



AIPPI Special Committee on Patents and Standards (Q222)

Report – Work Plan Item #5

Availability of injunctive relief for FRAND-committed standard essential patents,  
incl. FRAND-defence in patent infringement proceedings

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*For a long time conduct of companies in the standard-setting context has been an important and controversial topic at the intersection of intellectual property and antitrust law. One of the currently most contentious issues in this field concerns the availability of injunctive relief or similar orders of exclusion for infringement of a FRAND-committed standard essential patent by an implementer of a standard. This matter has recently received much attention as a result of high-profile cases in courts of various jurisdictions, complaints lodged with competition authorities, and attempts by some members of Standard-Setting Organisations (“SSOs”) to have their rules and procedures modified.*

*This report provides a comparative legal analysis of the specific conditions in which injunctive relief or similar orders of exclusion are available for infringement of a standard essential patent for which a FRAND-commitment has been given. The introduction provides general information on the standard-setting process and the relationship between patents and standards. This is followed by a brief review of the previous work done by AIPPI in this field. The report then offers an assessment and analysis of the legal framework and case law of a number of major jurisdictions including the United States of America, the European Union, Germany, the Netherlands, France, Italy, the United Kingdom, China, Japan, South Korea, and India.<sup>1</sup> Drawn from this assessment and analysis, the report puts forward recommendations on how to best address the question of recourse to injunctive relief for infringement of FRAND-committed standard essential patents. The report also offers suggestions for consideration when reviewing standards body rules.*

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<sup>1</sup> *Input has been provided from members of the Special Committee Q222 to a questionnaire that has been previously elaborated by the Committee. The detailed responses to the questionnaire can be found in the Annex to this report.*

## A. INTRODUCTION

In today's knowledge based economy the importance of standardisation is growing. Device interoperability and product-compatibility have become critical to promoting innovation and competition. Standards can be developed by a number of sources, but the preferred way for companies to achieve interoperability is by working together in Standard-setting organisations (SSOs) to jointly adopt industry-wide technical standards that all actors can then use for their purposes, regardless of whether they have participated in the standardisation process or not. Standardisation usually produces significant positive economic effects. By commonly agreeing on a standard, firms enable products to be compatible and to interoperate with other products in the industry thereby reducing barriers to entry. Standards further contribute to the rationalization of production and foster economies of scale. Standards increase consumer well-being and they can also bring about lower prices to consumers in the short run and increased innovation in the long run. These benefits are especially important in network markets where the value of a product increases with the number of consumers using the same product. However, in specific circumstances, standardisations can also give rise to restrictive effects on competition. Having competing companies coming together in one room to jointly constrain a variety of technological options by selecting one technology for standardisation and excluding other rival technologies provides for a rather specific context. But the possible negative effects that may arise out of this horizontal cooperation are typically outweighed by the economic efficiency and consumer benefits of standardisation, subject however that certain conditions are met.<sup>2</sup> This means in particular that restrictions of competition are unlikely to occur where participation in standard-setting is unrestricted, the procedure for adopting the standard in question is transparent, and access to the standard is effectively provided.

An issue of particular attention in this context is the interplay between patents and standards. Indeed, the competitive effects of patents in standards are double-edged. Innovative technologies are needed for state of the art standards that meet the requirements of the market. The most successful standards are those that provide timely and effective solutions meeting the technical objectives of the industry. In this context, the role of patents as an enabler of the disclosure and sharing of technical know-how is very important. Most SSOs therefore do not object to the use of patented technology in their standards. But there is also scope for potential conflict between standards and patents. Whereas patents, as all intellectual property rights ("IPRs"), are destined for private, exclusive use, standards are intended for broad dissemination and collective use. This tension can lead to conflicts, whenever a patent is necessarily implicated by products that adhere to technical standards. If a standard becomes

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<sup>2</sup> See e.g. European Commission, *Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements* ("EC Horizontal Guidelines"), 2011/C 11/01, para. 264 et seqq., available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:011:0001:0072:EN:PDF>; U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement And Intellectual Property Rights: Promoting Innovation And Competition* (2007), available at <http://www.justice.gov/atr/public/hearings/ip/222655.htm>; see also *Allied Tube v. Indian Head, Inc.*, 488 U.S. 492, 501 (1988)

widely used in an industry and shifting to alternative technologies may not be possible, the holder of a so-called standard essential patent (“SEP”) can potentially misuse its patent rights to either restrict or completely refuse access to the standard to implementers.<sup>3</sup>

The European Commission addressed this concern as early as 1992 in a Communication on Intellectual Property Rights and Standardisation requiring open access to European standards on irrevocable, fair, reasonable, and non-discriminatory (“FRAND”) terms.<sup>4</sup> More recently, the European Commission’s Horizontal Guidelines of 2011 provide similarly that “[i]n order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms”.<sup>5</sup>

Most SSOs have implemented so-called IPR Policies, sometimes also referred to as Patent Policies aimed at addressing this issue. These policies are contractual self-regulation mechanisms that are part of the SSO’s Bylaws, the membership agreement, or the Rules of Procedure to which all members must agree. Although the scope of these policies may vary significantly, the common primary goal is to prevent exclusion of, or discrimination against, certain companies by prevention of effective access to the standard, while at the same time fairly balancing the different interests of all stakeholders. IPR Policies typically achieve this balancing act by being respectful of the SEP holders’ right to enjoy the full benefits of their IPR, including its economic exploitation, while making sure at the same time that the investment in the preparation, adoption and application of a standard will not be wasted as a result of a SEP being unavailable because of an SEP owner’s refusal to deal with implementers of the standard. A good example of how this is implemented in practice can be found in the IPR Policy of the European Telecommunications Standards Institute (ETSI). The relevant provision 6.1 in the ETSI IPR Policy provides with this regard:

*“When an essential IPR relating to a particular standard or technical specification is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licenses on fair, reasonable and non-discriminatory terms and conditions under such IPR...”*

In light of litigation, some stakeholders have recently taken the position that in committing to FRAND, a holder of a SEP renounces to its right to injunctive relief. It is argued that injunctions are *per se* inconsistent with the FRAND-commitment and that the SEP holder’s interest is limited to fair compensation only. Advocates of such a ban on injunctions allege that the SEP holder would otherwise be able to extract higher royalties or other overly

<sup>3</sup> There is however no presumption that holding or exercising a patent essential to a standard equates to the possession or exercise of market power. Whether an SEP confers market power or not has to be assessed based on the specific factual circumstances of each case.

<sup>4</sup> European Commission, Communication on IPRs and Standardization, COM(1992) 445, section 6.2 (General Principles), available at: [<http://aei.pitt.edu/1222/> <http://aei.pitt.edu/1222/>].

<sup>5</sup> EC Horizontal Guidelines, para. 285.

onerous non-monetary conditions from implementers by threatening to enjoin them from practicing the standard.

This view is contested by a number of players, who argue that FRAND has never meant and does not mean that injunctions are no longer available under any circumstances. It is argued that it is a general principle deriving from the market economy that enterprises should be free to dispose of their property as they see fit and that it is only in carefully limited circumstances that the freedom of contract can be over-ridden. Proponents further contend that a categorical ban on injunctions would fundamentally alter the dynamics of the contract negotiations, encourage opportunistic behaviour, and erode the commercial value of SEPs. All of this would tilt the balance of interests in favour of downstream implementers, potentially disincentivizing companies to continue investing in R&D, and hinder the development of standards that inure to the public interest.

Meanwhile, an increasing number of courts in major jurisdictions as well as antitrust agencies from both sides of the Atlantic have considered the issue. While there seems to be a trend toward imposing some limits on the ability of holders of a FRAND-committed SEP to obtain an injunction, the exact conditions of those restrictions vary widely among the various jurisdictions.

## **B. PREVIOUS WORK BY AIPPI**

AIPPI has not previously studied the question of recourse to injunctive relief or similar orders of exclusion for patent infringement by holders of a SEP against an implementer of a standard. However, the relationship between standards and patents and the matter of injunctions has been considered in the context of broader questions studied by AIPPI as set out below:

- *Q219 – Injunctions in cases of infringement of IPRs:*

This question considered the specific circumstances in which an injunction is or should be available for infringement of patents, trademarks, copyrights and designs. It was resolved that a number of criteria should be considered for the grant of an injunction. In particular, AIPPI resolved that as a general rule, an IPR holder should be entitled to a permanent injunction in cases where infringement of a valid IPR is found on the merits. However, in making its decision on whether to grant the injunction, the court may consider exceptional circumstances which would make the granting of the injunction inappropriate, such as issues of public health or safety or issues arising under the doctrine of abuse of rights or in cases of conflict with other laws.

- *Q157 - The Relationship between Technical Standards and Patent Rights:*

This question considered the potential conflict between standards and patents. It was resolved *inter alia* that the patent right owner must retain at all times the right to enforce its patent right against infringers, be they members of the standardisation body or third parties.

## C. ANALYSIS OF CURRENT LEGISLATION AND CASE LAW

### 1. LEGISLATION

The property interest granted to a patentee is the right to exclude others from making, using, selling, offering to sell, or importing the patented invention. The power of a court to grant an injunction or similar relief which prohibits an infringer from continuing or committing infringing acts is therefore important to the protection of patents as exclusive rights. In all significant jurisdictions, recourse to injunctive relief is principally a legitimate remedy for the infringement of a patent, regardless of whether the patent is standard essential or not and regardless of whether a FRAND-commitment has been given.

The right of patentees to seek injunctive relief is expressly guaranteed under most national patent laws. It is also recognized under international trade law and EU law. For example, Article 41(1) of the TRIPS Agreement provides that Members shall ensure that enforcement procedures as specified in TRIPS are available under their law so as to permit effective action against any act of infringement of IPR. This also includes the right to seek and obtain a court decision whereby a party is ordered to cease and desist from an infringement of an IPR. In most jurisdictions, injunctions can typically be imposed by way of preliminary measure (interlocutory injunction, in some jurisdictions also referred to as preliminary or interim injunction) or as a measure resulting from a decision on the merits of the case (permanent injunction).<sup>6</sup> The exact level of protection afforded to patent owners however differs among the jurisdictions.

In the United States, the Patent Act grants patent holders the exclusive right to exclude others from making, using, offering for sale, or selling their patented invention. Infringement actions are brought in the Federal district courts. Federal district courts may grant injunctions in accordance with the principles of equity on such terms as the court deems reasonable. The criteria for the grant of a permanent injunction are set out in the U.S. Supreme Court decision of *eBay, Inc. v. MercExchange*,<sup>7</sup> which requires district courts to exercise their discretion before issuing an injunction and to apply a four-factor test whereby the plaintiff must demonstrate that:

- it has suffered an irreparable injury;
- remedies available at law, such as monetary damages, are inadequate to compensate for that injury;

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<sup>6</sup> For the purpose of this report the use of the term injunction refers to permanent injunctions only

<sup>7</sup> *eBay Inc. v. MercExchange*, L.L.C., 547 U.S. 388 (2006)

- considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and
- the public interest would not be disserved by a permanent injunction.

The U.S. International Trade Commission (ITC) provides a second forum in the United States where a patentee can assert a patent infringement claim to stop the importation of infringing products. The ITC, which is a quasi-judicial federal agency, has jurisdiction to investigate imports to the U.S. which may infringe intellectual property rights under Section 337 of the Tariff Act of 1930. The primary remedy available is an exclusion order that directs customs to stop infringing goods from entering the United States. The U.S. Supreme Court's *eBay* precedent does not apply to ITC determinations. The appropriateness of "injunctive relief" in an ITC investigation is a matter of statutory interpretation, rather than the application of general equitable principles. This means that unlike federal district courts, the ITC is required to issue an exclusion order upon the finding of a Section 337 violation absent a finding that the effects of one of the statutorily-enumerated public interest factors counsel otherwise.<sup>8</sup>

In other common law countries, courts also have a broad discretion in granting an injunction. For example, in the United Kingdom, Canada, or Australia, injunctions are an equitable remedy and therefore inherently discretionary. In the UK, the leading case setting out guidance for the court in deciding whether to withhold or to grant an injunction is *Shelfer v City of London Electric Lighting Co.*<sup>9</sup> The Shelfer case established the rule that damages may be awarded instead of an injunction if four conditions are met:

- the injury to the claimant's legal rights must be small;
- and is one which capable of being estimated in money;
- and is one which can be adequately compensated by a small money payment;
- and the case is one in which it would be oppressive to the defendant to grant an injunction.

It must, however, have to be a very strong case for an injunction to be withheld.<sup>10</sup>

In China, courts also have some discretion to grant injunctive relief. Albeit not a legal system that is operating under common law, Chinese courts will not grant an injunction if it would cause harm to the public interest or significant unbalance to the interests of the parties.

In other significant jurisdictions there is no judicial discretion in relation to the grant of an injunction for infringement of an IPR. Other than in exceptional cases, injunctions follow as a matter of law or automatically after a finding of infringement. This is the case for example in

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<sup>8</sup> *Spansion, Inc., v. Int'l Trade Commission*, 629 F.3d 1331, 1359 (Fed.Cir. 2010)

<sup>9</sup> *Shelfer v. City of London Electric Lighting Company* (CA) [1895] 1 Ch 287

<sup>10</sup> *Navitaire Inc v EasyJet* (No 2) [2006] RPC 4 213, at page 250: "Accordingly, the grant or refusal of a final injunction is not merely a matter of the balance of convenience. Justice requires that the court observe the principles enunciated in Shelfer's case and remembers that if the effect of the grant of an injunction is not oppressive the defendant cannot buy his way out of it, even if the price, objectively ascertained, would be modest. My understanding of the word 'oppressive' in this context is that the effect of the grant of the injunction would be grossly disproportionate to the right protected. The word 'grossly' avoids any suggestion that all that has to be done is to strike a balance of convenience."



most continental European countries such as Germany, the Netherlands, France, Italy, Spain, Austria, Sweden, or Switzerland, but also in countries such as Brazil, Thailand, South Korea or Japan. While a number of these jurisdictions require not only a finding of infringement, but also the validity of the IPR in question, some jurisdictions – such as Germany or Japan – operate under a bifurcated system, in which infringement and nullity proceedings are conducted in separate proceedings before separate courts.

A more detailed overview on the exact level of protection afforded to patent owners in the various jurisdictions can be found in the Summary Report of AIPPI Working Question Q219.<sup>11</sup>

However, injunctive relief in cases of infringement of SEPs deviates somewhat from ordinary patent enforcement in so far as the respective national patent law or general principles of civil law in conjunction with the IPR Policies of SSOs, and/or competition law may grant the defendant additional defences or a standalone claim against the patentee's request for an injunction. In most jurisdictions where this has been considered so far, the legal basis for these defences and/or claims is breach of contract, considerations based on the principle of good faith, abuse of rights, or estoppel. In common law jurisdictions where the grant of an injunction is inherently discretionary, equity considerations naturally play a relevant role. Competition law arguments are available in most jurisdictions and mainly developed around the concepts of unlawful monopolization or unfair trade practice, and abuse of a dominant position. It is however not clear in all jurisdictions whether an alleged antitrust violation can be raised as an affirmative defence in private litigation for patent infringement.

## 2. CASE LAW

### a) Civil courts

#### (i.) United States of America

As mentioned above, U.S. federal district courts have the discretion to grant injunctions when the balance of equitable factors, including a consideration of the public interest, weighs in favour of granting injunctive relief. These factors have been recently applied by three federal district courts to deny injunctive relief to holders of SEPs who have given a FRAND commitment.

