuse of a dominant position under the ECJ's *Huawei v. ZTE* decision.

Notification in Transitional Cases

The court acknowledged that, applying the principles that the ECJ set out in *Huawei v. ZTE*, the plaintiff is required to provide a detailed notice of the patent and the way in which it has been infringed *before* bringing an action for injunctive relief. Although Sisvel had *not* provided such a notice before filing its complaint, the court held that in a transitional case such as this, in which Sisvel filed its complaint before the ECJ's judgment in *Huawei v. ZTE*, Sisvel was not required to notify the alleged infringer before filing the complaint. Rather, filing the complaint itself was deemed to constitute sufficient notice under the circumstances.

FRAND License Offer by the SEP Owner and Counter-Offer by Defendants

The court found that Sisvel's license offer to the defendants' parent company, and not the defendants directly, was sufficient. This was because the parent company could be expected to communicate the offer to its subsidiaries.

Defendants disputed that Sisvel's license offer met FRAND requirements. Specifically, defendants argued that Sisvel's license fees, which ranged from EUR 0.15 to EUR 0.50 depending on volume, were unreasonable and in excess of a royalty of 0.012% that defendants claimed to be FRAND.[8] Defendants also challenged the offer based on the fact that it was only for a worldwide license, with no option to license only the asserted German patent.

The court did not see a need to decide whether Sisvel's license offer met FRAND requirements because defendants' counteroffer failed to meet the *Huawei v. ZTE* requirements. The court suggested that a defendant may not have to make a counteroffer if the SEP owner's offer was not FRAND-compliant and could, instead, require a modified, FRAND-compliant offer. If the defendant decides to make a counteroffer, however, the court explained that the counteroffer must comply with the *Huawei v. ZTE* requirements even if the SEP owner's initial offer did not. The court found that the defendants failed to meet those requirements because they did not provide

[7] *See* http://sisvel.com/wireless.

[8] Just for illustration purposes, defendants' proposed FRAND rate would result in a per-unit royalty of EUR 0.036 (or 3.6 cents) based on a EUR 300 product. We note, however, that it is unclear from the decision whether the defendants would have applied this rate to the sales price of the complete smartphone or tablet or the value of a smaller component, such as the communications processor.

adequate security and accounting promptly upon Sisvel's rejection of their first counteroffer. It deemed the defendants' provision of security and accounting over a month after rejection of the counteroffer to be too late and not compliant with the requirements established in *Huawei v. ZTE*.

Higher Regional Court Found "Evident Legal Error"

The Higher Regional Court of Düsseldorf (appeals court) granted the defendants' motion to suspend the enforcement of this injunction.[9] Suspension of enforcement is granted only in exceptional cases, such as where the decision in the first instance is likely to be reversed upon appeal based on obvious or evident legal errors. The appeals court found such error in the lower court's "obviously wrong application" of the *Huawei v. ZTE* standards.

According to the appeals court, the ECJ established a process to balance the interests of the SEP owner and the alleged infringer in which every step of the process must sequentially follow the preceding step. The alleged infringer must satisfy its requirements only if the SEP owner has first met its own respective burden. The appeals courts emphasized that no injunction may issue if the SEP owner fails to make a FRAND-compliant license offer after the alleged infringer has expressed its willingness to take a license on FRAND terms. Per the appeals court, the alleged infringer has no obligation to react to an offer that is not on FRAND terms. Absent such an offer by the SEP owner, the alleged infringer is under no obligation to take any of the further steps set out in *Huawei v. ZTE* (such as a counteroffer on FRAND terms or the provision of adequate security and accounting).

As a result, the appeals court held that it was evident legal error for the Regional Court to leave open whether Sisvel's license offer was, in fact, on FRAND terms and instead focus on whether the defendant's response met the requirements under *Huawei v. ZTE*. It would have been necessary to first determine that the SEP owner made a licensing offer consistent with its FRAND obligation. Absent such determination, the Regional Court should have dismissed the motion for injunctive relief without considering the defendant's response (or lack thereof). The appeals court indicated that, in order to determine whether *Sisvel's* offer was on FRAND terms, the court below would have needed to determine the reasonableness of the royalty rate and other license terms and whether an SEP owner may require a worldwide license to its (SEP) portfolio.

