

# The Power Balance Between SEP Owners and Implementers in SEP/FRAND Litigation in Europe : Analysis of Four Key Characteristics of the European Judicial Landscape

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**[Abstract]** This article analyzes the following four key characteristics of the European judicial landscape which heavily impact the power balance between the owners of standard-essential patents (“SEPs”), and the implementers, respectively, in SEP-related litigation.

- Procedural restrictions regarding the judicial enforcement of SEPs.
- Material definition of a “fair and reasonable” licensing practice.
- Material definition of a “non-discriminatory” licensing practice.
- The question whether courts are prepared to determine what a fair, reasonable and non-discriminatory (“FRAND”) licensing rate in a particular case is.

The SEP owner is currently in a quite powerful position in Germany and the UK. However, this may change if the request for a preliminary ruling of the CJEU in *Nokia v. Daimler* proceeds. Due to this CJEU referral, it also seems to be a high risk strategy to restrict availability of licenses to the OEM level (“*Nokia v. Daimler* issue”).

When starting a new SEP litigation campaign, the UK might be the preferable forum, as the court will calculate and set a FRAND rate, leading to a strong precedent for future cases in other jurisdictions. In contrast, the German jurisdiction might be the more efficient venue to run bulk litigation in established SEP licensing/monetization programs.

**[Keywords]** FRAND SEP Litigation Europe implementer

## 1. Introduction

In this article, we are going to analyze four key characteristics of the European judicial landscape which heavily impact the power balance between the owners of standard-essential patents (“SEPs”), and the implementers, respectively, in SEP-related litigation.

In Europe, SEP litigation took off when the 2G (GSM/GPRS) mobile telecommunication standard became mature, and some of the companies initially involved in the development of this first European digital

mobile telecommunication standard started to retreat from the business of manufacturing cellular equipment, especially mobile phones. Instead of seeking return on investment on the product market, these early pioneers switched to patent monetization strategy, in particular based on the wealth of their portfolio of SEPs. One of the first players taking this approach was Robert Bosch, selling their mobile phone patent portfolio to the Fortress-funded patent monetization vehicle IPCom in 2007. IPCom then sued Nokia in various courts, fueling the appetite of many other patent holding entities to follow this trend which never ceased to

grow until today. As a second early leitmotif, chipset manufacturers started to enforce their SEPs against implementers who sourced chips from competing manufacturers and/or refused to take an (additional) license. This second megatrend also started in 2007 (e.g. with the global Qualcomm vs. Nokia battle), and recently got further momentum in the connected-car battles (e.g. Broadcom vs. Audi). The connected-car battles eventually put SEP/FRAND litigation in Europe “on steroids” leading to a new quality litigation, as the traditional giants of the German post-war industry, the automotive OEMs are confronted with a very serious attack of their well-established strictly horizontal licensing model, putting their high-price products under the threat of an injunction for alleged SEP infringement, no different to a budget smartphone for a fraction of the price.

In the course of these roughly 15 years of SEP litigation, the power balance between the SEP owners and the implementers shifted repeatedly. This power balance depends on a large number of variables, including the financial capability and level of sophistication of the parties involved in the concrete cases. However, leaving aside specific party-related and other “soft” factors, the relevant legal framework has the most significant impact on the power balance.

Within the legal framework, procedural restrictions regarding the judicial enforcement of SEPs (based on antitrust/cartel law) are likely the most important key characteristic impacting the power balance as they define the strength of the starting position of the SEP owner and the implementer, respectively, in judicial litigation.

Next to these procedural key characteristics, the scope and definition of material obligations of the SEP owner to grant fair, reasonable and non-discriminatory (FRAND) licenses form further key characteristics defining the power balance; if the SEP owner does not stay in compliance with these material obligations, various adverse consequences may kick in, including denial of injunctive relief in patent litigation, and prosecu-

tion/punishment under antitrust law.

Lastly, the power balance is impacted by the question whether courts are prepared to determine FRAND royalty rates in their own capacity, independent from what the parties may consider as being FRAND, or whether the courts restrict their role to reviewing the licensing offers submitted by the parties, but refrain from making their own calculation. This role of the court on the structural level of the judicial system may either balance out the parties’ power level by replacing the FRAND assessment of the parties, or rather accepts the power balance between the parties when reviewing the submitted FRAND offers, at least as a starting point.

In summary, we will analyze the following four key characteristics :

- Procedural restrictions regarding the judicial enforcement of SEPs.
- Material definition of a “fair and reasonable” licensing practice.
- Material definition of a “non-discriminatory” licensing practice.
- The question whether courts are prepared to determine what a fair, reasonable and non-discriminatory (“FRAND”) licensing rate in a particular case is, or whether the courts restrict their jurisdiction to an evaluation of the FRAND licensing offers submitted by the parties.