In *Apple v Motorola*, Judge Posner found that by committing to FRAND, the patentee agreed to license the patents to anyone willing to pay a FRAND royalty, so that injunctions are no longer available unless the licensee refuses to pay a royalty that meets the FRAND requirement. Judge Posner stated with respect to Motorola's claim that it was entitled to injunctive relief that "*I don't see how, given FRAND, I would be justified in enjoining Apple*

<sup>11</sup> The Summary Report of AIPPI Working Question Q219 as well as the reports of the various national groups of AIPPI are available at: [\[https://www.aippi.org/?sel=questions&sub=dissolvedcommittees&viewQ=219#219\]](https://www.aippi.org/?sel=questions&sub=dissolvedcommittees&viewQ=219#219)

*from infringing the [standard-essential patent] unless Apple refuses to pay a royalty that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the [standard-essential patent] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent. How could it do otherwise? How could it be permitted to enjoin Apple from using an invention that it contends Apple must use if it wants to make a cell phone with UMTS telecommunications capability—without which it would not be a cell phone.”*<sup>12</sup>

In the case opposing Microsoft and Motorola in the Western District of Washington, Judge Robart dismissed Motorola’s claims for injunctive relief. The court found that under the specific circumstances of the case – where the patents-in-suit were subject to a FRAND commitment, and where Microsoft represented that it would enter an agreement on FRAND terms as determined by the court – Motorola could not satisfy either the irreparable harm or inadequate remedies at law prongs of the eBay injunction test. In issuing his dismissal, Judge Robart stated that “*the court grants Microsoft’s motion dismissing Motorola’s request for injunctive relief in this action. The dismissal is without prejudice. The court’s determination that injunctive relief is no longer available for the Motorola Asserted Patents is based on the specific circumstances and rulings that have developed in this litigation. If, in the future, those circumstances change in a manner to warrant injunctive relief, Motorola may at that time seek such relief.*”<sup>13</sup> Judge Robart also barred Motorola owner from enforcing an injunction it has obtained in other jurisdictions, pending the court’s determination of an appropriate FRAND royalty.

Similarly in *LSI v RealTek*, District Judge Whyte found that LSI breached its FRAND licensing obligations by failing to offer a license to RealTek, or to negotiate one, before seeking an exclusion order and injunctive relief at the ITC. Judge Whyte stated in this context that “[t]his conduct is a clear attempt to gain leverage in future licensing negotiations and is improper.” The court noted, however, that injunctive relief may be warranted when an accused infringer of a standard-essential patent outright refuses to accept a license on FRAND terms. The court also issued a preliminary injunction against LSI preventing them from enforcing any such exclusion order or injunction until the court determines FRAND terms and Realtek refuses to accept such terms.<sup>14</sup>

The cases are on appeal. A ruling by the Federal Circuit on the appeal of Judge Posner’s decision is expected in the near future.<sup>15</sup>

In another case, however, the District Court for the Western District of Wisconsin decided otherwise. In *Apple v Motorola*, Judge Crabb dismissed Apple’s FRAND-based claim for breach of contract and held that in light of the fact that patent owners generally have the right to seek injunctive relief any contract purportedly depriving a patent owner of that right should

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<sup>12</sup> *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540 (N.D. Ill. June 22, 2012) [Posner, J]

<sup>13</sup> *Microsoft Corp. v. Motorola, Inc.*, No. 2:10-cv-01823-JLR (W.D. Wash. Nov. 29, 2012) [Robart, J.]

<sup>14</sup> *RealTek Semiconductor Corp. v. LSI Corp.*, No. C-12-03451-RMW (N.D. Cal. May 20, 2013) [Whyte J.]

<sup>15</sup> *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, 2012-1549 (Fed. Cir.)

clearly do so and that the contracts at issue (i.e. the respective SDO IPR Policies) are not clear with this regard. Judge Crabb observed that “[t]here is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards-setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief. In fact, both policies are silent on the question of injunctive relief. Moreover, in light of the fact that patent owners generally have the right to seek injunctive relief both in district courts, 35 U.S.C. § 283, and in the International Trade Commission, 19 U.S.C. § 1337(d), I conclude that any contract purportedly depriving a patent owner of that right should clearly do so. The contracts at issue are not clear. Therefore, I conclude that Motorola did not breach its contracts simply by requesting an injunction and exclusionary order in its patent infringement actions. I will deny Apple’s motion in limine on this issue.”<sup>16</sup> The court also dismissed Apple’s antitrust claims pursuant to the Noerr-Pennington doctrine. The case is on appeal.

An alternative to federal court litigation is the filing with the U.S. International Trade Commission (ITC) of a request for an order excluding imports of products that the ITC finds violate U.S. patents. In June 2013, the ITC issued an exclusion order against Apple based on a FRAND-committed patent from Samsung that was allegedly essential to the UMTS standard.<sup>17</sup> But this decision was subsequently overturned shortly thereafter by the U.S. Trade Representative (USTR).<sup>18</sup> The USTR acts on behalf of the U.S. President and has the statutory authority to overrule an ITC order based on policy grounds. Widely inspired by the joint policy statement of the U.S. Department of Justice and the U.S. Patent and Trademark Office<sup>19</sup>, the USTR based its ruling on various FRAND-related policy considerations and the effect that the exclusion order would have on competitive conditions in the U.S. economy and on consumers. In the letter explaining the veto, the USTR clarified however that subject to conditions he sees the ITC being generally well positioned to consider FRAND-related issues.

#### (ii.) Germany

Unlike the U.S., German courts generally have no discretion as to whether to grant an injunction, but in exceptional cases they may invoke a limitation to the issuance of an injunction based on principles of good faith and antitrust law. In a much-noticed decision from 2009, the German Federal Supreme Court (FSC) permitted a FRAND-defence against a

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<sup>16</sup> *Apple Inc. v. Motorola Mobility Inc.*, No. 11-cv-178-bbc (W.D. Wis. Oct. 29, 2012) [Crabb, J.]

<sup>17</sup> U.S. International Trade Commission, ITC Inv. No. 337-TA-794, Order June 4, 2013

<sup>18</sup> Letter by the U.S. Trade Representative disapproving the ITC’s determination in the Inv. No. 337-TA-794, August 3, 2013, available at: [http://www.ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF](http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF)

<sup>19</sup> U.S. Dep’t of Justice and U.S. Patent and Trademark Office, Policy Statement On Remedies For Standard Essential Patents Subject To Voluntary FRAND Commitments (2013), available at: <http://www.justice.gov/atr/public/guidelines/290994.pdf>. In the joint policy statement, the agencies explained that “the remedy of an injunction or exclusion order may be inconsistent with the public interest”, particularly in cases when an SEP owner has made a FRAND commitment to a standards setting body. The PTO-DOJ Statement noted, however, that an exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a FRAND license and is acting outside the scope of the patent holder’s commitment to license on FRAND terms. In this context, the PTO-DOJ Statement identified a non-exhaustive list of relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order or when shaping such a remedy.

claim for injunctive relief in patent infringement proceedings.<sup>20</sup> The court held that the enforcement of the claim to an injunction constitutes an abuse of a dominant market position and breach of good faith, if the party seeking a licence made a binding, unconditional offer to conclude a licence on customary terms which cannot be rejected by the patentee without violating competition law, and provided that the potential licensee behaves as if licensed. This is based on the old Roman law principle ‘*dolo agit qui petit quod statim redditurus est*’, which provides that anyone who claims a benefit which will have to be returned immediately thereafter because the defendant has an appropriate counterclaim acts in bad faith and as a consequence shall not receive assistance from the enforcement system. But the defendant’s “*dolo-petit plea*” based on antitrust law will only be successful if he is a ‘*willing licensee*’ acting in good faith. This requires the following conditions to be cumulatively met: An offer that the patentee must not reject and a licence seeking party that acts like a licensee.

- *An offer that patentee must not reject* – The party seeking a licence must have made, and remain bound by, an unconditional offer to conclude a licence contract which cannot be rejected by the patentee without infringing antitrust law.

The offer has to be made by the licence seeking party, because the patent holder is not obliged himself to offer permission to use the invention. Only the refusal to conclude a licence offered to the patentee on FRAND terms and conditions can constitute a possible abuse of a market-dominant position.<sup>21</sup> But if the licence seeking party makes an offer on customary terms, the patentee can only refuse an individual contract clause if it offers an alternative clause in accordance with its obligations under competition law. The defendant’s offer must be made unconditional, which means that it cannot be made subject to the condition that the court holds for infringement,<sup>22</sup> which however doesn’t preclude the licence seeking party from sticking to its position that it makes no use of the licensed patent. While the Federal Supreme Court did not exclude in its Orange-Book ruling the possibility for the licensee to challenge the validity patent in question, it has been decided by lower courts that a licence offer will not meet the requirements, if it is made subject to the condition that the patent in suit proves to be valid in opposition or nullity proceedings.<sup>23</sup>

The licence offer must be ready for acceptance and comprise “usual” conditions.<sup>24</sup> The latter means that an offer to take a licence “under reasonable terms” is insufficient.<sup>25</sup> It is necessary that the offer contains all contractual terms that are usually set out in a licence agreement, including a royalty rate and royalty base, or alternatively a lump sum payment.<sup>26</sup> By way of exception, it is not needed for the potential licensee to specify a royalty if it finds the patentee’s demand abusively high or if the patentee refuses to specify

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<sup>20</sup> Bundesgerichtshof, GRUR 2009, 694 – *Orange-Book-Standard*, (English translation, IIC 2010, 369).

<sup>21</sup> Bundesgerichtshof, GRUR 2009, 694, 696 – *Orange Book Standard*

<sup>22</sup> Bundesgerichtshof, GRUR 2009, 694, 696 – *Orange Book Standard*

<sup>23</sup> Landgericht Mannheim, MittdtPatA 2012, 120, 124 – *Kartellrechtlicher Zwangslizenzinwand*

<sup>24</sup> Bundesgerichtshof, GRUR 2009, 694, 696 – *Orange Book Standard*

<sup>25</sup> Oberlandesgericht Karlsruhe, GRUR-RR 2007, 177 – *Orange Book Standard*

<sup>26</sup> Landgericht Düsseldorf, InstGE 10, 66, 73 – *Videosignal-Encoding III*

a royalty altogether. In such a situation, the defendant can put the royalty determination into the equitable discretion of the patentee, which can then be made subject to subsequent judicial review. If the licensee has already started the use of the patent, he will have to include this past use in his offer<sup>27</sup> and acknowledge on the principle its liability for past infringement.<sup>28</sup> The licence offer typically needs neither to include territories that lie outside the geographical scope of the patent in question nor does it need to include patents that are not the subject of the infringement action.<sup>29</sup> In exceptional cases, however, the contrary may be true, for example if the offer is aimed at the conclusion of a licence comprising a number of countries.<sup>30</sup> Finally, some courts have read into the Orange-Book-Standard requirements of the Federal Supreme Court that the offer has to take reasonable account of the patentee's legitimate interests and, in particular, has to provide for a right of termination of the licence agreement in the event that the licensee challenges the validity of the licensed patent.<sup>31</sup>

- *A licence seeking party that acts like a licensee* – The defendant has to behave as if the licence had already been granted. If the party seeking a licence has already started to use the subject matter of the patent before the patent holder has accepted the offer, the prospective licensee must then comply with those obligations that the licence contract to be concluded imposes on the use of the licensed subject matter and anticipate its duties under the agreement. This implies amongst other things that if the use is continuing, the defendant must not only retrospectively meet its contractual obligations for acts of past infringement, but it has also to fulfil on an on-going basis the obligations of the agreement to be concluded, including the payment of royalties. The royalty, however, does not need to be paid to the patentee, but can be guaranteed by putting a “sufficient” amount in escrow subject that the right to retraction is surrendered. The anticipated performance also requires the prospective licensee to render accounts<sup>32</sup> and in the case of running royalties to also file royalty reports.

The “Orange-Book” defence has been tested multiple times in lower courts, but it has been successful only in few cases.<sup>33</sup>

While the Orange-Book-Standard ruling by the Federal Supreme Court related to a *de facto* standard and a patent for which a FRAND-commitment has not been given, it is settled case law that the Orange-Book requirements also apply to cases where the standard has been set collaboratively in a SSO and where the patentee has voluntarily given a FRAND-

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<sup>27</sup> Landgericht Düsseldorf, InstGE 10, 66, 73 et seq. - *Videosignal-Encoding III*

<sup>28</sup> Landgericht Mannheim, MittdtPatA 2012, 120 – *Kartellrechtlicher Zwangslizenz einwand*

<sup>29</sup> See e.g. Landgericht Mannheim, InstGE 12, 160 – *Orange Book Standard II*

<sup>30</sup> Landgericht Düsseldorf, InstGE 10, 66, 73 - *Videosignal-Encoding III*

<sup>31</sup> Oberlandesgericht Karlsruhe, GRUR-RR 2012, 124 – *GPRS Zwangslizenz*

<sup>32</sup> Bundesgerichtshof, GRUR 2009, 694, 696 – *Orange Book Standard*

<sup>33</sup> E.g. Landgericht Mannheim, BeckRS 2012, 02785; Oberlandesgericht Karlsruhe, GRUR-RR 2012, 124 – *GPRS Zwangslizenz*



commitment.<sup>34</sup> For the legal effects of the FRAND-commitment, German courts have consistently followed the territoriality principle and applied German law as the law of the state in which protection is provided (*lex loci protectionis*).<sup>35</sup> Courts have found that (at least for the case of ETSI and ITU) a willingness to grant a licence on FRAND terms and conditions merely contains a declaratory specification to conclude a licence that in any case exists under applicable antitrust laws.<sup>36</sup> By promising to grant third parties a license under FRAND terms, the FRAND-commitment creates only a basis for a claim, the fulfillment of which must be specifically demanded by the party seeking the license.<sup>37</sup> Arguments that a FRAND-commitment is a binding licence offer that requires only acceptance by third parties, or that the FRAND-commitment implies a waiver of the right to an injunction (either *in rem* or through *pactum de non petendo*), a non-assert or standstill have been rejected.<sup>38</sup>

In March 2013, the Regional Court of Düsseldorf referred a set of questions to the Court of Justice of the European Union (CJEU) asking whether the requirements established by the FSC in Orange-Book-Standard are in compliance with Article 102 of the Treaty on the Functioning of the European Union.<sup>39</sup> The Düsseldorf court is of the view that there is a potential conflict between the Orange-Book requirements and the conditions set out by the European Commission in the announcement of its Statement of Objections against Samsung.<sup>40</sup> Unlike the FSC and the lower court's application of the Orange-Book ruling, the European Commission seemingly adopted a more lenient approach under which an injunction should not be permissible if a potential licensee has shown itself willing to enter a FRAND licence.<sup>41</sup> A decision of the CJEU on the referral is expected towards the end of the first half of 2014. The decision of the CJEU, when it is issued, will be binding on DG-Competition and the courts and competition agencies of all EU member states.

