Court of Justice of the European Union (CJEU) to Bring Clarity to the Enforcement of Standard-Essential Patents (SEPs) in Europe

SPEED READ

The enforcement of SEPs in Europe has been the subject of heated debate for several years, as well as being one of the principal themes of the “patent wars” that have been raging between major players in the telecoms sector.

Competition authorities have, over time, taken positions seeking to restrict SEP-owners’ ability to seek aggressive remedies (in particular, injunctive remedies) against alleged infringers. However, the legal soundness of these positions has not previously been tested. Fortunately, this is now precisely the subject matter of the *Huawei v. ZTE* case, on which the CJEU held an important hearing today.

The outcome of this case will be enormously important to SEP owners and standard implementers alike, affecting the values attributable to technology patent portfolios, along with future enforcement/licensing strategies. It is however to be expected that a number of questions will remain unanswered, even once the CJEU has spoken.
Background

Standardisation is inherently complex from a competition law perspective: while on the one hand the existence of standards is pro-competitive in that it allows all implementers to market compatible products, thus increasing competition, standards may also have anti-competitive effects, notably insofar as they enable owners of intellectual property rights (IPRs) to extract unduly high royalties, or indeed to prevent competitors from entering the market by refusing to license their IPRs at all.

These concerns have been addressed by two complementary requirements on owners of so-called SEPs (patents without the use of which a standard cannot be implemented). These are:

1. the requirement to disclose SEPs, so that implementers can ascertain which patents they need to take a license to in order to be able to implement the standard; and
2. the requirement to give undertakings to license SEPs on fair, reasonable and non-discriminatory (FRAND) terms.

That, however, leaves open the question of the remedies that should be available to an SEP owner in the – quite frequent – situation where an implementer starts marketing standard-compliant products without having first secured a license from the SEP owner. In that situation, can the patent owner take court action against the infringement, what type of relief may be sought, and what relief should the court order? In particular, should injunctive relief be available?

National case law and the Orange Book framework

That particular question has now arisen before several national courts of EU Member States. Amongst these, the UK courts have stood out as being unlikely, as a general rule, to allow the owner of an SEP to obtain injunctive relief – the court has typically required the SEP holder to demonstrate infringement first, with an injunction only being possible at the final stage if the infringer for some reason was not willing to pay a FRAND rate. The courts of other member states, however, took different views, sticking to the fundamental principles that patents constitute monopoly rights, and that implementers desiring to make use of them should first secure a license from the owner. Hence, injunctions were issued over the years on the basis of SEPs by Dutch and French courts.

The most sophisticated framework for the assessment of this issue was developed by the German courts, in the Orange Book decision of the Federal Supreme Court of 6 May 2009 and its progeny. Under this framework, an implementer is able to raise a FRAND defence, and to defeat a claim for injunction, only if it made the patent owner an unconditional and binding offer to enter
into a license agreement, **on terms which could not be refused** by the patent owner without being unfair or discriminating. Of note, these terms require the implementer to waive his right to challenge both the validity and the actual standard-essentiality of the patent at stake. They also put the burden on the implementer to state an at least FRAND royalty rate, although that hurdle may be circumvented (according to subsequent case law) by leaving the determination of the FRAND rate to the courts. The Orange Book framework finally requires the implementer to **behave as a licensee**, by either paying royalties to the patentee or at least placing the corresponding amounts in escrow.

Subsequent to the Orange Book decision, the German courts, which hear a large portion of European SEP infringement cases, have consistently applied the conceptual framework defined in that decision.

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1 See eg the comments of Roth J in Nokia v IPCom – 18 May 2012 (unreported)
2 Philips v. SK Kasetten, 17 March 2010, concerning CD and DVD standards
3 In multiple cases involving the MP3/DVB technology
4 BGH decision of 6 May 2009, case no. KZR 39/06

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The Commission’s position in Samsung and *Motorola* and the *Huawei v. ZTE* referral

The recent patent wars between several telecoms giants have prompted the European Commission to intervene in the debate, in its role as competition enforcement authority.

Initially, the Commission’s views appeared fairly relaxed. Indeed, it considered in the Google/Motorola merger control decision, that “the seeking or enforcement of injunctions on the basis of SEPs is not, of itself, anti-competitive”.

However, after Samsung and Motorola brought patent infringement cases in Europe on the basis of their respective SEPs against Apple, the Commission opened formal antitrust investigations against these two companies, on the basis that the mere seeking of injunctive relief based on SEPs may constitute an abuse of dominant position, and sent those companies statements of objections. The theory behind these cases is that the simple threat of an injunction, resulting from the initiation of proceedings rather than from it being effectively ordered by a court, would allow the SEP owner to force the implementer to accept licensing terms that are not FRAND, and especially higher royalty rates (the so-called “hold-up”).

This underlying theory has been vehemently challenged by some, on multiple grounds. Amongst many other reasons, some have argued that the restriction of the availability of (and even more the possibility to even seek) injunctive relief would allow implementers to obtain lower-than-FRAND licensing terms (the so-called “reverse hold-up”). Others have put forward the view that access to courts is a fundamental right which may not be restricted by competition authorities, except maybe in the most exceptional circumstances.

Yet, the Commission continued its investigations, and eventually came to the conclusion that “the seeking of an injunction based on SEPs may constitute an abuse of a dominant position if a SEP holder has given a voluntary commitment to license its SEPs on FRAND terms and where the company against which an injunction is sought is willing to enter into a licence
agreement on such FRAND terms". Through this finding, the Commission purported to “provide legal clarity on the circumstances in which injunctions to enforce standard essential patents can be anti-competitive”. Whether that objective has been achieved is however far from certain, if only because it leaves open the question of the circumstances in which it should be considered that an implementer is a so-called “willing licensee”, i.e. one, in the words of the Commission, “willing to enter into a licence agreement on FRAND terms”.