## 2. Analysis of the four key characteristics

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### 2.1 Procedural restrictions regarding the judicial enforcement of SEPs

The first key characteristic defines the strength of the starting position of the SEP owner and the implementer, respectively, in judicial litigation. The basic idea of procedural restrictions regarding the availability of injunctive relief based on SEPs is that the implementer has a claim for a FRAND license against the SEP owner which potentially stops the SEP owner

from preventing the implementer to use the SEP based on the exclusivity normally provided by a patent (*dolo agit*). Therefore, the claim of the SEP owner (injunctive relief) and the conflicting claim of the implementer (availability of a FRAND license) need to be reconciled. Such reconciliation is aimed by imposing specific procedural acts on the parties involved in SEP litigation, assuming that the overall corset of required acts results in an appropriate power balance between the parties (like the rules of a complex game, e.g. chess).

(a) “Orange-Book-Standard” in 2009

The 2009 decision of the German Federal Court of Justice “Orange-Book-Standard”<sup>1</sup> set the opening scene of the epic European FRAND tale. From the implementer’s view, this opening scene looked rather sinister, as it put the implementer in a purely defensive position.

Literally standing with its back to the wall, the implementer had very little chance to escape an SEP-based injunction.<sup>2</sup> The newly created term “FRAND defense” was actually a precise description of the then-applicable rule : as a starting point, “Orange-Book-Standard” implicitly assumed that the SEP owner is free to enforce its SEP without any restrictions, including injunctive relief. In other words, absent any FRAND-specific “re”-action of the implementer, the right owner can enforce its SEP like any other patent, and if the court finds the patent to be essential, such action will result in an enforceable injunction (and damages, of course).

Only if the implementer raised the FRAND defense, additional rules kicked in. However, according to “Orange-Book-Standard” raising the FRAND defense put a massive initial burden on the implementer. The implementer, not the SEP owner, had to submit a (draft) licensing agreement. Without any access to (potentially) existing licensing agreements of the SEP owner (or its predecessor in title), the implementer had to formulate licensing terms meeting FRAND conditions. On the monetary side, this created a high

risk that the implementer picked an over-FRAND licensing rate, as an under FRAND rate would have resulted in an instant loss of the FRAND defense.

Consequently, the FRAND defense according to “Orange-Book-Standard” was essentially a kneeling of the implementer before the SEP owner. It is apparent that even the most abusive licensing behavior of the SEP owner did not meet automatic sanctions, while the implementer’s failure to land on a FRAND rate (or any other FRAND “offense”) resulted in an instant loss of defensive rights.

From today’s perspective, the “Orange-Book-Standard” regime may look harsh ; however, this initial (dis-)balance of power between the SEP owner and the implementer still serves as a very good reference point when seeking an objective assessment of the situation evolving in the next acts of this epic tale. Therefore, “Orange-Book-Standard” remains to be the “standard zero” when assessing subsequent and current FRAND regimes.

(b) “Huawei v. ZTE” in 2015

In 2015, following to a referral of the Dusseldorf Regional Court, the Court of Justice of the European Union (CJEU) took over the lead in the FRAND debate in “Huawei v. ZTE”.<sup>3</sup> While the “correct” reading of this landmark decision is still highly disputed, it seems fair to say that the CJEU envisaged a ping-pong-ask sequence of steps both the SEP owner and the implementer must observe in SEP litigation :

- The SEP holder must notify the user of the infringement and must identify the SEP and indicate the act of infringement.<sup>4</sup>
- The user must respond to this with a request for licensing and must thereby indicate his willingness to license.<sup>5</sup>
- The SEP holder must submit a written license offer on FRAND terms and conditions, specifying in particular the method of calculating the license fee.<sup>6</sup>
- The user must respond to the offer carefully and within a reasonable time. If he rejects it, the

FRAND objection can only be raised if he in turn submits a written offer on FRAND terms within a short period of time.<sup>7</sup>

In addition, if the user continues to use the SEP without a corresponding license agreement, he must provide security in an appropriate amount from the time his counter offer was rejected.<sup>8</sup>

By handing down this decision, the court distanced itself from the point of view of the German Federal Court of Justice that put almost all responsibility on the shoulders of the licensee.

However, as it turned out in the reception of this decision by the European national courts (see below), the CJEU has not clearly stated whether the above mechanism should be understood as a strict script for SEP litigation, and if so, whether or not omissions of either party can be cured during litigation, or whether the implementer's failure to comply with any of its obligations would result in a loss of the FRAND defense, irrespective of the behavior of the right owner.<sup>9</sup> Further, it remained open whether an injunction is still available if both the SEP owner and the implementer submit licensing offers which fall into a corridor of FRAND conditions (so-called FRAND v. FRAND situation).<sup>10</sup>

As a leitmotif of this decision, the Court emphasizes the notion of the FRAND declaration made by the SEP owner during standardization, which implementers can rightfully rely on. While this reasoning of course avoids a more profound analysis of any restrictions directly obtained from Articles 101, 102 TFEU (even if no FRAND declaration exists at all, or the current owner is not the entity who made this FRAND declaration), it nevertheless becomes clear that the implementer is no longer in a purely defensive position like under "Orange Book Standard", but rather has clear and powerful legal means to force the right holder into transparent negotiations at eye level. Despite remaining unclarity of "Huawei v. ZTE", it therefore seems to be a fair understanding of this decision that the CJEU was striving for a much restricted availability

of injunctive relief and a much more balanced distribution of power between the SEP owner and the implementer, imposing obligations on both sides. This seemed to end the era where absent any FRAND-specific reaction of the implementer, the right owner can enforce its SEP like any other patent.