### (iii.) The Netherlands

In the Netherlands, injunctive relief is typically considered to be a legitimate remedy for SEP holders, even in the presence of a FRAND commitment. The enforcement of these patents may in specific circumstances, however, constitute an abuse of rights or can be regarded to be

<sup>34</sup> See e.g. Landgericht Mannheim, InstGE 13, 65 – *UMTS-fähiges Mobiltelefon II*; Landgericht Düsseldorf, openJur 2012, 86155 – *UMTS-Mobilstation*

<sup>35</sup> Landgericht Düsseldorf, openJur 2012, 86155 – *UMTS-Mobilstation*; Landgericht Mannheim, InstGE 13, 65 – *UMTS-fähiges Mobiltelefon II*; Landgericht Mannheim, Judgment of 2 May 2012, Docket no. 2 O 240/11 – *H.264*

<sup>36</sup> Landgericht Düsseldorf, openJur 2012, 86155 – *UMTS-Mobilstation*; Landgericht Mannheim, Judgment of 2 May 2012, Docket no. 2 O 240/11 – *H.264*; see also Bundesgerichtshof, GRUR 2009, 1052 – *Seeing is believing*

<sup>37</sup> Oberlandesgericht Karlsruhe, InstGE12, 220 – *MP3 Standard*

<sup>38</sup> Landgericht Düsseldorf, openJur 2012, 86155 – *UMTS-Mobilstation*; Landgericht Mannheim, Judgment of 2 May 2012, Docket no. 2 O 240/11 – *H.264*

<sup>39</sup> Landgericht Düsseldorf, GRUR 2013, 614 – *LTE Standard*

<sup>40</sup> European Commission, D-G Competition, Case n° COMP/39939, Press Release of 21 Dec 2012: "Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patent", IP/12/1448, available at: [[http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm)]; Memo of 21 Dec 2012: "Enforcement of ETSI standards essential patents (SEPs)", MEMO/12/1021, available at: [[http://europa.eu/rapid/press-release\\_MEMO-12-1021\\_en.htm](http://europa.eu/rapid/press-release_MEMO-12-1021_en.htm)]

<sup>41</sup> See Section 3 lit. b (ii) below for more details on the European Commission's position.

contrary to pre-contractual good faith. This is depending on a number of case specific factors, such as the SSOs IPR rules, the behaviour of the parties during the negotiations, or the content of the offers made by each party. While, contrary to the situation in Germany, it is not possible to deduce specific requirements from the Dutch case law regarding the conduct of the parties during the negotiations beyond that that it should be the infringer who should ask for a license after which it would then be the patentee who has to announce the terms, it is likely that an injunction will be denied if it is established that the patentee is or was unwilling to negotiate in good faith. Conversely, if the patentee is found to have been unwilling to negotiate in good faith, it is likely that the patentee would be entitled to an injunction, even pending negotiations. Antitrust considerations have not played any role yet in Dutch case law. But the question whether competition law can be raised as an affirmative defence in patent infringement proceedings has been left explicitly open in at least one case.

In *Philips v SK Kassetten* the District Court of The Hague established the principle that the mere existence of a FRAND-commitment does not mean that the patentee could not enforce its SEPs. The court found that it is the responsibility of the party seeking a licence to obtain a license *prior* to entering the market and to initiate proceedings against the patentee if the latter were to unreasonably refuse such a licence. If the potential licensee has failed to do this prior to its market entry, the patentee may then in principle enforce its essential patents, unless “special circumstances” exist.<sup>42</sup> In this case, the court denied the existence of special circumstances and held that the claimed entitlement to a FRAND license was not a safeguard for SK Kassetten to infringe Philip's patent rights, *inter alia* because SK Kassetten failed to make any offer to Philips.

The same court found special circumstances to exist in the *LG Electronics v Sony* case and accepted Sony's FRAND defence.<sup>43</sup> In this case, LG applied for a preliminary injunction and border seizure measures against Sony under patents allegedly essential to the Blu-ray standard. LG sought the injunction at a time when the parties were still engaged in contract negotiations. LG had made an offer to Sony, which Sony had not yet accepted, but not rejected either. An additional particularity of this case was that both parties of the dispute were members of the Blu-ray Disc Association whose bylaws had an arbitration clause. That clause provided that disputes between members over FRAND terms shall be decided by an arbitrator who would ultimately have the authority to set the terms and conditions of the licence. The court concluded that because of this arbitration provision, Sony would eventually obtain the required license in which case there will be no infringement on LG's patents, so that infringement cannot be assumed at least for the period that the parties are negotiating or should be negotiating regarding the conditions of the license, or in the period when such conditions are the subject of debate during arbitration proceedings.

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<sup>42</sup> *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & Co. KG*, Rechtbank 's-Gravenhage, 17 March 2010, Docket n°: 316533 / HA ZA 08-2522 and 316535 / HA ZA 08-2524

<sup>43</sup> *Sony Supply Chain Solutions (Europe) B.V. and LG Electronics, Inc.*, Rechtbank 's-Gravenhage, 10 March 2011, Docket n°: 389067 / KG ZA11-269

In *Samsung v Apple* the District Court of The Hague again referred to special circumstances in accepting a FRAND defence.<sup>44</sup> In this case, the court rejected Samsung's claim for an injunction on the basis of an abuse of rights and a breach of pre-contractual good faith, because of the specific way in which Samsung acted in the negotiations; *inter alia* by initiating proceedings before making a first license offer, and failing to respond substantively to certain counter-offers. The court found that the negotiation history demonstrated unwillingness on the part of Samsung to negotiate in good faith. The court however rejected the argument that a FRAND undertaking constitutes a licence offer that an implementer could simply accept by practicing the standard. The court held with this regard that a patentee does not have to assume that every implementer wants a FRAND licence, and that not every implementer has to expect that it is contractually bound to the patentee by merely practicing the standard.

(iv.) Italy

Italian courts also had to deal sporadically with FRAND defences in patent infringement proceedings, but so far only in the context of preliminary injunctions.

In an early case of 2004, the court of Genoa granted a preliminary injunction for a SEP. The court came to a similar finding than in the abovementioned Dutch *Philips v SK Kassetten* case and held that it is the responsibility of the party seeking a licence to obtain a license prior to entering the market. The FRAND defence was denied and the preliminary injunction granted.<sup>45</sup>

FRAND related arguments have also been considered in the proceedings between Samsung and Apple for a preliminary injunction based on a patent allegedly essential to the UMTS standard.<sup>46</sup> While the case was dismissed on other grounds, the court held with regard to the FRAND-defence that the potential licensee can not invoke such a defence on the mere basis of failed negotiations. According to the ruling, a simple request for a licence would not be sufficient to avoid charges of infringement. Instead, the potential licensee has to be willing to obtain a license and has to pursue this by means of serious negotiations. The court noted however the limitations of preliminary proceedings with this regard and indicated that only during the proceedings on the merits could the court establish whether there was any responsibility on either party in the breakdown of the negotiations, or whether the failure of the negotiations is to be attributed to a legitimate non-identification of a mutually-satisfying threshold for the rate of the royalties to be paid.

Similar to the decisions in Germany and the Netherland, the court in Milan further found that a FRAND undertaking given to ETSI cannot be qualified as a licence offer that is accepted by

<sup>44</sup> *Samsung Electronics Co., Ltd. v. Apple Inc. et. al.*, Rechtbank 's-Gravenhage, 14 March 2012, Docket n°: 400367 / HA ZA 11-2212, 400376 / HA ZA 11-2213 and 400385 / HA ZA 11-2215.

<sup>45</sup> *Koninklijke Philips Electronic N.V. v. Computer Support Italcad s.r.l. and Computer Support Italcad v. Koninklijke Philips Electronic N.V.*, Court of Genoa, 7 May 2004, 14 October 2004 and 15 November 2004.

<sup>46</sup> *Samsung Electronics Co., Ltd. and Samsung Electronics Italia S.p.a. v. Apple Inc. et. al.*, Tribunale de Milano, Court Order of 5 January 2012, N.R.G. 45629-1-2011 and N.R.G.59734-2011.



mere implementation of the standard. The court clarified that the preparedness to grant licenses is not equivalent to a contractual offer. The court also noted that in order to have an appropriately binding offer the object of the contract would have to be precisely determined in all its elements, including the licensed patents, term of the license, territorial scope, and consideration by the licensee, all of which is not the case with a FRAND undertaking.

(v.) France

A FRAND-defence in patent infringement proceedings has also been raised in France in two cases. Both cases relate to an application for a preliminary injunction. There has been no decision on the merits so far.

In *Samsung v Apple*, the Tribunal de Grande Instance de Paris denied Samsung's motion for a preliminary injunction on grounds of patent exhaustion. Defendant's FRAND arguments have not been considered except that the court found that Samsung could neither revoke nor limit the scope of a licence granted to Qualcomm whose chips were implemented in Apple's products in order to exclude a chipset customer, because according to ETSI rules the licences granted for patents declared as being essential are irrevocable.<sup>47</sup>

In *Ericsson v TCT Mobile*, the same court found after a summary assessment of the facts that the requested preliminary injunction cannot be granted for SEP when the negotiations for a license are ongoing and where the parties agree on the geographical extent and technological scope of the agreement, but disagree only on the royalty rate. While the plaintiff contended that the defendants should be described as infringers acting in bad faith, considering the facts of the case, the court found that the parties should be able to negotiate without the balance of power being impaired. The court was of the view that granting an injunction in the specific context of the case would unduly favour the patentee and distort the principle of FRAND licences, by putting unjustified pressure on the future licensee.<sup>48</sup>

Antitrust law has so far not been considered by French courts in the context of FRAND.

(vi.) United Kingdom

Defendants also have raised FRAND-defences in patent infringement proceedings in the UK.

In *Nokia v IPCOM* of 18 May 2012, the High Court of Justice refused to grant an injunction in favour of IPCOM. The fact that IPCOM is a non-practicing entity played a considerable role in the equitable analysis. Roth J stated: "*I have to say in those circumstances I am very uncertain, to put it mildly, to see why a permanent injunction should be granted in this case at all or indeed any injunction. It seems to me a classic case for consideration of the Shelfer criteria, given those circumstances. You are willing to give a licence. Nokia wants a licence.*"

<sup>47</sup> *Samsung Electronics Co., Ltd. and Samsung Electronics France v. Apple France S.A.R.L.*, Tribunal de Grande Instance, Paris, France, 8 December 2011, Case No. 11/58301

<sup>48</sup> *Telefonaktiebolaget LM Ericsson v. TCT Mobile Europe SAS and TCT Mobile International Ltd.*, Tribunal de Grande Instance de Paris, 29 November 2013, Docket № 12/14922

*You cannot agree on the terms. They will be determined. There will then be a licence. In those circumstances for a non-trading entity to get an injunction seems to me quite extraordinary”.*<sup>49</sup>

In the case opposing Vringo to ZTE, the court did not directly have to consider whether or not to grant injunctive relief, but Birss J used the opportunity to note that injunctions should likely not be available against a willing licensee and that defendant’s challenge of the infringement or validity of the patent would not make him unwilling. Birss J stated: *“There is what I will call a general idea (without expressing a view on whether it is right or wrong) that when a patent is an SEP, if a defendant is a willing licensee, then it may be that the patentee is not entitled to obtain an injunction against the defendant, whereas if the defendant was not a willing licensee, then the defendant may be subject to the risk of an injunction. [...] In my judgment, a defendant accused of patent infringement by a patentee who claims to have a standards essential patent is and must be entitled to say, “I wish to know if this patent is valid or infringed or not before I take a licence. Such a stance cannot fairly be described as unwillingness.”*<sup>50</sup>

English Courts, however, did not yet define any specific requirements that a ‘willing’ defendant would have to comply with nor did they consider antitrust law in the context of FRAND.

#### *(vii.) Japan*

The leading case in Japan so far is *Samsung v Apple*.<sup>51</sup> In this case, the Tokyo District Court denied Samsung’s motion for preliminary injunction and found that it cannot seek damages from Apple either. The court based its finding on abuse of right and breach of good faith. The court held that both parties who have entered into contract negotiations owe a duty to each other under the principle of good faith to provide the other party with important information and to negotiate in good faith towards the conclusion of license agreement. The Court found that Samsung breached that duty, because it failed to disclose to Apple material information, including a rationale for the initially requested royalty rate, and the license agreements it has with other licensees. The court also took issue with Samsung having declared the patents in suit to ETSI as being essential only two years after the adoption of the standard. The case is on appeal at the IP High Court and a hearing is scheduled for 31 March 2014.

#### *(viii.) South Korea*

The principle of good faith was also a key factor in the decision of the Korean District Court of Seoul, which found that both the SEP holder and the potential licensee have an obligation to negotiate in good faith for a FRAND licence. After an examination of how the negotiations

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<sup>49</sup> *Nokia Corp. v. ICom GmbH & Co. KG*, [2012] EWHC 1446 (Ch)

<sup>50</sup> *Vringo Infrastructure, Inc. v. ZTE Corp., et. al.*, [2013] EWHC 1591 (Pat)

<sup>51</sup> *Samsung Electronics Co., Ltd., et. al. v. Apple Japan, Inc., et. al., and Apple Inc. et. al. v. Samsung Japan Corp., et. al.*, Tokyo District Court, 28 February 2013, Cases n<sup>os</sup> Tokyo District Ct. 2011 (YO) 22027, 2011 (YO) 22098, and Case no. 2011 (WA) 38969

have been conducted by either party in the concrete case at hand, the Seoul court came to the conclusion that Apple failed to meet this requirement and dismissed Apple's defence that was based on breach of contract, abuse of right, and violation of the Korean Monopoly Regulation and Fair Trade Act.<sup>52</sup>

In its decision, the court clarified the principle of availability of injunctive relief for FRAND-committed SEPs and noted that denying an injunction against unauthorized and unilateral implementation of a SEP would over-protect bad-faith implementers. The court found that the potential licensee needs to show its willingness to enter into good-faith negotiations and the offer to be made must be concrete enough to satisfy this requirement. Whether the parties negotiated in good-faith will eventually have to be determined on a case-by-case basis in consideration of the surrounding circumstances. In the case in dispute, the court came to the conclusion that Apple did not meet this requirement, *inter alia* because it failed to request or negotiate for a license despite being aware of the existence of the SEPs.

In application of French law, the court further came to the conclusion that the FRAND commitment does not give cause for a license agreement to be concluded by mere implementation of the standard. The court also did not view the FRAND commitment as a contractual obligation on the part of the SEP holder to provide a licence, but rather as a declaration of the general principle to negotiate in good faith for a licence under FRAND terms. The court therefore found that a FRAND commitment does not confer a licence to unspecified third parties nor does it constitute a binding contractual offer to licence, and a prospective licensee may not claim that it has a contractual right to practice the SEP as a defence in patent infringement proceedings.

#### (ix.) China

On 4 February 2013, the Shenzhen Intermediate People's Court issued two rulings in a dispute between Huawei and InterDigital. Although the files have been sealed and the decisions have not been published, certain details have been the subject of reports, incl. a SEC-filing by InterDigital<sup>53</sup> and an article published by three judges of the Shenzhen Court<sup>54</sup> that provide a summary of the main facts and findings of the case. According to these reports, the Court awarded Huawei RMB 20 million in damages (approx. US\$ 3,3 million) and decided that InterDigital violated China's Anti-Monopoly Law (AML) and breached its FRAND-commitment. The court ruled *inter alia* the InterDigital violated the AML by filing complaints to the U.S. International Trade Commission and the Delaware District Court seeking an injunction to ban Huawei from using patents allegedly essential to wireless standards while licensing negotiations between the parties were still ongoing in an attempt to force Huawei to

<sup>52</sup> Samsung Electronics Co., Ltd. v. Apple Korea Ltd, Seoul Central District Court, 24 August 2012, Case no. 2011 GaHap 39552

<sup>53</sup> SEC Form 10-K, *InterDigital, Inc.* at p. 23 (Feb. 26, 2013), available at: <http://files.shareholder.com/downloads/IDCC/2438652851x0xS1405495-13-10/1405495/filing.pdf>

<sup>54</sup> Ye Ruosi, Zhu Jianjun, Chen Wenquan, *Determination of Whether Abuse of Dominance by SEP Owners Constitutes Monopoly: Comments on the Antitrust Lawsuit Huawei v. InterDigital*, Electronic Intellectual Property Rights Vol. 3 (2013)

accept unreasonable licensing terms including excessive royalties. In this context, the Court noted reportedly that China's antimonopoly extends to overseas conduct that directly affects Chinese production and exports with a large and substantial influence that can be realistically predicted. The court further found that InterDigital breached its FRAND-commitments by commencing injunction proceedings and asking Huawei to pay much higher royalties than those paid by Apple and Samsung. The ruling of the Shenzhen Court has been appealed by InterDigital to the Guangdong Higher People's Court. The judgment of the Guangdong court has not been published, but it has been reported that the court, on 28 October 2013, affirmed most of the rulings of the Shenzhen Court.<sup>55</sup>

(x.) *India*

Indian courts have ordered two *ex parte* interim injunctions on FRAND-committed SEPs. Both interim injunctions have subsequently been lifted following deposit payments of the potential licensee. The respective court orders, however, are not very detailed in their reasoning and do not consider FRAND arguments.