REGIONAL COURT DECISION IN SAINT LAWRENCE COMMUNICATIONS V. DEUTSCHE TELEKOM

A few weeks after the decisions of the Regional Court of Düsseldorf, the Regional Court of Mannheim issued an injunction in favor of the owner of the asserted SEP, Saint Lawrence Communications (SLC), rejecting Deutsche Telekom's FRAND and abuse-of-dominant-position defense. The patent in suit relates to the recovery of high frequency content of a previously down-sampled wideband signal used in mobile voice transmissions. It has been determined by the International Patent Evaluation Consortium (IPEC) to be essential for the Adaptive Multi-Rate-Wideband Standard (AMR-WB). The prior owner of the asserted patent made a FRAND licensing commitment to ETSI. The defendant, Deutsche Telekom, sold mobile phones in Germany that allegedly implement AMR-WB functionality. HTC, a supplier of the defendant, intervened in support of the defendant.

After filing its infringement action, SLC sent a letter to Deutsche Telekom offering a license on FRAND terms. Attached to that letter was a copy of a complaint that SLC had filed, but not yet served. Deutsche Telekom

[9] Higher Regional Court of Düsseldorf, orders of 13 January 2016, docket nos. I-15 U 65/15 and I-15 U 66/15.

received SLC's letter two days before the complaint was served. Deutsche Telekom subsequently refused to take a license and informed the supplier of the accused products, HTC. After correspondence between the parties, HTC offered to take a license on FRAND terms, limited to Germany, with royalties to be determined by the High Court of England and Wales. SLC rejected this offer. HTC then provided a bank guarantee for an amount that, according to HTC, was calculated to cover potential license fees for mobile devices using the asserted patents and sold to German customers. HTC also submitted detailed sales figures to the court.

Deutsche Telekom and HTC alleged, among other things, that SLC's action for injunctive relief constituted an abuse of a dominant position and that SLC had failed to comply with the requirements established in *Huawei v. ZTE*. They specifically contested whether SLC had made a FRAND-compliant offer, arguing that SLC's royalty demand was excessive and based on worldwide sales (as opposed to a license limited to Germany, as HTC had proposed). The court held that SLC's action did not constitute an abuse and that neither Deutsche Telekom nor HTC met the burden imposed on the alleged infringer under *Huawei v. ZTE*.

Deutsche Telekom

With respect to Deutsche Telekom, the court denied a *Huawei* defense because Deutsche Telekom had never expressed its willingness to take a license on FRAND terms. The court questioned whether SLC's infringement notice satisfied the *Huawei v. ZTE* requirement that the SEP owner notify the alleged infringer before bringing an action for injunctive relief. SLC did not notify Deutsche Telekom until after it had filed its complaint, but before the complaint was served on Deutsche Telekom. The court held that it did not need to decide whether SLC gave sufficient notice, however, because Deutsche Telekom had never expressed a willingness to take a license even after the complaint was filed and served. Under these circumstances, the court characterized the prior notice requirement as a formality that could not support a finding of abuse under Art. 102 TFEU.

This application of the *Huawei v. ZTE* requirements appears to be inconsistent with the Higher Regional Court of Düsseldorf's opinion in *Sisvel v. Haier*, which held that every step of the *Huawei v. ZTE* process must sequentially follow the preceding step. It remains to be seen whether the Mannheim court's more lax interpretation of the ECJ's decision with respect to the timing of the initial infringement notice will be upheld on appeal.

HTC

The Mannheim court also questioned whether Deutsche Telekom could raise a *Huawei* defense based on its supplier's (HTCs') willingness to take a FRAND license,[10] and the patent owner's failure to make a FRAND-compliant offer to HTC.[11] The court ultimately did not decide that question, finding that HTC's counteroffer was insufficient to support a *Huawei* defense.

[10] The court noted that an SEP owner could initiate injunction proceedings where the alleged infringer had waited a long time (*e.g.*, more than three months) to express a general willingness to take a license on FRAND terms.

[11] In a decision regarding the enforcement of a parallel decision (Regional Court of Manheim, judgment of 10 March 2015, docket no. 2 O 103/14), the appeals court held that the plaintiff must first offer a license on FRAND terms to the manufacturer/supplier of accused devices before seeking injunctive relief against a downstream distributor. *See also* Higher Regional Court of Mannheim, order of 23 April 2015, docket no. 6 U 44/15. This decision was rendered before the ECJ's judgment in *Huawei v. ZTE* judgment, however, and the ECJ's opinion does not contain or suggest such a requirement.

Determination of FRAND-compliance of SEP Owner's Offer Not Required

HTC argued that SLC's license offer did not meet FRAND requirements, as SLC's proposed license fees were excessive and SLC offered only a worldwide license. While suggesting that insisting on a worldwide license may not be unfair in cases where the alleged infringer sells devices on a worldwide basis, the court ultimately did not decide whether SLC's offer was or was not FRAND-compliant.