This basic achievement of "Huawei v. ZTE" is often overlooked in today's debate. Consequently, it seems fair to consider "Huawei v. ZTE" as the counter swing of the pendulum after "Orange Book Standard". This takes us now to the third act of the FRAND saga – and guess where to the pendulum starts to swing now.

### (c) Interpretation of the "Huawei vs. ZTE" mechanism by European national courts

#### (i) Court of Appeal of the Hague in 2019

The first Dutch appeal court decision addressing a FRAND-defense in infringement proceedings after "Huawei v. ZTE" was handed down by The Hague Court of Appeal in May 2019.<sup>11</sup> In this decision, in the court heavily focuses on the willingness of the implementer to conclude a license agreement on FRAND terms. According to the court, this aspect is of such outstanding relevance that it does not even matter whether or not the patent proprietor himself fulfilled any of his FRAND obligations.<sup>12</sup> The implementer is stopped from raising the FRAND defense in case he is not considered to be "willing", no matter whether the SEP owner is in compliance with any of its obligations under "Huawei v. ZTE". This view was reaffirmed in a further decision by the same court.<sup>13</sup>

The Dutch court therefore deviates from the procedure established in "Huawei v. ZTE", heavily shifting the procedural power to the SEP owner.

#### (ii) German Federal Court of Justice in 2020

Similar to the Dutch case law, the German Federal Court of Justice held in "SISVEL v. Haier"<sup>14</sup> that the implementer has to fulfill several requirements to be considered as "willing" licensee which is entitled to the FRAND defense, citing the UK High Court Judge Birss: "A willing licensee must be one who is willing to take a FRAND license on whatever terms are in fact

FRAND”.<sup>15</sup> The licensee has to make clear that he is prepared to accept any licensing rates and conditions, no matter how unsatisfying they seem to be, as long as they are FRAND. Under this rule, the implementer has to seek actively a FRAND license throughout the entire litigation, showing serious engagement in licensing negotiations and target-orientated behavior. Consequently, the implementer’s overall behavior over time is relevant.<sup>16</sup> A simple declaration of willingness is not sufficient;<sup>17</sup> rather a specific licensing request is expected. The implementer has to adjust its position in the course of negotiations, rather than insisting on its original position. Delay tactics will be interpreted as a lack of willingness.<sup>18</sup> The same applies to requests regarding information, which can be obtained from public sources. The implementer may request further information, but only within a short time frame.

In contrast, with regard to patentee’s obligation to send a notice of the infringement as a starting point of the procedure, the court held that such a notice only needs to be given in cases in which the infringement is not obvious to the implementer.<sup>19</sup> The patentee can generally fulfill the obligation to send a notice of the infringement by pointing to the SEP and the infringing activity.

Under these rules, the implementer faces a high risk of being considered as “unwilling implementer”, resulting in a loss of the FRAND defense, while the SEP owner has little or even nothing to fear in case he neglects his procedural obligations envisaged by “Huawei v. ZTE”. Like the Dutch Court of Appeal of the Hague, the German Federal Court therefore seems to be moving sharply away from the mechanism developed by the CJEU in “Huawei v. ZTE”, heading in the direction of the old ruled of “Orange Book Standard”, which strongly shifts the procedural power towards the SEP owner. Unless the CJEU again corrects this Germanic attitude to SEP litigation, the implementer’s legal means to force the right holder into transparent negotiations at eye level are diminishing.

(iii) Supreme Court of the United Kingdom in 2020

The UK Supreme Court issued a similar opinion in his long-awaited judgment “Unwired Planet v. Huawei” of 2020.<sup>20</sup> It found that the duty for a SEP-holder to make an offer on FRAND terms arises only at the point where the implementer has clearly expressed his willingness to conclude a licensing agreement on FRAND terms.<sup>21</sup> This judgment therefore also expects the licensee to carry most of the responsibility for the successful conclusion of a FRAND licensing agreement.