That is also the question to which the Orange Book framework intended to respond, by essentially holding that, to be “willing”, a prospective licensee must comply with the conditions outlined above. Yet, in the Samsung and Motorola cases, it was plainly obvious that the implementer did not fulfil the requirements of Orange Book. In view of these uncertainties, in a ruling of 21 March 2013, the Düsseldorf first instance Court, in a dispute between Huawei and ZTE concerning the alleged infringement of the former’s patents essential to the LTE (4G) standard, decided to seek guidance from the CJEU by referring a set of six preliminary questions. The wording of those questions closely mirrors the various requirements of the Orange Book framework, seeking to test the compatibility of each of them with EU law. Beyond that specific wording, three fundamental questions are involved:

- Can the mere seeking of an injunction before an independent court constitute an abuse of dominant position?
- What criteria must an implementer fulfil to be considered as a “willing licensee”, against whom no injunction should be ordered: is it sufficient for the implementer to merely state a willingness to negotiate, or does he need to fulfil additional requirements, possibly up to those defined in the Orange Book framework?
- Aside from injunctions, what other type of remedies, and in particular what damages, can the SEP owner seek and obtain?

Today’s hearing

Today’s hearing was by no means the final stage of these proceedings; the Advocate General is still to render his opinion prior to the Court ruling on the case. However, following the hearing, a few points are noteworthy.

Unsurprisingly, the parties have extensively debated the question of the extent to which SEPs are different from “regular” patents and what those differences might imply in terms of derogating from the fundamental principle that the subject-matter of an IPR is the right to exclude third parties, as the CJEU had held in its Volvo v. Veng ruling of 1988.

Another important focus was the criteria to be applied to determine “willingness”. The Commission’s holdings in the Samsung and Motorola were heavily criticised not only by Huawei, but also by the intervening Member States (the Netherlands and Finland appeared), as being not only imbalanced in favour of implementers, but also insufficiently clear and difficult to apply. The question of whether “willingness” differs cognisably from pre-contractual good faith, as required by the FRAND commitment, was also raised.

Interestingly, both the questions from the Court and the observations from intervening Member States suggest that the Court may go beyond the narrow questions referred by the Düsseldorf Court. In particular, the Netherlands invited the Court to address the issue of
whether the ownership of an SEP per se places its owner in a dominant position. Also, while the Orange Book framework is entirely focussed on the behaviour of the implementer, the Netherlands and Finland suggested that the Court should shift its focus to the patent owner – who is undoubtedly the debtor of the FRAND commitment.

What will come next?

The questions asked of the CJEU are of quintessential importance to both patentees that own SEPs and implementers of standards alike, since the answers could redefine the delicate balance between them in what are often difficult and protracted licensing negotiations.

It is of course difficult to predict what the CJEU will do, but it is unlikely that the Court would adopt an extreme position. On one hand, a ruling that it suffices for an implementer to declare himself willing to negotiate to be considered as a “willing licensee”, thereby defeating requests for injunctions, could dramatically deprive SEP owners of their negotiation leverage, exposing them to the risk of “reverse hold-up” mentioned above, and ultimately result in a disincentive to contributing their R&D to standardisation efforts. On the other hand, some aspects of the Orange Book framework seem difficult to reconcile with the basics of competition law; such as, in particular, the requirement that implementers waive their right to challenge the validity of the patents, which effectively results in royalties being paid for invalid patents.

Another aspect to take into consideration is that, while the preliminary questions in the Huawei v. ZTE case, as well as the decisions of the Commission in the Samsung and Motorola cases, involved large undertakings whose ability to comply with damages awards can hardly be called into question, SEP litigation also arises in sectors with very different economic structures, in which the solvency of implementers can be doubtful and where the market fairness aspect – the requirement that all implementers bear the same licensing costs at the same time – may play a more important role.

Finally, it should be remembered that the CJEU has wide discretion to rephrase the questions put to it by the referring court, or even to raise additional issues which it considers relevant. Given the arguments raised in particular by the intervening Member States, the Court may well make use of this possibility in this case, perhaps to address the (currently untested) threshold premise on which the current line of case-law and decisions is based, namely the idea that the ownership of a single SEP, among several hundreds or thousands, would per se place the patent owner in a dominant position.

Taking all these factors into account may mean that the CJEU is unable to devise a hard and fast test to define a “willing licensee”, instead providing high-level guidance to be implemented by national courts on a case-by-case basis. While that may seem regrettable at first sight, in that it limits the level of clarity resulting from the ruling, it might be a more positive outcome in the long run, in that it would allow national courts to apply the conceptual framework defined by the CJEU to the specifics of the cases before them.

In any event, in view of the factual setting of the case as well as of the questions referred, the CJEU’s emphasis may well be on the behaviour required from the implementer to become a “willing licensee”. That, however, would not answer other fundamental questions that are hotly debated in the sector concerning the obligations that the SEP owner, who is the debtor of the FRAND commitment, bears as a result of that commitment; and concerning the degree of discretion the SEP owner has in defining negotiation terms, e.g. by requiring a portfolio-based negotiation or a cross-license on SEPs. The intervening Member States have clearly raised those issues in their remarks to the Court, which might lead it to expand its focus to also address - at least in part - these very important questions.

The next step will be for the Advocate General to give his opinion on the case, which is expected to be published on 20 November. The Court will then render
its final decision, probably early next year. Even though it is unlikely to finally sort out all of the issues relating to SEPs, its decision will be of paramount importance not only to patent litigation, but also to R&D in standardised fields for the coming decades.
Key contacts

If you require advice on any of the matters raised in this document, please call any of our partners or your usual contact at Allen & Overy.

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