The Single Bench of the High Court of Delhi ordered an *ex-parte* interim injunction in favour of Ericsson against Micromax for alleged infringement of 8 patents purportedly essential wireless standards. The Court also directed the Custom Authorities to decide objections, if any, filed by Ericsson whenever consignments are imported by Micromax. The court also issued order authorizing the seizure of documents. The Court's order however does neither provide any reason for the *prima facie* finding of patent infringement, nor why the balance of convenience lies in favour of the plaintiff.<sup>56</sup> Micromax' appeal to a Division Bench of the Delhi High Court was dismissed. The order dismissing the appeal is also rather laconic in the reasons and does not mention any FRAND arguments.<sup>57</sup> Eventually, the interim injunction was lifted following an interim arrangement between the parties, according to which Micromax had to deposit the royalties at the rates demanded.<sup>58</sup>

Similarly, the High Court of Delhi granted an *ex parte* interim injunction to Vringo against ZTE enjoining it from the use of infrastructure equipment technology that is protected by a patent allegedly essential to CDMA2000. The court found that Vringo made out a *prima facie* case of infringement. FRAND have not been considered.<sup>59</sup> This decision has subsequently been challenged by ZTE and following a hearing, the Delhi High Court ordered an expedited trial and decided to lift the interim injunction. In the consent order, ZTE was ordered to pay a

<sup>55</sup> See China IPR, *Huawei/InterDigital Appeal Affirms Shenzhen Lower Court on Standards Essential Patent*, 29 October 2013, available at: [<http://chinaipr.com/2013/10/29/huaweiinterdigital-appeal-affirms-shenzhen-lower-court-on-standards-essential-patent/>]

<sup>56</sup> *Telefonaktiebolaget LM Ericsson v. Micromax Informatics Ltd. and Mercury Electronics Ltd.*, High Court of Delhi at New Delhi, Court order of 6 March 2013, Docket no. C.S. (OS) 442/2013

<sup>57</sup> *Micromax Informatics Ltd. and Mercury Electronics Ltd. V. Telefonaktiebolaget LM Ericsson*, High Court of Delhi at New Delhi, Court order of 12 March 2013, Docket no. FAO(OS) 143/2013

<sup>58</sup> *Telefonaktiebolaget LM Ericsson v. Micromax Informatics Ltd. and Mercury Electronics Ltd.*, High Court of Delhi at New Delhi, Court order of 6 March 2013, Docket no. C.S. (OS) 442/2013

<sup>59</sup> *Vringo Infrastructure, Inc., v. ZTE Corp., et. al.*, High Court of Delhi at New Delhi, Court order of 8 November 2013, Docket no. CS(OS) 2168/2013

bond of 50 million rupees (approximately \$800,000) in place of the *ex-parte* interim injunction and to render accounts of the devices sold by ZTE in India and the revenues resulting therefrom. The order again does not provide any reasons; let alone any dealing with FRAND considerations.<sup>60</sup>

## b) Antitrust enforcement actions by competition agencies

### (i.) Europe

According to established case law by the Court of Justice of the European Union, the exercise of an exclusive right by the owner of an IPR that may give rise to an abuse under Article 102 TFEU typically requires the patentee to hold a dominant position in the market and extraordinary circumstances to exist.<sup>61</sup> The mere refusal to licence an IPR does not in itself constitute an abuse of a dominant position. Extraordinary circumstances exist in particular if, cumulatively,

- the refusal relates to a product or service indispensable for carrying on a particular business in a neighbouring market;
- the refusal prevents the appearance of a new product or service for which there is potential consumer demand;
- the refusal is not justified by objective considerations; and
- the refusal is of such a kind as to exclude any effective competition on a that neighbouring market which the dominant firm seeks to reserve for itself.

This 4-prong test does, however, not seem to be the legal standard that the European Commission is applying to the availability of an injunction for SEPs for which a FRAND commitment has been given by the patent owner. It appears that under the approach favoured by the Commission, the making of a FRAND commitment in a standard-setting context would by its very nature give rise to exceptional circumstances.

The European Commission has already in the past taken up several cases in which standard-setting conduct played a central role.<sup>62</sup> But these cases related to SSOs patent disclosure rules

<sup>60</sup> *ZTE Corp., et. al. v. Vringo Infrastructure, Inc.*, High Court of Delhi at New Delhi, Court order of 12 December 2013, Docket no. FAO(OS) 573/2013, CAV. 1141/2013, C.M. APPL. 19754/2013 and 19755/2013

<sup>61</sup> See e.g. European Court of Justice, *AB Volvo v Erik Veng* (Case 238/87), [1988], ECR 6211; European Court of Justice, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd. (ITP) v Commission ('Magill')* (Joint cases C-241 and C-242/91P), [1995], ECR I-743; European Court of Justice, *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG* (Case C-7/97), [1998], ECR I-7791; European Court of Justice, *IMS Health Inc. v Commission* (Case C-418/01), [2004], ECR I-5039; European Court of First Instance, *Microsoft Corp. v Commission* (Case T-201/04), [2007] ECR II-3601.

<sup>62</sup> See e.g. European Commission, DG Competition, Case n° COMP/39247, Memo of 24 November 2009 (MEMO/09/516): “Commission closes formal proceedings against Qualcomm”, available at [http://europa.eu/rapid/press-release\\_MEMO-09-516\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-09-516_en.htm?locale=en); European Commission, DG Competition, Case n° Case C-3/38.636 - *Rambus*, Decision pursuant to Article 9(1) of Regulation (EC) No 1/2003, 9 December 2012, available at: <http://ec.europa.eu/competition/antitrust/cases/>



excessive pricing allegations and the question whether a FRAND commitment travels with the patent in case of a transfer. The circumstances in which injunctions for infringement of FRAND committed SEPs would amount to an abuse of a dominant position in breach of Article 102 TFEU remained undefined. Also, the Commission’s guidelines on horizontal cooperation agreements, which include a chapter on standardisation agreements, are more or less silent with this regard and do not provide anything more than the formulation that “FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions”.<sup>63</sup>

It is only in the merger decision re *Google/Motorola Mobility* that the Commission first outlined its approach to abusive enforcement of FRAND committed SEPs. Although unrelated to Article 102 TFEU, the Commission used this decision to indicate that it takes issue not only with the grant of an injunction and its enforcement, but also with the *threat of seeking* an injunction, which it finds can constitute a violation of Article 102 TFEU in the presence of a FRAND commitment. The Commission explained that “[d]epending on the circumstances, it may be that the threat of injunction, the seeking of an injunction or indeed the actual enforcement of an injunction granted against a good faith potential licensee, may significantly impede effective competition by, for example, forcing the potential licensee into agreeing to potentially onerous licensing terms which it would otherwise not have agreed to.”<sup>64</sup> Conversely, the Commission noted that “the seeking or enforcement of injunctions on the basis of SEPs is also not, of itself, anti-competitive. In particular, and depending on the circumstances, it may be legitimate for the holder of SEPs to seek an injunction against a potential licensee which is not willing to negotiate in good faith on FRAND terms”,<sup>65</sup> so that “[i]n the event licensing discussions fail, the SEP holder may ultimately take its counterparty to court and seek an injunction.”<sup>66</sup>

While the question what a “good faith” licensee is, was left open by the Commission, it somewhat refined this concept and provided additional guidance in the Samsung antitrust case. The Commission found that “the seeking of an injunction for SEPs can constitute an abuse of a dominant position in the exceptional circumstances of this case - where the holder of a SEP has given a commitment to license these patents on FRAND terms and where the company against which an injunction is sought is willing to negotiate a FRAND licence.”<sup>67</sup> This means

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[dec\\_docs/38636/38636\\_1203\\_1.pdf](#)]; European Commission, DG Competition, Case n° COMP/39615, Memo of 10 December 2009 (MEMO/09/549): “Commission welcomes IPRCom’s public FRAND declaration”, available at: [http://europa.eu/rapid/press-release MEMO-09-549\\_en.htm](http://europa.eu/rapid/press-release_MEMO-09-549_en.htm)].

<sup>63</sup> European Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011/C 11/01, para. 287.

<sup>64</sup> European Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, Case No COMP/M.6381 – *Google/Motorola Mobility*, para. 107

<sup>65</sup> European Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, Case No COMP/M.6381 – *Google/Motorola Mobility*, para. 126

<sup>66</sup> European Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, Case No COMP/M.6381 – *Google/Motorola Mobility*, para. 106

<sup>67</sup> European Commission, DG Competition, Case n° COMP/39939, Memo of 21 December 2012 (MEMO/12/1021): “Samsung – Enforcement of ETSI standards essential patents (SEPs)”, available at: [http://europa.eu/rapid/press-release MEMO-12-1021\\_en.htm](http://europa.eu/rapid/press-release MEMO-12-1021_en.htm)

that in the Commission's view and subject to the patentee holding a dominant position, two conditions are necessary to trigger the application of Article 102 TFEU. First, the SEP holder must have given a FRAND commitment. Second, the unlicensed implementer must be 'willing to negotiate a FRAND licence', which is the novel concept the Commission used to replace the notion of good faith used in the Google/Motorola Mobility decision. The Commission, however, did not initially determine any criteria under which such a willingness to negotiate a license may be assumed. It is only later in the Motorola case that the Commission somewhat clarified this question and noted that "*that the acceptance of binding third party determination for the terms of a FRAND licence in the event that bilateral negotiations do not come to a fruitful conclusion is a clear indication that a potential licensee is willing to enter into a FRAND licence*". And that by contrast, "*a potential licensee which remains passive and unresponsive to a request to enter into licensing negotiations or is found to employ clear delaying tactics cannot be generally considered as 'willing'*".<sup>68</sup> The Commission further used this case to express the view that challenges to the validity, essentiality or infringement of the SEP does not make the potential licensee unwilling where it otherwise agrees to be bound by the determination of FRAND terms by a third party. The Commission noted in this regard that interpreting the German *Orange-Book* requirements to mean that a willing licensee could not challenge the validity and essentiality of the SEPs in dispute is potentially anti-competitive.

A decision by the Commission in both cases, Samsung and Motorola, has been announced for April 2014.<sup>69</sup> It is expected that the Samsung case will be wound up by commitments according to Article 8 of Regulation 1/2003.<sup>70</sup> The Motorola case will likely be handled under Article 7 of Regulation 1/2003, *i.e.* a formal ruling finding infringement.

Given the manifest inconsistency between the test apparently proposed by the Commission and the application of the German *Orange Book Standard*, the ruling by the CJEU in the context of the ongoing *Huawei v ZTE* case will be of particular interest.<sup>71</sup>

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<sup>68</sup> European Commission, DG Competition, Case n° COMP/39985, Memo of 6 May 2013 (MEMO/13/403): "*Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents- Questions and Answers*", available at: [[http://europa.eu/rapid/press-release\\_MEMO-13-403\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-403_en.htm)]

<sup>69</sup> See Statement by EU Competition Commission and Vice-President of the European Commission Joaquin Almunia at the Press Roundtable, European Commission Representation office in the UK, London, 7 February 2014

<sup>70</sup> In October 2013, Samsung offered to settle the case by committing not to seek injunctive relief in the European Economic Area with regard to all its SEPs which read on technologies implemented in smartphones and tablets (Mobile SEPs) against any company which agrees to and complies with a particular licensing framework. The licensing framework consists of: (i) a negotiation period of up to 12 months and (ii) a third party determination of FRAND terms by either a court or arbitrator, as agreed by the parties. If the parties cannot agree on either submitting to court or arbitration, the parties will have to submit to arbitration. Following the mandatory market-test period, Samsung has reportedly revised its settlement offer.

<sup>71</sup> See above Section C. 2 lit. a (ii)

(ii.) United States of America

Section 2 of the Sherman Act prohibits the acquisition of monopoly power by means of exclusionary conduct. In contrast to European antitrust law, which focuses on the improper exercise of IPRs by a dominant right holder, Section 2 of the Sherman Act is concerned with how an undertaking acquires a monopoly position. Commonalities between European and U.S. antitrust laws however exist in the sense that if an IPR does confer market power, that market power does not by itself offend the antitrust laws.<sup>72</sup> Additional basis for an antitrust claim can be found in Section 5 of the FTC Act, which prohibits unfair methods of competition and unfair acts and practices. However, while Section 2 of the Sherman Act may be enforced by the U.S. Federal Trade Commission (FTC), the U.S. Department of Justice (DOJ), or by a private party in a federal court action, violations of Section 5 of the FTC Act may be enforced only by the FTC.

In two separate settlement agreements in 2012 and 2013, the U.S. Federal Trade Commission (FTC) required Google / Motorola Mobility and Bosch GmbH not to seek injunctions on SEPs except under limited circumstances, alleging that the holder of FRAND-committed SEP violates Section 5 of the FTC Act by merely by seeking an injunction.

In the Bosch case, which was a merger review of Bosch's acquisition of the automotive air conditioning recharge business of SPX, the FTC's majority opinion stated that in appropriate circumstances it might challenge SEP holders' efforts to obtain injunctions as "unfair methods of competition" in violation of Section 5 of the FTC Act.<sup>73</sup> Bosch voluntarily agreed to license both SEP and non-SEP royalty free and further agreed not to seek injunctive relief unless a prospective licensee refuses to take a FRAND license as determined by a process agreed upon by both parties (e.g., arbitration or a court).<sup>74</sup> There was a dissenting statement from FTC Commissioner Ohlhausen that discouraged use of Section 5 of the FTC Act to limit the use of injunctive relief by SEP holders.<sup>75</sup>

In the case against Google / Motorola Mobility, the FTC alleged the company "*breached its FRAND obligations by seeking to enjoin and exclude implementers of its SEPs*"; and that after its acquisition of Motorola, "*Google used these threats of exclusion orders and injunctions to enhance its bargaining leverage against willing licensees*"; and that "*Motorola filed, and Google prosecuted, patent infringement claims before the United States*

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<sup>72</sup> See available at: U.S. Dep't of Justice and U.S. Federal Trade Commission, Antitrust Guidelines For The Licensing Of Intellectual Property, April 6, 1995, [<http://www.justice.gov/atr/public/guidelines/0558.htm>].

<sup>73</sup> Complaint at ¶ 20, *In re Robert Bosch GmbH*, Docket No. C-4377, File No. 121-0081, 2012 WL 5944820 (F.T.C. Nov. 21, 2012).

<sup>74</sup> U.S. Federal Trade Commission, *In the matter of Robert Bosch GmbH*, FTC File No. 121-0081, [<http://www.ftc.gov/os/caselist/1210081/121126boschanalysis.pdf>]

<sup>75</sup> Statement of Comm'r Maureen K. Ohlhausen, *In re Robert Bosch GmbH*, F.T.C. File No. 121-081, available at [<http://www.ftc.gov/os/caselist/1210081/121126boschohlhausenstatement.pdf>]. Comm'r Ohlhausen noted that noting that "[s]imply seeking injunctive relief on a patent subject to a fair, reasonable, and non-discriminatory ("FRAND") license, without more, even if seeking such relief could be construed as a breach of a licensing commitment, should not be deemed either an unfair method of competition or an unfair act or practice under Section 5".