(iv) Referral to CJEU in “Nokia v. Daimler” in 2020

Against this background, the Dusseldorf Regional Court recently stayed the proceedings in “Nokia v. Daimler” and referred a set of questions to the CJEU in order to receive a preliminary ruling.<sup>22</sup> In particular, the Court asked the CJEU to clarify the requirements established by it in “Huawei v. ZTE” :

- Irrespective of the fact that the SEP owner and the implementer both have to fulfill several obligations prior to litigation, is it still possible to catch up on these obligations during pending litigations?
- Is the implementer’s request for a license only relevant if, on the basis of a comprehensive assessment of all accompanying circumstances, the implementer clearly and unambiguously shows willingness to conclude a licensing agreement on FRAND terms, whatever these FRAND terms may look like?
  - Does an implementer, who remains silent for several months in response to the infringement notice, thereby regularly indicate that he is not interested in taking a license, so that - despite the verbally formulated licensing request - there is no such request, with the consequence that the SEP owner is entitled to injunctive relief?
  - Is it allowed to conclude that the implementer did not make a valid licensing request based on the details of the implementer’s counter offer, resulting in an immediate dismissal of the implementer’s FRAND defense, without prior ex-

amination whether the SEP owner's licensing offer complies with FRAND conditions at all?

- Is such a conclusion at least prohibited where the license conditions of the implementer's counter offer are neither obviously un-FRAND nor considered un-FRAND under the case law of the Federal Court of Justice?

It remains to be seen where the pendulum is going to swing this time.

## 2.2 Material definition of a "fair and reasonable" licensing practice

Having analyzed the first – procedural – key characteristic heavily impacting the power balance between the SEP owners and implementers in section B above, we are now starting to look at two further key factors which are highly relevant for this power balance on the level of substantive/material law : restrictions on the allowable design of the licensing practice of the SEP owner. If the SEP owner is not in compliance with these restrictions, various adverse consequences may kick in, including denial of injunctive relief in patent litigation (see section B.1 above), and prosecution/punishment under antitrust law.

Before we start this analysis, we briefly summarize the fundamental legal basis of the restrictions on the allowable design of the licensing practice of the SEP owner. Over time, three main approaches have evolved. The first approach is to see the standardization of patents and the dominant position of the SEP holder that is associated with it as a cartel formation within the meaning of Art. 101 of the Treaty on the Functioning of the European Union (TFEU). Nevertheless, this cartel formation can be justified by a commitment of the SEP owner to grant licenses to third parties on FRAND conditions.<sup>23</sup> Furthermore, Art. 102 TFEU prohibits the abuse of a market-dominant position. An SEP owner who refuses to grant fair, reasonable and non-discriminatory licenses to third parties will infringe this per-se prohibition of Art. 102 TFEU. The third approach rather understands a

FRAND declaration towards a Standard Setting Organization (SSO) as a contract-like document which constitutes the legal basis for a claim of the implementer against the SEP owner to grant a FRAND license.<sup>24</sup>

As regards the material definition of "fair and reasonable" licensing practice, the European discussion focusses on three sub-issues which are briefly explained below : the accepted method for calculating FRAND rates, the question whether the FRAND royalty rate applies on the Smallest Salable Patent Practicing Unit, or rather on the Entire Market Value ("SSP-PU v. EMVR"), and the question whether the SEP owner is under the obligation to offer licenses to all entities involved in a supply chain, or rather can restrict availability of licenses to the OEM level ("Nokia v. Daimler issue"); this sub-issue is also subject matter of the aforementioned referral to CJEU in "Nokia v. Daimler" by the Dusseldorf Regional Court.

### (d) Accepted method for calculating FRAND rates – the double approach

In the European FRAND royalty rate calculation practice, two main approaches are commonly used : (1) the comparable licensing agreement approach, and (2) the top-down approach. The comparable licensing agreement approach normally takes the lead in the calculation, while the top-down approach typically serves as a checkpoint for the results derived from the application of the comparable licensing agreement approach. Both approaches are briefly explained hereinafter.

#### (i) Comparable licensing agreement approach

The reliance on evidence and data in comparable license agreements for the purpose of FRAND royalty determination is common ground in Europe.<sup>25</sup> However, the exact methodology of making such comparison is still under discussion, and approaches vary within the European jurisdiction.

The UK courts start by identifying a comparable license agreement entered into by the patent proprietor or third parties.<sup>26</sup> Then the value of the disputed portfolio (R) is put in relation to the license fee of the settlement agreement (E). The value R is the ratio of

the disputed SEPs to the SEPs in the Settlement Agreement. The admissible license fee is then equal to  $E$  times  $R$ .

While also German courts regard existing license agreements as extremely relevant for figuring out this acceptable range and then determining the fairness and reasonableness of the rate offered to the implementer,<sup>27</sup> they take a less mathematical approach, reflecting the general view that a FRAND licensing rate is not a fixed, mathematically calculated rate but rather an acceptable range.<sup>28</sup> The main idea of the German approach is that it is the burden of the SEP owner to explain his license offer and show that it is not discriminating or exploiting, especially with regard to existing licensing agreements.<sup>29</sup> The court generally does not re-calculate the offered royalty rate, but rather assesses the validity of the explanations given by the SEP owner. Based on this approach, the SEP owner does not even need to explain the royalty rate if such rate is already accepted by a significant number of existing licensees.<sup>30</sup>

(ii) The top-down approach

As a checkpoint for the results derived from the application of the comparable licensing agreement approach, the top-down approach is commonly used in Europe. The first step is the estimation of the aggregate royalty rate of all SEPs concerning a given standard.<sup>31</sup> Afterwards, the court will have to evaluate the exact portion of a particular SEP holder's portfolio to this aggregate rate.