Instead, the Mannheim court held that the alleged infringer's obligation to make a specific counteroffer on FRAND terms is triggered by any license offer made by the SEP owner that *formally* meets the ECJ's requirements in the *Huawei v. ZTE* decision (*i.e.*, specifying the royalty amount and manner of calculation). Per the Mannheim court, it does not matter whether the SEP owner's offer is *substantively* FRAND; the burden still shifts to the alleged infringer to react with a specific counteroffer.

Again, the Mannheim court's approach appears to be inconsistent with the Higher Regional Court of Düsseldorf's opinion in *Sisvel v. Haier*, which suggested that the alleged infringer's obligation to react with a counteroffer is only triggered if the SEP owner's initial license offer was substantively made on FRAND terms. It remains an open question whether the Mannheim court's approach will be upheld upon appeal. The Higher Regional Court of Düsseldorf's decision is not binding on any other court, and it is not uncommon for the appeals courts in Düsseldorf and Mannheim to decide issues differently.

Counteroffer Not Sufficient

HTC offered to take a license on FRAND terms, limited to Germany, with royalties to be determined by the High Court of England and Wales. The Mannheim court found that this counteroffer failed to meet the *Huawei v. ZTE* requirements. The ECJ required that the alleged infringer submit a "specific counter-offer that corresponds to FRAND terms." According to the Mannheim court, a "specific" counteroffer must include at least a specific royalty amount. The Mannheim court explained that the alleged infringer cannot meet this burden by unilaterally deferring the determination of the royalty to a third party, as HTC did here. The court acknowledged that, in the *Huawei v. ZTE* decision, the ECJ noted the possibility that an independent third party could determine the royalties.[12] According to the Mannheim court, however, this is an option only if the parties jointly agree after the alleged infringer makes a specific counteroffer.

The court did not decide whether the counteroffer would otherwise be relevant only if it substantively complied with FRAND requirements. The ECJ requires a counteroffer "that corresponds to FRAND terms," but the ECJ also requires an offer "on FRAND terms" from the SEP owner. The Mannheim court interpreted the ECJ's requirements as *not* requiring a determination of the substantive FRAND compliance (*e.g.*, with respect to the reasonableness of the royalty rate). In the end, the Mannheim court left open whether a counteroffer that was limited to Germany (as opposed to a worldwide license) would be sufficient. But the court did state that it is incumbent upon the alleged infringer to respond with a specific counteroffer (limited to certain countries) if it rejects the SEP owner's worldwide license offer.

[12] Cf. ECJ, judgment of 16 July 2015, case no. C-170/13 – *Huawei v. ZTE*, at para. 68.

IMPLICATIONS AND OPEN QUESTIONS

These early German decisions that apply the ECJ's *Huawei v. ZTE* framework highlight important and unsettled questions. Notably, the appeals court in Düsseldorf appears to have a much stricter and more literal view on the sequence and substance of the specific steps that an SEP owner and alleged infringer must take to comply with the ECJ's decision. The *Sisvel* and *SLC* proceedings have raised important questions, that remain unanswered, as national courts implement the ECJ's requirements in *Huawei v. ZTE*. The pending appeals in the German proceedings could provide more definitive answers to some of these questions.

Among the most important open issues that SEP owners and potential defendants will need to consider in developing their *Huawei* strategies are the following:

- Are the steps laid out in *Huawei v. ZTE* strictly sequential, or does the alleged infringer have to submit a FRAND-compliant counteroffer even in cases where the SEP owner has not provided specific notice and a FRAND-compliant license offer before initiating proceedings?
- Is the alleged infringer's obligation to submit a counteroffer triggered only by an initial license offer that substantively complies with FRAND obligations (including with respect to the royalty amount), or does any offer that indicates a specific royalty amount and the way in which it is to be calculated shift the burden to the alleged infringer to submit a (FRAND-compliant) counteroffer?
- Will a counteroffer preclude an injunction even if it does not substantively comply with FRAND requirements?
- Can the SEP owner require a worldwide license – and can the counteroffer be limited to just the country where the action is threatened or pending?
- Can either party comply with its FRAND-offer obligation by unilaterally deferring the determination of a specific royalty to a third party?
- Can a defendant who has not expressed its willingness to take a license rely on a *Huawei* defense, based on the SEP owner's failure to make a FRAND offer to the defendant's supplier or the fact that the supplier rejected the SEP owner's license offer and followed the other steps required by *Huawei v. ZTE* (*i.e.,* counteroffer and security and accounting)?
- How soon after rejection of a counteroffer must a defendant provide security, and how is the amount of the security to be calculated?
- How long does an alleged infringer have to express its initial willingness to take a license on FRAND terms after the SEP notifies it of its alleged infringement?

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