*International Trade Commission.*<sup>76</sup> Under the settlement order Google is now required to offer, and follow, specific procedures that will lead to a determination of the terms and condition of a FRAND licence.<sup>77</sup> In short, Google must (1) provide a potential licensee with a written offer containing all of the material license terms necessary to license its SEPs, and (2) provide a potential licensee with an offer of binding arbitration to determine the terms of a license that are not agreed upon. Furthermore, if a potential licensee seeks judicial relief for a FRAND determination, Google must not seek an injunction during the pendency of the proceeding, including appeals. Also, a potential licensee is free from challenging the validity, essentiality, claim of infringement or value of the patents at issue. However, if the potential licensee “*indisputably demonstrates that it is not willing to pay Google a reasonable fee for use of Google’s FRAND-encumbered SEPs*”, Google may then seek an injunction. Another exception is where Google/Motorola is facing a threat of injunction based on its own alleged SEP infringement. There was also a dissenting statement from FTC Commissioner Maureen Ohlhausen questioning the application of Section 5.<sup>78</sup> Commissioner Rosch also issued a separate statement, while concurring in the Complaint and Order.<sup>79</sup>

Since these two cases were not litigated, they have, however, a more limited precedential value, and it remains unclear whether federal courts would adopt the analysis propounded by the FTC in future cases.

The Antitrust Division of the U.S. Department of Justice also dealt with SEP in two merger review cases and one antitrust investigation.

In its closing statement of the review of Google’s acquisition of Motorola Mobility and the acquisition of the Nortel patent portfolio by the so called Rockstar consortium, the DOJ noted that there is risk that, “*after standard is set, the patent holder could seek to extract a higher payment than was attributable to the value of the patent before the standard was set,*” behaviour which “*can distort innovation and raise prices to consumers.*”<sup>80</sup> During the course of the Antitrust division’s investigation, several companies made commitments concerning their SEP licensing policies.

<sup>76</sup> Complaint at ¶¶ 25-26, *In the matter of Motorola Mobility LLC and Google Inc.*, File No. 121-0120, 2013 WL3944149 (F.T.C. July 23, 2013).

<sup>77</sup> U.S. Federal Trade Commission, *In the matter of Motorola Mobility LLC and Google Inc.*, File No. 121-0120, [<http://www.ftc.gov/enforcement/cases-proceedings/1210120/motorola-mobility-llc-google-inc-matter>]

<sup>78</sup> Statement of Comm’r Maureen K. Ohlhausen, *In re Motorola Mobility LLC and Google Inc.*, F.T.C. File No. 121-081, available at: [<http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaohlhausensmt.pdf>]

<sup>79</sup> Statement of Comm’r J. Thomas Rosch, *In re Motorola Mobility LLC and Google Inc.*, F.T.C. File No. 121-081, available at: [<http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaroschstmt.pdf>]

<sup>80</sup> U.S. Department of Justice, *Statement of the Department of Justice’s Antitrust Division on Its Decision to Close Its Investigations of Google Inc.’s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd.*, February 13, 2012, available at: [<http://www.justice.gov/opa/pr/2012/February/12-at-210.html>]

The U.S. Department of Justice recently decided to close its investigation into Samsung's alleged abuse of its standards-essential patents, on the grounds that there was no need for further action following the U.S. Trade Representative's veto against the ITC's determination in the Inv. No. 337-TA-794.<sup>81</sup>

### 3. ACTIVITIES BY SSOs

In response to the increased regulatory attention and the various court cases, a number of SSOs have engaged in a review of their IPR Policy to work towards an industry-led resolution. ETSI was the first SSO to initiate discussions amongst its members in early 2012. Nine meetings have been held to date and a large number of companies from the ICT industry attend regularly, along with representatives from the European Commission, the U.S. Department of Justice, the U.S. Federal Trade Commission, the European Patent Office, and the World Intellectual Property Organisation. While a number of issues are on the agenda, the majority of the discussions have been on the subject of injunctive relief. No agreement has been reached yet, but it is generally recognized by the participants that a balanced approach is required so that an eventual change to the IPR Policy increases the incentives for all parties to negotiate in good faith toward mutually satisfactory license agreements.

Two multi-party proposals are focusing on the concept of a safe harbour, which is the approach favoured by the European Commission and that consists of the possibility for the potential licensee to avoid injunctive relief by agreeing to have a binding third party determination for the terms of a licence in the event that bilateral negotiations do not come to a fruitful conclusion. Major points of contentions relate to issues such as defining a timetable by which the license seeking party would have to accept or reject the safe harbour. Another major difficulty in the context of the safe harbour concept is the question of the scope of any such adjudication process, more particularly whether it should be limited to only a single patent (e.g. patent in suit of a particular patent infringement proceeding) or not rather aim at patent peace between the parties and allow for the adjudication of a portfolio of multiple SEPs; and if the latter were the case how to then handle possible challenges to the infringement, validity, or essentiality of the patents in the portfolio. Finally, another aspect where views diverge in the context of the safe harbour is how to account for the legitimate defensive use of SEPs, i.e. how to avoid that those companies are placed at competitive disadvantage that don't see SEPs only as either a cost factor or as a source of revenue, but rather use those patents defensively, as these companies rarely request that implementers take a licence for the use of their technology as long as they are not first challenged on patent infringement issues.

While the proposals for a safe harbour are extensively discussed, further proposals adopting a different approach are also on the table. Some of these proposals focus on reinforcing the existing FRAND framework or adopting a principle level approach that explicitly enshrines

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<sup>81</sup> U.S. Department of Justice, *Statement of the Department of Justice Antitrust Division on Its Decision to Close Its Investigation of Samsung's Use of Its Standards-Essential Patents*, February 7, 2014, available at: [<http://www.justice.gov/opa/pr/2014/February/14-at-129.html>]

the duty of good faith and principles of fair dealing in the IPR Policy with the aim to not only maintain the existing balance of interests between the SEP holder and the potential licensee, but to also account for legitimate defensive use of SEPs in case the SEP holder is confronted with a refusal to deal from the potential licensee.

A parallel process is currently taking place at the International Telecommunications Union (ITU) and in a number of US-based SSOs, such as ANSI or IEEE.

#### 4. ANALYSIS AND COMMENT

Recourse to injunctive relief is a legitimate remedy for the infringement of a patent in all significant jurisdictions, irrespective of whether the patent is standard essential or not and irrespective of whether a FRAND-commitment has been given. But in nearly all jurisdictions that had to deal with SEP-cases so far, courts have been evaluating the compliance with FRAND before issuing an injunction. With the ITC now being also required to make findings on FRAND in any future cases, India apparently remains the only exception to the rule. In two recent cases the Delhi High Court granted *ex-parte* preliminary injunctions without looking at FRAND. In all other jurisdictions, courts have demonstrated that they will not issue injunctions on FRAND-committed SEPs, if the patentee has failed to comply with its obligations under FRAND. While the exact conditions under which a license seeking party can avoid an injunction for the infringement of a FRAND-committed SEP vary amongst the jurisdictions and largely depend on the conduct of the parties leading to and during the negotiations as well as the content of the offers made by each party in the concrete case at hand, the various decisions are nevertheless increasingly consistent when it comes to evaluating parties' behaviour in FRAND disputes under the rubric of good faith.

The notion of good faith is a well-established concept in all contractual relationships, and the laws of most jurisdictions recognize an obligation to negotiate in good faith. If it is established that the license seeking party is acting in good faith, it is likely that injunctive relief will be denied. If in contrast the potential licensee is found to have been unwilling to negotiate in good faith and the patentee on its side has satisfied his obligations, it is likely that the patentee would be entitled to an injunction, even pending negotiations. In this context, it seems safe to assume that merely declaring a willingness to take a license is not enough for the potential licensee to satisfy the criteria of good faith. One would have to act accordingly and demonstrate its willingness to negotiate in good faith by exteriorized conduct, so that for example a failure to engage in any subsequent negotiations or the refusal to make offers or counter-offers, would likely render the alleged willingness to take a licence moot.

This assessment can more or less also be projected to the United States, where the district courts have to apply the well-established, four-factor eBay-test in deciding whether to grant injunctive relief in cases of infringement of a FRAND-committed patent. While a patent holder's FRAND commitment will be a relevant factor to be considered in an eBay analysis, it is not in and of itself dispositive and does not warrant a categorical rule in the equitable

injunction analysis.<sup>82</sup> Depending on the specific circumstances of the case courts may find circumstances where monetary damages can be inadequate or where a patentee would suffer irreparable harm.<sup>83</sup> The likelihood that this may be the case is likely to increase where the potential licensee has failed to act in good faith, for example, but not limited to, where he has plainly or constructively refused to negotiate, or is in bankruptcy and lacks the assets to accept a license, or in any other conceivable circumstances in which a potential licensee fails to deal fairly with the SEP holder.

Beyond these general principles, it is in most jurisdictions – with the exception of Germany – difficult to deduce more specific requirements regarding the specific conduct of the parties that would be generally applicable beyond the individual case at issue (e.g. which party to make the first offer, are there specific timing requirements regarding the offer and if yes what are they, what level of substance or specificity of the offer is required, what terms and conditions can be demanded, etc.).

In Germany, courts have in the meantime developed a very detailed set of requirements that a licensee would have to meet in order to be considered a licensee that is willing to negotiate in good faith. This provides for a relatively high level of legal security for both the patentee and the prospective licensee. But the threshold for a successful FRAND-defence is very high, some may say too high. This has to do with the restrictive concept of the Orange-Book case law, which misses to properly put in balance the interests of the parties by subjecting the FRAND-defence to a precondition to the effect that the potential licensee has to satisfy the patentee's interests up to the limits of where their realization would become abusive. This way the patentee can obtain his maximum demands that he would probably not have been able to get in normal arms-length negotiations, *i.e.* terms and conditions that are such that any deviation to the benefit of the patentee would be infringing competition law.

As it comes to the activities by the antitrust agencies on both sides of the Atlantic, their assessment depends upon the assumption that the mere seeking of injunctive relief, without more, is itself anticompetitive. This amounts to an understanding of competition rules that can catch conduct that is yet to be implemented. While this may be understandable from the perspective of a competition authority that may prefer *ex ante* solutions over *ex post* actions addressing specific instances of prior conduct, it is already doubtful that this is supported by real life evidence given that in most jurisdictions around the world patent holders are far from

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<sup>82</sup> Judge Posner's categorical denial of an injunction in the presence of a FRAND-commitment being apparently the exception to this rule (*Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540 (N.D. Ill. June 22, 2012)).

<sup>83</sup> See *Microsoft Corp. v. Motorola, Inc.*, No. 2:10-cv-01823-JLR (W.D. Wash. Nov. 29, 2012), where Judge Robart explained that his finding on injunctive relief is based on the specific circumstances and that "*if, in the future, those circumstances change in a manner to warrant injunctive relief, Motorola may at that time seek such relief*"; or *RealTek Semiconductor Corp. v. LSI Corp.*, No. C-12-03451-RMW (N.D. Cal. May 20, 2013) where Judge Whyte noted *inter alia* that that injunctive relief may be warranted when an accused infringer of a standard-essential patent outright refuses to accept a license on FRAND terms; see also *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600, 606 (E.D. Tex. 2007) where Judge Davis found that the infringement of plaintiff's FRAND-committed SEP had caused irreparable harm by depriving CSIRO of licensing revenues that would have funded additional projects and diverting funds from its research function to patent litigation, as well as harming CSIRO's reputation as a research institution and its ability to recruit top scientists.

certain to be awarded injunctions in cases of infringement of a FRAND-committed SEP. But more importantly, this approach seems to contradict the general principle that the mere fact of exercising a legal right and asking for relief in a competent national court is typically not a competition law violation in and of itself. In Europe, the Court of Justice of the European Union has clarified that bringing a lawsuit can be an antitrust violation only in wholly exceptional circumstances if two cumulative conditions are met, namely that the action: (i) cannot reasonably be considered as an attempt to establish the rights of the undertaking concerned and can therefore only serve to harass the opposite party; and (ii) is conceived in the framework of a plan whose goal is to eliminate competition.<sup>84</sup>

But even assuming *arguendo* that already the seeking of injunctive relief could amount to a violation of competition law, the concept of the ‘willing licensee’ as proposed by the European Commission seems not to adequately balance the interests of the parties without more ado. The proposed test hinges on whether the injunction is sought against a ‘willing licensee’ that is agreeing to be bound by a third party determination for the terms of a licence in the event that bilateral negotiations do not come to a fruitful conclusion: If the potential licensee commits to accept terms and conditions adjudicated by an independent third party, there is an unlawful abuse. In contrast, injunctions would remain lawful against a licensee that is unwilling to submit to adjudication or who fails to comply with the outcome of such adjudication. What at first glance appears to be an objective criterion is in fact only shifting the dispute to a different level. Against the backdrop of two years of highly controversial discussions in various SSOs, it is a safe assumption that the parties of the dispute will likely not agree on a timeframe up until which the dispute will have to be submitted to an adjudication process, and it appears even less likely that the parties will come to an agreement on the framework of such adjudication (venue, scope, etc.). The potential licensee will presumably want the adjudication to happen as late as possible, preferably in his home jurisdiction and only if the adjudicator determines infringement and resolves all related claims and defenses, including validity and enforceability for each and every patent that is part of the adjudication process, if not even limiting the adjudication to the single patent that is in suit in the infringement proceeding. The SEP holder on its side will likely favour a clear timetable by which the potential licensee shall accept or reject the possibility to adjudicate the terms and conditions of the license. The SEP holder is also likely to favour his home jurisdiction, and will probably have a preference for efficient and timely portfolio adjudication. In sum, the concept of the “willing licensee” is likely to replace one dispute by another and doesn’t seem suited without more ado to increase legal certainty over the well-established notion of good faith, which is currently applied by many courts around the world in evaluating parties’ conduct when determining whether or not to grant an injunction on a FRAND-committed SEP.

And even if one were prepared to also go this step and further assume *arguendo* that the exact timeframe, venue, scope, etc. of the adjudication process could be predetermined without unfairly favouring one party over the other, the concept would suffer from not providing an exception to the exception. Any such approach, under which injunctions are no longer

<sup>84</sup> European Court of Justice, *ITT Promedia NV v Commission* (Case T-111/96), [1998] ECR II-2937

available under any circumstances if the potential licensee agrees to the predefined adjudication framework, ignores that the refusal of the SEP holder may still be justified by objective considerations.

It is therefore questionable whether the novel and untested concept of “*willingness*” and its requirement of agreeing to an (undefined) adjudication process is really appropriate for a competition law challenge of the right to recourse to injunctive relief and for replacing the well-established notion of good faith, which many courts around the world apply in evaluating parties’ conduct when determining whether or not to grant an injunction for infringement of a FRAND-committed SEP.

## **D. FINDINGS AND RECOMMENDATIONS**

The findings and recommendations that follow represent the views of the members of AIPPI Special Committee on Patents and Standards (Q222), and do not necessarily represent the views of AIPPI as a whole. The Committee recommends that these findings and recommendations be considered in the near future as part of the international working process of AIPPI, with the objective of reaching a resolution thereon in support of international harmonization of laws and best practices in this area.

The Committee finds that:

1. Recourse to injunctive relief is a legitimate remedy for the infringement of a patent in all significant jurisdictions, regardless of whether the patent is standard essential or not and regardless of whether a FRAND-commitment has been given.
2. The determination of whether an injunction is to be granted or not is inherently fact-specific.
3. In most jurisdictions, the respective national patent law, general principles of civil law, IPR Policies of SSOs, and/or competition law may grant the defendant additional arguments, defences, and/or a standalone claim against the patentee's request for an injunction for the infringement of a SEP.
4. The various cases that have been reviewed by the Committee suggest that in most jurisdictions holders of FRAND-committed SEPs are far from certain to be awarded injunctions (and even less likely to obtain preliminary injunctions).
5. The cases reviewed by the Committee further suggest that there is no apparent reason to believe that national judges cannot consider whether or not injunctive relief for FRAND-committed SEPs is warranted in any particular case.