It should be noted that the determination of the upper limit for the royalty rate to avoid overcompensation is sometimes a difficult endeavor. There is often no reliable and broadly accepted data concerning the aggregate rate.<sup>32</sup>

In addition, it is an open question whether all SEPs need to be considered as having an identical value (numerical approach), or whether the value of the individual SEPs needs to be weighted (weighting approach). European FRAND negotiation practice tends to favor the numerical approach as every SEP is equally impor-

tant for the use of the standard and in this regard none is more significant than the other.<sup>33</sup> However, it is also argued that the significance of the SEPs can never be the same due to the differences between their contributions to the standard.<sup>34</sup> Such an assumption would be against the aim of benefit- and market value-oriented patent protection. In addition to that, regarding all SEPs as equally important may increase the risk of over declaration.

(e) SSPPU v. EMVR

The second main sub-issue in the context of fair and reasonable licensing practices is the question whether the FRAND royalty rate applies on the Smallest Salable Patent Practicing Unit ("SSPPU"), or whether rather an Entire Market Value Rule ("EMVR") needs to be applied.

When applying the EMVR, the value of the entire product creates the base for the calculation of the remuneration. Then again, the SSPPU approach multiplies a smaller royalty base with a larger one in order to reach a royalty rate.

On the mobile phone market, the EMVR has asserted itself as predominant.<sup>35</sup> One of the main reasons for this is that the approach supports "industries with strong externalities and complementary effects" by summarizing their contributions in a very realistic way.<sup>36</sup> Especially in the telecom industry, the technology represents a core element in the product.

On the other side, SSPPU is frequently used in the field of the Internet of Things ("IoT"). In addition to that, it plays an important role for smart home patents and on the connected cars market. The supporters of this royalty base of relevance argue that a fair rate will usually somehow be related to the price of a unit which can be sold separately.<sup>37</sup>

In conclusion, the European answer to the question which one is the "correct" FRAND royalty base depends on the concrete product and technology market. Especially the actual licensing practice in the respective market is decisive. There is no existence of a "one-size-fits-all" response.

(f) The Nokia v. Daimler issue

The third main sub-issue in the context of fair and reasonable licensing practices is the question whether the SEP owner is under the obligation to offer licenses to all entities involved in a supply chain, or can rather restrict availability of licenses to the OEM level.

In the ongoing litigation between Nokia (as SEP owner) and Daimler (as implementer), Nokia argues that they are allowed to restrict availability of FRAND licenses to the OEM level (i.e. Daimler), while Daimler argues that its suppliers are willing to take a FRAND license and Nokia's refusal to grant licenses on the supplier level makes their licensing model inherently un-FRAND.

This "Nokia v. Daimler" dispute is representative for quite a fundamental issue in today's FRAND discussion. In modern – connected – cars, up to 10,000 components from various suppliers are installed and about 100 standards are implemented.<sup>38</sup> Under the traditional so-called horizontal licensing practice in the automotive industry, the car manufacturers (OEMs) required their suppliers to provide components which enjoy freedom-to-operate regarding third-party patents.

Both sides involved in this controversy bring forward various reasons defending their respective position. In particular, the tier-one suppliers and OEMs defend their position arguing that a fair and reasonable licensing practice inherently requires that licenses must be available for every party requesting such license.<sup>39</sup> In contrast, third party SEP owners defend their refusal to offer licenses to entities other than the OEM, arguing that this practice reduces transactional costs and ensures more effective technology dissemination.<sup>40</sup>

In one of the various pending cases, the Mannheim Regional Court came to the conclusion that Nokia's licensing practice is in compliance with Nokia's FRAND obligations.<sup>41</sup> Furthermore, the Court rejected the request to order a referral to the CJEU,<sup>42</sup> even though the Federal Cartel Office (Bundeskartellamt) recom-

mended to the Mannheim Court to refer these questions to the CJEU.

However, in a parallel case pending before the Düsseldorf Regional Court, the court took a different view and issued an order for a reference to the CJEU.<sup>43</sup> Consequently, this highly controversial question is likely to be resolved by CJEU in due time.

### 2.3 Material definition of a "non-discriminatory" licensing practice

Next to the requirement of a "fair and reasonable" licensing practice (section C above), the third key characteristic heavily impacting the power balance between the SEP owners and implementers is the requirement of a "non-discriminatory" licensing practice. Again, if the SEP owner is not in compliance with these further requirements, various adverse consequences may kick in, including denial of injunctive relief in patent litigation (see section B above), and prosecution/punishment under antitrust law.

As a starting point, the SEP owner needs to implement a licensing practice which does not discriminate implementers seeking a license.