6. While there is diversity among the various jurisdictions as to which specific conditions have to be met to avoid or respectively obtain an injunction for infringement of a SEP for which a FRAND-commitment has been made, there is increasing consistency when it comes to evaluating parties' behaviour under the rubric of good faith.
7. The concept of the '*willing licensee*' under which the seeking of an injunction is unlawful if the potential licensee agrees to be bound by a third party determination for the terms of a licence, seems not suited without more ado to increase legal certainty over the notion of good faith, which many courts around the world apply in evaluating parties' conduct when determining whether or not to grant an injunction on a FRAND-committed SEP.

The Committee therefore recommends that:

1. Injunctive relief should not be granted for infringement of a SEP, if the patentee has failed to comply with its obligations under FRAND, which requires the courts to consider FRAND before issuing an injunction.
2. In evaluating parties' conduct, courts should hold both parties to their duty of good faith and require that the willingness to negotiate in good faith is evidenced by exteriorized conduct.
3. The fact that a potential licensee agrees to be bound by a third party determination for the terms of a licence is a relevant factor when evaluating the parties conduct, but it should not necessarily be the only factor that a court should consider in evaluating the parties conduct.
4. The mere act of seeking injunctive relief from a court of law for infringement of a FRAND-committed SEP in and of itself or the threat of doing should not be qualified as a competition law violation, regardless of whether the alleged infringer has agreed to be bound by a third party determination for the terms of the licence. Access to the courts is a fundamental right in many jurisdictions and a general principle ensuring the rule of law, it is therefore only in wholly exceptional circumstances that bringing legal proceedings should be considered as infringing competition law.
5. SSOs should be mindful of maintaining a fair balance between incentives to innovate and to contribute technology to a standard and the interests of implementers and users of those standards.
6. Any change to an SSO's IPR Policy should increase the incentives of both the essential patent holder and the prospective licensee to negotiate in good faith toward a license agreement.

## ANNEX – QUESTIONNAIRE

### 1. LEGAL BASIS

#### 1.1 Is it a legitimate remedy for holders of a standard essential patent (SEP) who voluntarily committed to grant a license on FRAND terms to implementers of the standard to have recourse to injunctive relief or orders of exclusion for patent infringement (in the following altogether “injunctive relief”) against an infringer that has declared himself willing to negotiate such a license?

- *Australia:* Normally recourse to injunctive relief is a legitimate remedy for patent infringement under the Australian Patents Act. Injunctive relief is an equitable remedy, and as such, there is an overriding requirement of ‘clean hands’ on behalf of the Patentee. It is likely any actions on behalf of the Patentee which induce the infringer to adopt a standard may be argued against granting an injunction.
- *Brazil:* Recourse to injunctive relief is in principle a legitimate remedy for the infringement of a patent irrespective of whether the patent is essential or not. A holder of a SEP is not *per se* limited to monetary compensation only. Nevertheless, in special circumstances a compulsory license may be granted regarding a SEP patent, for instance: (a.) if the SEP patent holder exercises his rights derived therefrom in an abusive manner; (b.) or by means thereof engages in abuse of economic power; (c.) non-exploitation of the object of the patent within the Brazilian territory for failure to manufacture or incomplete manufacture of the product, or also failure to make full use of the patented process, except cases where this is not economically feasible, when importation shall be permitted; or (d.) commercialization that does not satisfy the needs of the market.
- *Canada:* Injunctive relief is always available in a case of patent infringement (s. 57(1) *Patent Act*).
- *China:* The Chinese Patent Law *per se* does not differentiate SEP and non-SEP. Injunctive relief is a legitimate remedy for all kinds of patent. However, although a holder of a SEP may seek an injunctive relief in such a case, in internal discussions, the Supreme Court does not trend to grant such an injunctive relief unless the infringer is deliberately unwilling to negotiate such a license.
- *European Union:* Recourse to injunctive relief is a legitimate remedy for patent-holders in case of patent infringements (see Article 11 of the Directive 2004/48/EC). In its Statements of Objections against Samsung and Motorola, the European Commission therefore explicitly clarified that it is generally not questioning the use of injunctions. Rather, the Commission has reached the preliminary conclusion that the seeking and enforcing of an injunction for SEPs



can constitute an abuse of a dominant position in the exceptional circumstances of the two cases at hand - where the holders of SEPs have given a commitment to license these patents on FRAND terms and where the company against which an injunction is sought has shown to be willing to enter into a FRAND licence (*c.f.* Memo/13/403 and Memo/12/1021).

- Germany: Recourse to injunctive relief is principally a legitimate remedy for the infringement of a patent irrespective of whether the patent is essential or not (Section 193, 1<sup>st</sup> para., 1<sup>st</sup> sentence of the German Patent Act). A holder of a SEP is not *per se* limited to monetary compensation only.
- South Korea: The Korean Patent Act recognizes injunctive relief as a remedy against patent infringement (Patent Act Article 26), and does not make any express distinction between SEPs and non-SEPs in this regard. In addition, the Korean Supreme Court has never expressly denied the availability of injunctive relief for patent infringement simply due to the existence of a FRAND commitment.

The Seoul Central District Court in its recent decision on the *Samsung v. Apple* case (Seoul Central District Court Decision No. 2011 *GaHap* 39552, rendered August 24, 2012; appeal pending before the Seoul High Court) further clarified the availability of injunctive relief for FRAND-committed SEPs. There, the Court held that injunction for FRAND-committed SEPs may be denied only if there was “abuse of rights” by the SEP holder.

In considering the issue of whether there was an abuse of rights, the Seoul Central District Court held that both the SEP holder and potential licensee have an obligation to negotiate in good faith for a FRAND license, and further held that denying an injunction against unauthorized and unilateral implementation of an SEP would over-protect bad-faith implementers.

In the above case, the Seoul Central District Court concluded that Samsung’s claim for injunctive relief with regard to its standard patents (i) was not an abuse of rights under the Korean Civil Law, (ii) was not an abuse of patent right, and (iii) was not a violation of the Korean Monopoly Regulation and Fair Trade Act (“Fair Trade Act”) that would constitute an abuse of rights.

- The Netherlands: In principal, injunctive relief is a legitimate remedy for SEP holders, even if such SEPs are subject to a FRAND commitment. However, it follows from various court cases that enforcement by the SEP holder may constitute an abuse of rights or can be regarded to be contrary to 'pre-contractual good faith' depending on how the negotiations have been conducted and the content of the offers made by each party.
- USA: There is no definitive federal court jurisprudence on this question. In the United States, infringement actions are brought under the Patent Act in federal district court. Since the U.S. Supreme Court’s decision in *eBay, Inc. v.*

*MercExchange, L.L.C.*, the federal district courts have the discretion to grant injunctions to stop patent infringement when the balance of traditional equitable factors, including a consideration of the public interest, weighs in favor of granting injunctive relief. Recently, two U.S. federal district courts have applied the *eBay*-factors to deny injunctive relief to holders of FRAND-committed SEPs. Both Judge Robart in *Microsoft v. Motorola* [*Microsoft Corporation v. Motorola, Inc.*, 2:10-cv-01823-JLR (W.D. Wash.)] and Judge Posner in *Apple v. Motorola* [*Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540 2012 BL 157789 (N.D. Ill. June 22, 2012)] have expressed the view that, under *eBay* and as a general rule, a commitment to license an SEP on FRAND terms means that the patent owner cannot obtain an injunction but rather must settle for damages only. Under U.S. law, those damages can be both compensatory (for past harms suffered) and prospective (for the future use of the patent). Both cases are on appeal at the United States Court of Appeals for the Federal Circuit. However, another U.S. federal district court came to a different conclusion. Judge Crabb in *Apple v. Motorola* concluded that a FRAND commitment to an SSO, like any other contractual arrangement, does not deprive the SEP holder of the right to seek injunctive relief unless it does so expressly [*Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc, slip op. (W.D. Wis. Oct. 29, 2012)].

An alternative to federal court litigation is the filing with the U.S. International Trade Commission (ITC) of a request for an order excluding imports of products that the ITC finds violate U.S. patents. The ITC provides a second forum where a patentee can assert a patent infringement claim to stop the importation of infringing products. The U.S. Supreme Court's *eBay* precedent does not apply to ITC determinations. The appropriateness of "injunctive relief" in an ITC investigation is a matter of statutory interpretation, rather than the application of general equitable principles. This means that unlike federal district courts, the ITC is required to issue an exclusion order upon the finding of a Section 337 violation absent a finding that the effects of one of the statutorily-enumerated public interest factors counsel otherwise (*Spansion, Inc., v. Int'l Trade Commission*, 629 F.3d 1331, 1359 (Fed.Cir. 2010)). Also, the President of the United States (acting through the U.S. Trade Representative) is authorized to overturn an ITC exclusion order based on public policy considerations. On August 4, 2013, the U.S. Trade Representative cited public policy concerns (specifically, competition and the consumer interest) in overturning an ITC exclusion order directed against certain Apple, Inc. smartphones and tablet computers that infringed a SEP held by Samsung that was subject to a FRAND commitment. (See [http://www.ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF](http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF)). The U.S. Trade Representative's statement overturning the ITC order cautioned that the ITC should in subsequent matters "examine thoroughly and carefully" public interest issues when SEPs subject to FRAND commitments are at issue. This may suggest that it will be more difficult in the future for holders of FRAND-committed SEPs to obtain ITC exclusion orders.

It also bears noting that in January 2013 the U.S. Justice Department (DOJ) and U.S. Patent and Trademark Office (PTO) jointly issued a Policy Statement on SEPs Subject to Voluntary FRAND Commitments. (See <http://www.justice.gov/atr/public/guidelines/290994.pdf>). In that Statement (which was cited in the U.S. Trade Representative’s Statement overturning the Apple exclusion order), the agencies explained that “the remedy of an injunction or exclusion order may be inconsistent with the public interest”, particularly in cases when an SEP owner has made a FRAND commitment to a standards setting body. The PTO-DOJ Statement noted, however, that an exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a FRAND license and is acting outside the scope of the patent holder’s commitment to license on FRAND terms. In this context, the PTO-DOJ Statement identified a non-exhaustive list of relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order or when shaping such a remedy.

Finally, in two separate settlement agreements in 2012 and 2013, the U.S. Federal Trade Commission (FTC) required Motorola Mobility and Bosch GmbH not to seek injunctions on SEPs except under limited circumstances enumerated by the FTC. The FTC also indicated that in appropriate circumstances it might challenge SEP holders’ efforts to obtain injunctions as “unfair methods of competition” in violation of Section 5 of the FTC Act. (See <http://www.ftc.gov/os/caselist/1210081/121126boschanalysis.pdf>; and <http://www.ftc.gov/os/caselist/1210120/130103googlemotorolastmtofcomm.pdf>.) Since these cases were not litigated, they have, however, no precedential value, and it is unclear whether federal courts would adopt the analysis propounded by the FTC in future cases.

**1.2 Is the situation different if a voluntary FRAND commitment is not available because the SEP is part of a de facto standard, which has been established through market forces and the degree of market penetration of that particular technical solution (as opposed to the SEP being part of a standard elaborated in a consensus based Standard Development Organisation (SDO) and for which the SEP holder has voluntarily given a commitment to license the SEP patents on FRAND terms)?**

- *Australia*: No, the situation is not different if the SEP is part of a *de facto* standard. However, again, in order to obtain injunctive relief, the Patentee would have to show ‘clean hands’ in its acts.
- *Brazil*: No, the situation is not different if the SEP is part of a *de facto* standard.
- *Canada*: Injunctive relief is still available in a case of patent infringement.
- *China*: No regulation or judicial judgement regarding this.

- European Union: The situation is unclear, but it is likely that the Commission would differentiate between a case where a FRAND commitment has been voluntarily given in the context of collaborative standardisation and a case where the standard has been primarily established by the market. In the former case the Commission will focus on the willingness of the potential licensee to enter into a FRAND a license (*c.f.* Memo/13/403 and Memo/12/1021). In the latter case the Commission will likely require the application of the legal test developed by the Court of Justice of the European Union (CJEU) and the Court of First Instance (CFI) in *Magill* (Case C-241/91), *Bronner* (Case C-7/97), *IMS Health* (Case C-418/01), and *Microsoft* (Case T-201/04).
- Germany: No, the situation is not different if the SEP is part of a *de facto* standard. Actually, the Orange-Book-Standard case, in which the German Federal Supreme Court has established the principles for an antitrust defence in patent infringement proceedings, was a *de facto* standard and no voluntary FRAND commitment had been given by the SEP holder. (The Orange Book Standard, is part of the so called “rainbow books” and relates to the manufacture of CDs, more particularly for encoding information on the record carrier by means of EFM modulation. According to the allegations of the patentee all commercially available CDs have *de facto* to comply with the specifications of the “Orange Book Standard” and have therefore to use the patent in-suit. Defendant denied infringement. The case concerned the unlicensed use by a number of CD manufacturers who marketed recordable compact discs and rewritable compact discs throughout Europe and who argued that the patentee was not entitled to an injunction owing to its obligation to license its patents under competition law).
- South Korea: Although this issue has never been examined by the Korean courts, the situation is probably not fundamentally different in that injunctive relief is also available for holders of patents that are part of a *de facto* standard. However, the courts would likely be more reluctant to find an abuse of rights in the absence of an express FRAND commitment by the holder of the patent.
- The Netherlands: The situation may be different for a *de facto* standard, at least from a theoretical perspective. In most cases dealt with so far the courts proceeded from the assumption that there was a 'contractual' obligation on the patent holder to grant a license (more precisely, Samsung's FRAND declaration at ETSI was characterized as an 'irrevocable contractual entitlement to a licence under FRAND terms'). If there's no such contractual obligation, like in the case of a *de facto* standard, the courts will first have to analyse whether an obligation to license arises pursuant to competition law. If so, an allegation as to a failure not to license (on reasonable terms) will likely be scrutinized under the abuse of dominance doctrine, which will be a slightly different analysis than the 'abuse of rights'-analysis applied in these cases so far.

- USA: This issue has not been litigated in the United States. However, the lack of a formally established standard and explicit FRAND commitment arguably might be viewed as weakening the case for denying a patentee an injunction, based on the application of the *eBay* equitable factors. This is not to say that an injunction would likely be granted, however, as the specific facts and circumstances of each case presented would be key.

### 1.3 If recourse to injunctive relief is a legitimate remedy, do the antitrust laws in the respective jurisdiction provide a basis for the potential licensee to raise a FRAND defence in patent infringement proceedings?