According to the case law of the German Federal Court of Justice, every licensee has the right to get the best available licensing conditions; nevertheless, the patent proprietor may enjoy a margin of discretion while suggesting licensing terms.<sup>44</sup> Such a differentiation between potential licensees can be seen as a legitimate market behavior, provided that it is based on legitimate grounds. The justification of an unequal treatment is assessed on the basis of all the circumstances and interests of the individual case, taking into account the purpose of Article 102 TFEU to ensure effective and undistorted competition.<sup>45</sup> The decisive factor is whether the disadvantageous treatment of a company compared with others "appears to be a competitive balancing of interests, or is rather based on arbitrariness or considerations and intentions that are alien to economic or entrepreneurial activity".<sup>46</sup>

Under this so-called "general" rule, it might be for

example considered as a reasonable behavior of the SEP owner to offer unusually low royalty rates in a single case in order to avoid personal or economic sanctions by foreign authorities putting the SEP owner under pressure.<sup>47</sup> A licensing agreement that is concluded under such special circumstances does not entitle other licensees to enjoy the same unusually low royalty rates.

However, the “general” understanding of non-discrimination is not completely undisputed. The Dusseldorf Court of Appeal rather takes the view that non-discrimination means that the first license ever granted involving the patent in question sets the benchmark for non-discrimination, unless any of the subsequent licenses provides an even more favorable rate (so-called “hard-edged” approach).<sup>48</sup> It shall be the duty of the current patent owner to produce all prior licenses to enable the potential licenses to assess the non-discrimination of the licensing offer.<sup>49</sup> If the patentee is unable or unwilling to produce these prior licenses, no injunctive relief will be available. Within the portfolio of all existing relevant licenses, the lowest ever granted rate sets the standard for non-discrimination, even if that rate is the result of unprofessional negotiations.<sup>50</sup>

## 2.4 The role of the court

As the last of the four key characteristics defining the power balance between the SEP owner and the implementer, we will now analyze whether courts are prepared to determine what a FRAND licensing rate in a particular case is, or whether the courts restrict their jurisdiction to an evaluation of the FRAND licensing offers submitted by the parties. This fourth key characteristic is on the structural level of the judicial system, defining the level of judicial involvement in the determination and development of FRAND licensing rates and systems, and therefore the level of guidance the SEP owner and the implementer may expect from the courts. It seems clear that strong guidance from the courts tends to result in a more balanced

FRAND licensing landscape, as opposed to an approach merely evaluating the FRAND licensing offers submitted by the parties. However, it should be kept in mind that a detailed and scientifically reasoned, in-depth assessment of FRAND royalty terms may come with a very heavy price tag in terms of litigation costs, so that the effective availability of judicial guidance may be locked away for many implementers due to soaring litigation cost, potentially resulting in de-facto unavailability of justice.

In the following, we will briefly describe the two main approaches presently used in Europe, and also present a most recent trend in German patent litigation.

### (g) UK

The English courts are prepared to provide a full and in-depth calculation of a global FRAND rate for a given SEP portfolio, based on a very thorough evaluation of the usually extensive evidence presented to the court. The English courts therefore accept the de-facto role of a universal court, deciding a FRAND dispute not only for the territory of the UK, but rather for all countries worldwide.

Consequently, if the SEP owner decides to use the English jurisdiction for SEP litigation, such litigation will have a massive impact on the legal feasibility of SEP owner’s global licensing system and monetization campaign (and the SEP owner also puts its patent-in-suit under the well-known English scrutiny of a validity assessment). In addition, as mentioned before, the “deluxe” evaluation of evidence and extensive hearings come with a very heavy price tag regarding costs of litigation.

### (h) Germany

In contrast to the English courts, German courts do not take a de-facto role of a universal court calculating a FRAND royalty rate. The courts rather review the FRAND offers submitted by the parties; consequently, the court will only assess whether the licensing offer submitted by plaintiff and the counter offer submitted by defendant are FRAND, but will remain silent on

the question what the “correct” royalty rate is, in case both licensing offers are non-FRAND. Consequently, German courts merely approve or disapprove submitted royalty rates, but will not determine a fixed rate.

However, the Mannheim court very recently started a modified approach of the above procedure. The court seems to be prepared to present its calculation of a FRAND licensing as a settlement proposal to both parties. While such proposal is of course legally non-binding, it nevertheless gives very strong guidance to the parties as to FRAND, without causing soaring costs of litigation.

Compared to the English proceedings, the amount of formal evidence processed by the court in context of the FRAND assessment is marginal. The courts almost never appoint experts, and cross-examination of experts presented by the parties is foreign to German civil procedure law. While German courts normally carefully read and evaluate all expert reports and other documents submitted by the parties in support of their respective position, the final assessment of the licensing offers submitted by parties does not follow a mathematical approach, but rather a discretionary approach. This approach results in reasonable costs of litigation, compared to the English approach.

### 3. Conclusions

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In this article, we have analyzed four key characteristics of the European judicial landscape which heavily impact the power balance between the SEP owners, and the implementers, respectively.

From the perspective of the SEP owner, the analysis of these four key characteristics provides a multi-dimensional fingerprint of a SEP/FRAND landscape, allowing an informed decision whether or not to use European jurisdictions for an SEP enforcement campaign, and if so, which country (and court) provides for the most suitable “ecosystem” given the specific characteristics of the case.

As for the first (and most important) key character-

istic, the procedural restrictions regarding the judicial enforcement of SEPs, the SEP owner is currently in a quite powerful position in Germany and the UK. However, at least for Germany (as the UK has left the EU), the pendulum might be swinging back to a more balanced situation, if the request for a preliminary ruling of the CJEU in *Nokia v. Daimler* proceeds.

As for the second key characteristic, the material definition of a “fair and reasonable” licensing practice, the SEP owner should expect that a very comprehensive disclosure of existing licensing agreements is required in litigation, and that the court will focus on assessing whether the current licensing offer follows the rational of these existing agreements. However, even if in line with a consistent licensing approach, it seems to be a high risk strategy to restrict availability of licenses to the OEM level (“*Nokia v. Daimler* issue”): While German lower instance courts have taken an approach favoring the SEP owner so far, against the strong opposition of the German Cartel Office, the pending referral to the CJEU in *Daimler v. Nokia* may lead to important changes of the case law soon.

As for the third key characteristic, the material definition of a “non-discriminatory” licensing practice, the SEP owner can expect that European courts generally avoid unworldly strict rules which would otherwise stifle active licensing business and dissemination of technology. However, there seems to be some remaining resistance in Europe to agree on the “general” approach that a non-discriminatory licensing rate may vary (or develop) over the time in both directions, as opposed to the approach that the lowest ever granted royalty rate sets the standard for the assessment of all subsequent licensing rates until the expiration of the licensed patent (“hard-edged”). It remains to be seen whether this remaining resistance will eventually fade away, or whether this issue needs to be clarified by a future referral to the CJEU.

As for the fourth key characteristic, the question whether courts are prepared to determine what a FRAND licensing rate in a particular case is, the Euro-

pean judicial landscape offers two very diverse approaches. Both approaches have strong advantages, and an intelligent use of both systems may strategically provide best results from the perspective of the SEP owner: When starting a new SEP licensing/monetization campaign, the UK might be the preferable forum, as the court will calculate and set a FRAND rate for the beginning, leading to a strong precedent for future cases in other jurisdictions. In contrast, the German jurisdiction might be the more efficient venue to run bulk litigation in established SEP licensing/monetization programs.

The implementer is usually forced to accept the case in the jurisdiction picked by the SEP owner, i.e. “forum shopping” is the exclusive privilege of the SEP owner. However, the analysis of the four key characteristics enables the implementer to identify the best possible defensive strategy in SEP litigation for the relevant jurisdiction.

As for the first key characteristic, the procedural restrictions regarding the judicial enforcement of SEPs, the position of the implementer might improve in the near future if the request for a preliminary ruling of the CJEU in *Nokia v. Daimler* proceeds. Therefore, the implementer should, wherever possible, try to obtain a stay of the infringement proceedings, pending the outcome of the CJEU referral. This approach however is not feasible in UK proceedings, as the UK is no longer under the jurisdiction of the CJEU.

As for the second key characteristic, the material definition of a “fair and reasonable” licensing practice, the implementer should aim to maximize SEP owner’s disclosure of existing licensing agreements, as the rates and conditions of existing agreements seem to provide the highest degree of leverage in SEP/FRAND litigation. If confronted with an SEP owner restricting availability of licenses to the OEM level (“*Nokia v. Daimler* issue”), the implementer should again try to obtain a stay of the infringement proceedings, pending the outcome of the CJEU referral.

As for the third key characteristic, the material defi-

inition of a “non-discriminatory” licensing practice, European case law generally favors the position of the SEP owner, so that the implementer can rely on the non-discrimination defense generally only in rare cases where a differential treatment compared to other licensees is no longer justified by any commercial reasons, except for cases pending before the Dusseldorf courts, as their court of appeal expressed sympathy with the “hard-edged” approach.

As for the fourth key characteristic, the question whether courts are prepared to determine what a FRAND licensing rate in a particular case is, the implementer can benefit from the full re-calculation of the FRAND royalty rate by English courts only if he is prepared to make a massive investment into the production of supporting evidence, in particular expert opinions, so that justice may come with a heavy price tag. In Germany, the implementer should show to the court that he is prepared to re-adjust his initial counter-offer during litigation in light of the substantive arguments submitted by the SEP owner. A high degree of openness to consider counter-arguments of the SEP owner will generally strengthen the position of the implementer that his own licensing offer shall be considered as FRAND. In appropriated cases, the implementer may also ask the court to prepare a settlement proposal considering the licensing offers submitted by the parties; recent proceedings before the Mannheim court showed that this might be a feasible approach leading to a de-facto FRAND determination by the court at relatively moderate costs of litigation.