- Australia: Yes, our Antitrust laws (our Trade Practices Act) may override the Patents Act.
- Brazil: Yes (Law no. 12.529/2011, article 36, XIX).
- Canada: Section 32 of the Competition Act expressly authorizes the Federal Court to order compulsory licensing (except for trade-marks) when IP is used to restrain trade or lessen competition unduly.
- China: Yes (Article 17 of the Chinese Antitrust Law). The China General Administration for Industry and Commerce plans to enact a regulation as “The regulation for prohibiting abusing intellectual property to exclude and restrict competition behavior”. In the sketch of the regulation, it provides that if the SEP holder refuses to permit the other proprietor with FRAND conditions, the administrative for industry and commerce authorise is able to instruct the SEP holder to stop the illegal action, confiscate the illegal gains and fined the SEP holder.
- European Union: n/a
- Germany: Already in 2005 the German Federal Supreme Court acknowledged the availability of a FRAND-defence in patent infringement proceedings with regard to the claim for damages (Bundesgerichtshof, GRUR 2004, 966 – *Standard Tight Head Drum*). But it remained long time unclear whether such defence is also allowable against the claim for injunctive relief. In 2009, the German Federal Supreme Court clarified the question in its so-called Orange-Book-Standard decision (Bundesgerichtshof, GRUR 2009, 694 - *Orange-Book-Standard*). The court decided that an enforcement of the claim to an injunction under patent law can constitute an abuse of a dominant market position and a breach of good faith, because a conduct prohibited by antitrust law must not be ordered by the courts. The Court however held that a patent holder who claims an injunction, although the defendant is entitled to a claim to the grant of a licence, only abuses his market-dominant position and only acts in breach of good faith if two conditions are satisfied:

- (1) An offer that patentee must not reject – The court held that a party seeking a licence must have made, and remain bound by, an unconditional offer to conclude a licence contract which cannot be rejected by patentee without infringing antitrust law. According to the ruling, such licence offer must comprise “usual” conditions, without further specification of this term. However, with regarding to the royalties to be paid, the Court did not require the defendant to specify them in detail. Instead the ruling allows for a clause in the license offer that puts the royalty determination into the equitable discretion of the patentee, which can then be made subject to subsequent judicial review.
  - (2) A licence seeking party that acts like a licensee – The court further required that the defendant has already to behave as if the licence had been granted. The Court held that if the party seeking a licence has already started to use the subject matter of the patent before the patent holder has accepted the offer, the prospective licensee must then comply with those obligations that the licence contract to be concluded imposes on the use of the licensed subject matter. This implies that the defendant is either required to pay a reasonable licence fee to the hypothetical licensor or to guarantee such a payment by putting a “sufficient” amount in escrow for the time he uses or has used the technology without having a licence. In case of running royalties, the prospective licensee must of course also file regular royalty reports.
- South Korea: There is some disagreement in South Korea as to whether a violation of the Korean Fair Trade Act can be raised as an affirmative defence in private litigation. However, a few recent decisions by the lower courts have adopted the position that a plaintiff’s violation of the Fair Trade Act may constitute an abuse of rights that can be raised as a defence against a claim for injunctive relief. Please see the last paragraph of the response to Question 1.1.
  - The Netherlands: Yes. This has been done by the defendant in Samsung v. Apple as well, but the courts did not have to consider this argument (as indicated above, they considered the ‘abuse of rights’ argument as this argument does not depend on first establishing whether the patent holder occupies a dominant position).
  - USA: It is not at all clear that U.S. courts would be willing to entertain an antitrust counterclaim based on a FRAND commitment in response to a patent infringement action, let alone actually find an antitrust violation. So far only one district court has considered antitrust counterclaims based on a patent owner’s attempt to obtain injunctive relief for infringement of FRAND-committed SEPs [*Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc (W.D. Wis. Oct. 29, 2012)]. In this case, Judge Crabb dismissed Apple’s antitrust claims pursuant to the so-called *Noerr-Pennington* doctrine, which grants antitrust immunity to a party’s actions in petitioning the government.



**1.4 Does the FRAND commitment that the SEP holder has voluntarily given to a Standards Development Organisation also provide a contractual basis to the prospective licensee for a FRAND defence in patent infringement proceedings?**

- *Australia*: Whilst a decision on this is pending (see above), the issue is whether the contractual right will extend to Australia. Provided this is expressed in the contract, it is likely that the prospective licensee will be able to utilise the contractual right.
- *Brazil*: Yes. Brazilian Civil Code (Law no. 10406/2002), Articles 429, 436-438, 467-461, 462-466.
- *Canada*: Equitable remedies, like promissory estoppel, are available in Canada. This is an equitable remedy for the act made by the prospective licensee in reliance of SEP holder's commitment who changes his mind. This remedy can only be used as a defence and not as a cause of action.
- *China*: No regulation or judicial judgement regarding this.
- *European Union*: n/a
- *Germany*: No. German Courts have decided – at least for the case of ETSI – that the contractual FRAND-commitment is of a declaratory nature only and does not go beyond the obligations that arise from competition law, in particular from Art 102 TFEU and from Sections 19, 20 of the German Act Against Restraints for Competition (Landgericht Düsseldorf, 24 April 2012, *IPCom v. Deutsche Telekom*).
- *South Korea*: In its Samsung v. Apple decision, the Seoul Central District Court did not acknowledge the FRAND commitment as a contractual obligation on the part of the SEP holder to provide a license, but as a declaration of the general principle to negotiate in good faith for a license under FRAND terms. Therefore, the FRAND commitment does not confer a license to unspecified third parties nor does it constitute a binding contractual offer to license, and a prospective licensee may not claim that it has a contractual right to practice the SEP as a defence in patent infringement proceedings.
- *The Netherlands*: As stated above already, in the Samsung v. Apple cases, Samsung's FRAND declaration at ETSI was characterized by the courts as an 'irrevocable contractual entitlement to a licence under FRAND terms'. Apple's more far-reaching argument that the FRAND declaration gave rise to a license agreement between Samsung and any party as of the moment said party would merely apply the standard, was dismissed.
- *USA*: Yes. For example, in Microsoft v. Motorola the court ruled that Motorola's commitments to the IEEE and ITU created enforceable contracts between Motorola and the SSOs "to license its essential patents on RAND terms," and that

Microsoft is a third-party beneficiary of these contracts [*Microsoft Corporation v. Motorola, Inc.*, 2:10-cv-01823-JLR (W.D. Wash.)].

## 2. **FORUM**

### 2.1 **Is the SEP holder who has given a FRAND commitment required to take any affirmative action prior to seeking injunctive relief against an infringer that has declared himself willing to negotiate a FRAND-license, such as having the terms of such a license determined by a competent court of law or a mutually agreed arbitrator?**

- Australia: No
- Brazil: No, but depending on circumstances, taking no affirmative actions may be viewed as an abuse of rights and reduce the chances of obtaining injunctive relief.
- Canada: Likely, no.
- China: No regulation or judicial judgement regarding this.
- European Union: Unclear. But the Commission seems to expect the parties to negotiate a FRAND license in good faith, which means that the SEP owner may seek injunctive relief only if and when those negotiations break down because the potential licensee is unwilling to enter into a FRAND licence. In this context, the Commission highlights in the memo announcing the Statement of Objection against Motorola that “[t]he acceptance of binding third party determination for the terms of a FRAND licence in the event that bilateral negotiations do not come to a fruitful conclusion is a clear indication that a potential licensee is willing to enter into a FRAND licence.” (MEMO/13/403). This seems to imply that in a situation where the potential licensee’s willingness to enter into a FRAND licence manifests itself by its acceptance to be bound by an independent third party determination of a FRAND royalty rate, the SEP owner may be required to engage in such an adjudication process prior to being able to seek injunctive relief.
- Germany: No.
- South Korea: While the holder of an SEP who has given a FRAND commitment has an obligation to negotiate in good faith with a potential licensee before exercising its right to injunctive relief, such obligation does not require that the SEP holder take specific affirmative action prior to seeking injunctive relief, such as having the terms of a FRAND license determined by a court or arbitrator.
- The Netherlands: No, at least not according to the case law as it currently stands.



- USA: No.

## 2.2 Is it possible for the prospective licensee to raise a claim for a license under FRAND conditions as a defence in patent infringement proceedings?

- Australia: FRAND is being used as a defence in Australia (see above)
- Brazil: Yes.
- Canada: One cannot rely on an implicit licence as a defence for patent infringement (affirmed in *Eli Lilly and Co. v. Apotex Inc.*, [2009] F.C.J. No. 1229).
- China: It is possible for the prospective licensee to raise a claim for a license under FRAND conditions although no judicial judgement is rendered.
- European Union: n/a
- Germany: As far as the claim for an injunction is concerned (not damage claims), FRAND can be raised as a defence in patent infringement proceedings (Bundesgerichtshof, GRUR 2009, 694 - *Orange-Book-Standard*; and many other decisions)
- South Korea: As *Samsung v. Apple* held that an injunction is possible unless the SEP holder is committing an abuse of rights and did not recognize that a FRAND commitment was a license or a binding offer to license, it appears difficult to recognize that a prospective licensee can “raise a claim for a license.”
- The Netherlands: Yes, see the above descriptions of the *Samsung v. Apple* cases, in which this was done by Apple.
- USA: Generally yes, a defendant in patent infringement proceedings can file a counterclaim for declaratory relief in which it asks the court to determine a FRAND rate for the SEP holders patents [see e.g. *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc (W.D. Wis. Oct. 29, 2012)].

## 2.3 Is it also possible for the potential licensee to raise the claim for a FRAND licence in a separate action (rather than as a mere defence)?

- Australia: A potential licensee can seek a declaratory judgement in Australia.
- Brazil: Yes, Brazilian Civil Code (Law no. 10406/2002), Article 464 and Brazilian Code of Civil Procedures (Law no. 5869/1973 c/c Law no. 8952/1994), Article 461.
- Canada: No court dealt with this issue in Canada yet.

- *China*: Yes, it is possible for the potential licensee to raise the claim for a FRAND licence in a separate action (see Huawei v.s. InterDigital case in Shenzhen Court). Further, the potential licensee can apply to the patent administrative department of the state council to grant it a compulsory license to exploit the patent, if the patentee's act of exercising the patent rights is determined as a monopolizing act and it is to eliminate or reduce the adverse consequences of the said act on competition. (See Chinese patent law, article 48). Until now, only one judicial judgement had confirmed that the SEP holder refused to permit in a FRAND conditions could be determined as a monopolizing act.
- *European Union*: No. While the Commission may act on a complaint or on its own initiative to investigate whether there is an infringement of Article 101 or of Article 102 of the Treaty on the Functioning of the European Union (see Article 7 of Regulation 1/2003 on the implementation of the rules on competition), it stressed on various occasions that it is not a price regulator and that it will not take a position on what a reasonable royalty rate is. The Commission is of the view that national courts or arbitrators are generally well equipped to do this.
- *Germany*: Yes. The potential licensee can file a separate action requiring the SEP holder to accept an offer for the conclusion of a licence contract (see e.g. Oberlandesgericht Karlsruhe, 6 U 66/09, BeckRS 2011, 06532). In theory, the potential licensee can also file a separate action for a declaratory judgment asking to establish that the offer SEP's holder is not on FRAND terms.
- *South Korea*: In theory, it may be possible for a potential licensee to raise a claim for a FRAND license in a separate action, but it appears unlikely that the courts would award a specific remedy in the form of a FRAND license.
- *The Netherlands*: Yes. And the court in the Philips v. SK Kasetten case explicitly referred to that possibility.
- *USA*: Yes. The potential licensee can file a separate action in a federal court seeking a declaratory judgment that it was entitled to FRAND licenses for the patentees SEPs and ask for a judicial accounting to determine appropriate royalty rates [see e.g. *Microsoft Corporation v. Motorola, Inc.*, 2:10-cv-01823-JLR (W.D. Wash.)].

### **3. DETAILED REQUIREMENTS**

- 3.1 Is it enough for the potential licensee to declare his willingness to enter into a FRAND licence in general terms, or is it necessary for the potential licensee to actually show its willingness by entering into negotiations and making a concrete offer to the SEP holder under which terms and conditions he would be willing to take such a license?**

- Australia: It is likely that a declaration of willingness will be sufficient provided such declaration is significant.
- Brazil: At the current stage, there is no sufficient and clear jurisprudence for replying this question.
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: While this question remained unclear in the announcement of the Statement of Objections against Samsung, the Commission has now made clear in the Motorola case that the acceptance of binding third party determination for the terms of a FRAND licence in the event that bilateral negotiations do not come to a fruitful conclusion is a clear indication that a potential licensee is willing to enter into a FRAND licence. And that by contrast, a potential licensee which remains passive and unresponsive to a request to enter into licensing negotiations or is found to employ clear delaying tactics cannot be generally considered as "willing" (see *European Commission*, 6 May 2013, MEMO/13/403, "Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents- Questions and Answers").

See also answer below to question 3.2 regarding the referral to the Court of Justice of the European Union by the Landgericht Düsseldorf.

- Germany: It is required that the potential licensee shows its willingness by entering into negotiations and making a concrete offer to the SEP holder under which terms and conditions he would be willing to take such a license. This is required, even if the patent proprietor has indicated earlier that no licences will be granted (Bundesgerichtshof, GRUR 2009, 694 – *Orange-Book-Standard*).
- South Korea: Under *Samsung v. Apple*, the potential licensee needs to show its willingness to enter into good-faith negotiations. In that case, the court held, as part of the reasons for its finding that there was no good faith negotiation effort on the part of Apple, that Apple did not request or negotiate for a license despite being aware of the existence of the SEPs, its use of such SEPs, and how to obtain a license, that unlike in Japan or the The Netherlands Apple did not take steps to deposit a financial contingency as described in Article 4.5 of the ETSI IPR Guidelines, and that Apple's 'attempts' at seeking a license from Samsung were not premised on an acknowledgement of the validity and infringement of the SEPs.
- The Netherlands: Yes, merely declaring a willingness and not acting in accordance with that, i.e. by not engaging in any subsequent negotiations and not making offers / counter-offers, would render the alleged willingness 'moot' (the prospective licensee will be considered an 'unwilling licensee'). It is not clear yet, however,

whether this means that the licensee has to make the first concrete offer or whether it is sufficient for him to request an offer first (and then respond to that offer with a counter-offer).

- USA: There is no definitive U.S. jurisprudence on this question.

### 3.2 Are there any specific substantive and/or chronological requirements with respect to such an offer?

- Australia: There is no case law on this in Australia so no requirements other than genuineness are envisaged. However, the above reference court case is likely to be of the utmost significance in setting out the likely substantive requirements.
- Brazil: At the current stage, there is no sufficient and clear jurisprudence for replying this question.
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: There is so far no case law. Also, the European Commission has so far been silent whether there would be such a requirement. However, a decision from the Court of Justice of the European Union (CJEU) can be expected in the near future. Indeed, on 21 March 2013, the Regional Court of Düsseldorf (Landgericht Düsseldorf) has referred five questions the CJEU for a preliminary ruling concerning the availability of remedies (primarily, but not only injunctive relief) to holders of FRAND-committed SEPs prevailing in patent infringement actions. One of the questions referred to the CJEU exactly addresses the present issue. The five questions are as follows:
  - (1) The first question referred by the Düsseldorf court to the CJEU focuses on whether the principles in the Orange-Book case are to be applied, or whether it is sufficient for the potential licensee to be willing to negotiate a licence on FRAND terms in order to avoid injunctive relief.
  - (2) The second question focuses on what is needed for a potential licensee to be regarded as a “willing licensee”, in particular whether there are specific requirements for said willingness to negotiate in substantive and/or chronological terms.
  - (3) The third question focuses on whether there are requirements to the offer to be made (e.g. does the offer have to set forth all of the commercial terms? Can the offer be conditioned upon actual use and/or validity of the SEP?).
  - (4) In the fourth question, the Dusseldorf court has requested clarification on whether there are particular requirements with respect to a pre-contractual fulfilment of obligations arising from the requested license

(e.g. does the potential licensee have to pay pre-contractual royalties? Can an obligation to pay pre-contractual royalties also be fulfilled by giving security payment or putting money into escrow?).

(5) The fifth question, is asking whether the presumption of abuse of a dominant market position by an owner of a SEP also applies to other remedies for patent infringement (rendering of accounts, recall of infringing products from distribution channels, damages).

- Germany: Yes, the the party seeking a licence (as the claimant for an antitrust licence) must have made an offer. The offer has to be serious, i.e. the potential licensee has to be willing and able to take a licence on FRAND terms. The SEP holder is not obliged to himself offer the permission to use the invention. The SEP holder abuses his market-dominant position only if he refuses to conclude a licence offered to him on FRAND terms (Bundesgerichtshof; GRUR 2009, 694, 696 – *Orange Book Standard*). But, the patentee can refuse individual contractual conditions only if he offers other conditions that are compatible with his antitrust law obligations.
- South Korea: As explained above, the obligation to negotiate in good faith applies to both parties, and so there is no specific chronological requirement with respect to such an offer. Whether the parties (both licensor and licensee) negotiated in good-faith will be determined on a case-by-case basis in consideration of the surrounding circumstances. In *Samsung v. Apple*, the court noted that Apple did not negotiate in good faith because:
  - It did not request or negotiate a license despite being aware of the existence of the SEPs and its implementation of the SEPs;
  - It did not negotiate on the premise that the SEPs were valid and infringed despite being informed by Samsung of the possible infringement;
  - It did not deposit or offer a financial contingency as described in Article 4.5 of the ETSI IPR Guidelines against the possibility that there was infringement;
  - It did not negotiate in good faith for a royalty rate calculated on the basis of a rational evaluation and review of the SEPs;
  - Although the same court also viewed some of Samsung’s conducts (such as Samsung not providing specific basis for calculation of the royalty rate it offered to Apple) negatively in determining whether Samsung negotiated in good faith, the court determined that Samsung’s conducts did not amount to abuse of rights that would prevent Samsung from seeking an injunction.
- The Netherlands: It is not possible to deduce specific requirements from the (*Samsung v. Apple*) case law. The only thing that is clear is that the specific way in which the SEP holder (Samsung) acted in the negotiations with the prospective

licensee (Apple) in those cases (inter alia by initiating proceedings before making a first license offer, and failing to respond substantively to certain counter-offers) prevented it from enforcing its SEPs. But the outcome in those cases doesn't mean that SEP holders cannot prevail anymore in injunction proceedings when acting in a more cautious, reasonable manner in the negotiations.

- USA: It is not possible to deduce such requirements from existing case law.

### 3.2.1 If yes, at what point of time in the proceedings does the potential licensee need to make the offer?

- Australia: There is no timing requirement on making an offer other than a perception of genuineness.
- Brazil: At the current stage, there is no sufficient and clear jurisprudence for replying this question.
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: The FRAND defence can only apply for the time after the FRAND offer has been made. In application of the general principles of German Civil Procedure Code an offer submitted after the statement of reply – at the latest during the last oral hearing – should not to be precluded. However, the Oberlandesgericht Düsseldorf has rejected in a specific case a licence offer made during the oral hearing of the first instance as precluded (Court of Appeals Düsseldorf, InstGE 10, 129 – *Ink Catridge II*). To be on the safe side the offer should therefore be made at the latest together with statement of defence.
- South Korea: As explained above, there is no specific chronological requirement regarding the licence offer, and the Samsung v. Apple decision took into account the overall negotiation process between the parties, including communications that took place after the filing of the suit and prior to close of the hearings.
- The Netherlands: There is not much guidance in terms of specific timing requirements. However, it could be argued that the licensee needs to make a (counter-) offer prior to entering the market.
- USA: Inapplicable, since there are no generally applicable legal rules, and determinations are inherently fact specific.

### 3.2.2 What are the requirements regarding the specificity of the offer?



- Australia: It is likely the offer must be genuine and serious, in accordance with the FRAND terms.
- Brazil: -
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: The offer has to be serious, i.e. the potential licensee has to be willing and able to take a licence on FRAND terms. The offer must include „usual terms“ and has to be ready for acceptance, i.e. specific offer with concrete terms and conditions (Bundesgerichtshof; GRUR 2009, 694 – *Orange Book Standard*). It is not sufficient to make an offer to take a licence on „reasonable terms and conditions“ (Court of Appeals Karlsruhe, GRUR-RR 2007, 177 – *Orange Book Standard*). But, the patentee can refuse individual contractual conditions only if he offers other conditions that are compatible with his antitrust law obligations.
- South Korea: The key question is whether the negotiations for a license under FRAND terms were pursued in good faith, and the offer must be concrete enough to satisfy this requirement. For example, in the Samsung v. Apple decision, the Seoul Central District Court took into account various factors such as the royalty rates offered by each party, whether each offer was based on a proper analysis or evaluation of the essentiality and technical value of the patents, whether the basis for calculating such royalty rate was provided to the other party, and whether there was an active effort or substantial negotiation to reduce or settle the difference in the royalty rate offered by each party.
- The Netherlands: Case law does not provide any specific requirements as to the required substance or specificity of the offer. In general, the less specific the offer will be, the more risk it will be considered non-serious/genuine or a 'sham' (and the more risk that the party making the offer will be considered an 'unwilling' licensee/licensor).
- USA: There is no definitive jurisprudence on this question, which is inherently fact specific.

### 3.2.3 Is it required that the offer also includes a concrete royalty?

- Australia: There offer should be in terms of any FRAND licensing terms.
- Brazil: -

- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: The offer must generally include a royalty rate and royalty base. Or a worldwide lump sum (Landgericht Düsseldorf, InstGE 10, 66, 73 - *Videosignal-Encoding III*). Licence agreements with other licencees can be used as a benchmark (Landgericht Mannheim, InstGE 12, 160 – *Orange Book Standard II*). When assessing the reasonableness it has to be taken into account that the patentee can not only claim an amortisation for his R&D costs, but also an adequate financial compensation for his innovative performance (Landgericht Düsseldorf, InstGE 7, 70 – *Videosignal-Encoding I*). The risk of determining “reasonableness“ is typically born by the potential licensee. But the German Federal Supreme Court admitted that potential licensee may have difficulties in determining the reasonable licence fee. (Federal Supreme Court; GRUR 2009, 694 – *Orange Book Standard*). The potential licensee may therefore leave the specification of a reasonable royalty to the equitable discretion of the patentee. If the plaintiff accepts such an offer and determines the amount, the actually owed amount is then subject to control in a subsequent litigation, i.e. patentee’s discretion is subject to judicial review.
- South Korea: While the initial royalty rate offer need not be made by the potential licensee, it appears that under the *Samsung v. Apple* decision, the potential licensee should make a concrete royalty rate counteroffer if it rejects the royalty rate offer made by the SEP holder.
- The Netherlands: Case law does not provide any specific requirements in this respect, although one could argue that an offer that is lacking the price is missing a key element of an agreement (and this could, also depending on the other circumstances, thus play a factor in determining the extent of 'willingness' of the party making the offer).
- USA: There is no definitive jurisprudence on this issue.

### 3.2.4 Is it possible to limit the offer to the territorial scope of the patent in dispute?

- Australia: This exact issue is before the courts in the *Samsung v. Apple* case.
- Brazil: N/A. At the current stage, there is no sufficient and clear jurisprudence for replying this question.
- Canada: -
- China: No regulation or judicial judgement regarding this.

- European Union: See above question 3.2.
- Germany: Divergent case law

pro: Principle of territoriality, matter in dispute; different scope of protection/validity, etc. (see Regional Court Mannheim, InstGE 12, 160 - *Orange Book Standard II*).

con: Common industry practice is worldwide portfolio licence; Limiting offer to territorial scope is most likely inadmissible, if prospective licensee is using same technology in other countries where patentee claims protection (see Regional Court Düsseldorf, InstGE 10, 66, 73 - *Videosignal-Encoding III*: allowed worldwide lump sum licence, albeit licensee is active only in sub-territory (but specific case, because patent pool licence)

- South Korea: The Korean courts have not specifically dealt with this question in the context of a potential licensee's FRAND defence to an SEP holder's claim for injunctive relief, although the Seoul Central District Court in its Samsung v. Apple decision cited the fact that Apple expressed "its intention to initiate conditional monetary deposit only in the selected nations where disputes regarding the above standard patents have occurred" as a basis for its finding that Apple did not negotiate in good faith.

Thus, it appears likely that the courts would make a case-by-case determination as to whether such an offer could be regarded as consistent with FRAND and the obligation on both parties to negotiate in good faith.

- The Netherlands: This issue has not been considered yet in case law. We believe that such a limitation will at least increase the risk of being considered an unwilling licensee, depending also on industry practices. In the Samsung v Apple case such territorially limited offer was however considered not to show an unwillingness on the part of Apple in the specific circumstances of that case (negotiation history, Samsung "jumping the gun").
- USA: There is no definitive jurisprudence on this issue.

### 3.2.5 Is it a requirement for the defence to be successful that the defendant accepts that for all past acts the patent proprietor's has a full claim for damages?

- Australia: No.
- Brazil: No, in principle, under Brazilian Law the FRAND defence would not require that the defendant accepts that the patent proprietor has a full claim for damages for all past acts.

- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: It is a requirement for a FRAND defence that the defendant accepts that for all past acts that the patent proprietor has a full claim for damages (Landgericht Mannheim, Motorola vs. Apple, 9 December 2011).
- South Korea: The Korean courts have not specifically dealt with this question in the context of a potential licensee’s FRAND defence to an SEP holder’s claim for injunctive relief. However, the Seoul Central District Court held in its Samsung v. Apple decision that the obligation of an SEP holder that made a FRAND commitment not to exercise its right to injunction applies vis-à-vis third parties that express their willingness to pay FRAND royalties on the premise that the SEP is valid, and held Apple’s request for a “royalty rate for individual standard patents and entire portfolio from Samsung on the premise that Apple is not acknowledging validity or infringement of the standard patents” as a basis for its finding that Apple did not negotiate in good faith.

Thus, a defendant’s denial of the validity of the SEP and its obligation to pay damages for past infringement of the SEP may be detrimental to the defendant’s assertion that it engaged in good faith negotiations for a FRAND license.

- The Netherlands: No.
- USA: There is no definitive jurisprudence on this issue.

### **3.2.6 Is it a requirement for the defence to be successful that the defendant has paid licence fees for past infringement?**

- Australia: No.
- Brazil: -
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: A successful FRAND defence requires that the defendant has paid (e.g. by way of deposit) the license fees according to the FRAND offer. These fees do not only have to be paid for the time after the offer, but also for the time prior to the FRAND offer, i.e. for the whole period during which the defendant made use of the teaching of the patent (Landgericht (district court) Düsseldorf, InstGE 10, 66

"Videosignal-Codierung III"). It should be noted that the patent proprietor is actually entitled to damages (which typically exceed the FRAND licence fees) for the time prior to the defendant's FRAND offer. That is, for the time prior to the offer, the patent proprietor can finally claim further payment in addition to the paid or deposited licence fees.

- *South Korea*: Although it is not a requirement for the defendant to have paid licence fees for past infringement in order to raise a successful FRAND defence, the defendant must establish that the SEP holder abused its rights and did not negotiate in good faith (while the defendant did negotiate in good faith). Therefore, it may harm the defendant's assertion that it negotiated in good faith if the defendant is unwilling to pay for past infringement.
- *The Netherlands*: No.
- *USA*: There is no definitive jurisprudence on this issue.

### 3.2.7 Is it possible that the license offer is made conditional, e.g. under the condition that the courts find that the patent is infringed and valid?

- *Australia*: There is no case law on this issue however, it is likely the forthcoming Samsung v. Apple decision will deal with this specific issue.
- *Brazil*: -
- *Canada*: -
- *China*: No regulation or judicial judgement regarding this.
- *European Union*: Yes. The Commission's preliminary view is very clear on this question: The fact that the potential licensee challenges the validity, essentiality or infringement of the SEP does not make it unwilling where it otherwise agrees to be bound by the determination of FRAND terms by a third party (see *European Commission*, 6 May 2013, MEMO/13/403, "Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents- Questions and Answers").

In addition see also above question 3.2.

- *Germany*: Under the Federal Supreme's Court "Orange Book Standard" decision, an offer to conclude a licence agreement, subject to the condition that the court holds for infringement, is not unconditional and therefore not sufficient. However, the licence seeking party may offer the license contract and nevertheless stick to its position that it makes no use of the licenced patent.

The "Orange Book Standard" decision is silent on the question whether the potential licensee would still be able to challenging the validity or essentiality of

the standard essential patent in question. While “Orange Book Standard” does not exclude such a possibility, some courts of first instance have decided that a successful FRAND defence would require the potential licensee to waive its validity and/or essentiality challenge ( see e.g.: Landgericht Mannheim, *Motorola v. Apple*, 9 December 2011).

- South Korea: Under the *Samsung v. Apple* decision, making a license offer conditional to a finding by the court that the patent is infringed and valid may be detrimental to the defendant’s assertion that it engaged in good faith negotiations for a FRAND license.
- The Netherlands: This has not been considered yet in case law.
- USA: There is no definitive jurisprudence on this issue.

### **3.3 Is the potential licensee pre-contractually required to fulfil obligations arising from the requested license?**

- Australia: There is no case law on this issue however, it is likely the forthcoming *Samsung v. Apple* decision will deal with this specific issue.
- Brazil: -
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: Yes, the potential licensee who is invoking a FRAND-defence has to already behave as if the licence had been granted. If the potential licensee has already started to use the subject matter of the patent before the patent holder has accepted the FRAND-offer, the potential licensee must then comply with those obligations that the licence contract to be concluded imposes on the use of the licensed subject matter (Bundesgerichtshof; GRUR 2009, 694 – Orange Book Standard).
- South Korea: The question of pre-contractual performance of obligations has not been raised in South Korea.
- The Netherlands: This has not been considered yet in case law.
- USA: There is no definitive jurisprudence on this issue.



### 3.3.1 If yes, is the potential licensee required to pay pre-contractual royalties?

- Australia: There is no case law on this issue however, it is likely the forthcoming Samsung v. Apple decision will deal with this specific issue.
- Brazil: -
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: Yes, because the potential licensee must behave as if licensed and comply with the obligations that the licence contract to be concluded imposes, he is required to pay a reasonable licence fee to the hypothetical licensor (Bundesgerichtshof; GRUR 2009, 694 – *Orange Book Standard*).
- South Korea: Please refer to the response to Question 3.3.
- The Netherlands: This has not been considered yet in case law.
- USA: There is no definitive jurisprudence on this issue.

### 3.3.2 If yes, can the payment of these pre-contractual royalties be fulfilled by a payment into escrow or by providing any other kind of security?

- Australia: The payment into escrow is likely to influence the court in showing the genuineness of the defendant. There is no case law on this issue however, it is likely the forthcoming Samsung v. Apple decision will deal with this specific issue.
- Brazil: -
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: Yes, the potential licensee can guarantee the payment by putting a “sufficient” amount in escrow for the time he uses or has used the technology without having a licence (Bundesgerichtshof; GRUR 2009, 694 – *Orange Book Standard*).
- South Korea: Please refer to the response to Question 3.3.

- The Netherlands: This has not been considered yet in case law.
- USA: There is no definitive jurisprudence on this issue.

### 3.3.3 Is the potential licensee required to render accounts incl. rendering accounts for past acts of infringement?

- Australia: It is likely that the potential licensee will have to render accounts.
- Brazil: -
- Canada: -
- China: No regulation or judicial judgement regarding this.
- European Union: See above question 3.2.
- Germany: Yes, the potential licensee is also supposed to render accounts for acts of past infringement and in case of running royalties, the prospective licensee must also file regular royalty reports.
- South Korea: Please refer to the response to Question 3.3.
- The Netherlands: This has not been considered yet in case law. In case of infringement it is however common for the courts to order the defendant to render accounts in connection with a damages claim.
- USA: There is no definitive jurisprudence on this issue.

\* \* \*

**APPENDIX: List of contributors to the questionnaire**

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