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Notes

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- 3 Court of Justice of the European Union (CJEU), July 16, 2015, Case C-170/13 Huawei Technologies Co. Ltd v.

- ZTE Corp., ZTE Deutschland GmbH.
- 4 Huawei v. ZTE, par. 61.
- 5 Huawei v. ZTE, par. 63.
- 6 *Id.*
- 7 Huawei v. ZTE, par. 65 et seq..
- 8 Huawei v. ZTE, par. 67.
- 9 Dusseldorf Regional Court (Landgericht Düsseldorf), November 26, 2020, Case 4c O 17/19 Nokia Oyj v. Daimler AG.
- 10 Mannheim Regional Court (Landgericht Mannheim), August 18, 2020, Case 2 O 34/19 Nokia Oyj v. Daimler AG, GRUR-RS 2020, 20358.
- 11 Court of Appeal of the Hague (Gerechtshof 's-Gravenhage), May 7, 2019, Case 200.221.250/01 Koninlijke Philips N.V. v. Asustek Computers INC., Asus Europe B.V., Asus Holland B.V., English translation available at: [https://drive.google.com/file/d/0B\\_U9nV8-MjxrWmJQWHZNd3B3b3NrSnZ3djJmc0t4M21oMzVB/view](https://drive.google.com/file/d/0B_U9nV8-MjxrWmJQWHZNd3B3b3NrSnZ3djJmc0t4M21oMzVB/view) (last visited Dec. 10, 2020).
- 12 Philips v. Asus, par. 4.180.
- 13 Court of Appeal of the Hague (Gerechtshof 's-Gravenhage), December 24, 2019, Case 200.231.810/01 Koninlijke Philips N.V. v. Asustek Computers INC., Asus Europe B.V., Asus Holland B.V., available at: <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:GHDHA:2019:3427> (last visited Dec. 10, 2020).
- 14 German Federal Court of Justice (Bundesgerichtshof), May 5, 2020, Case KZR 36/17 SISVEL v. Haier, English translation available at: <http://eplaw.org/wp-content/uploads/2020/07/DE-FCJ-Sisvel-v-Haier-English.pdf> (last visited Dec. 10, 2020).
- 15 London High Court, November 30, 2017, Case HP-2014-000005 Unwired Planet International Ltd v. Huawei Technologies Co. Ltd, Huawei Technologies (UK) Co. Ltd, par. 708.
- 16 SISVEL v. Haier, par. 97.
- 17 SISVEL v. Haier, par. 95.
- 18 SISVEL v. Haier, par. 92.
- 19 See SISVEL v. Haier, par. 73.
- 20 Supreme Court of the United Kingdom, August 26, 2020, Case [2020] UKSC 37 Unwired Planet International Ltd v. Huawei Technologies Co. Ltd, Huawei Technologies (UK) Co. Ltd.
- 21 Unwired Planet v. Huawei 2020, par. 139.
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- 27 Dusseldorf Regional Court (Landgericht Düsseldorf), March 31, 2016, Case 4a O 126/14 Saint Lawrence v. Vodafone, GRUR-RS, 8040 (2016); Dusseldorf Regional Court (Landgericht Düsseldorf), November 9, 2018, Case 4a O 15/17 Fraunhofer-Gesellschaft (MPEGLA) v. ZTE, BeckRS, 33825 (2018).
- 28 See SISVEL v. Haier, par. 81.
- 29 See Case 6 U 183/16 (fn. 27), 172.
- 30 Dusseldorf Regional Court (Landgericht Düsseldorf), January 8, 2019, 4c O 12/17, BeckRS, 3125 par. 196 (2019).
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- 34 See Tim W. Dornis, *Das standardessentielle Patent und die FRAND-Lizenz (Teil 2) (The standard essential patent and the FRAND license (Part 2))*, WRP, 688 (694 et seq.) (2020).
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- 36 Fredrik Nilsson, *Appropriate base to determine a fair return on investment: A legal and economic perspective on FRAND*, GRUR Int., 1017 (1019) (2017).
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- 40 Dornis, 692 et seq.
- 41 Nokia v. Daimler, par. 203.
- 42 Nokia v. Daimler, par. 257.
- 43 Dusseldorf Regional Court (Landgericht Düsseldorf), November 26, 2020, Case 4c O 17/19 19 Nokia Oyj v. Daimler AG.
- 44 SISVEL v. Haier, par. 81. Likewise: Supreme Court of the United Kingdom, August 26, 2020, Case [2020] UKSC 37 Unwired Planet International Ltd v. Huawei Technologies Co. Ltd, Huawei Technologies (UK) Co. Ltd.
- 45 Higher Regional Court Dusseldorf (Oberlandesgericht Düsseldorf), March 30, 2017, Case I-15 U 66/15, GRUR, 1219 par. 175 (2017).
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- 49 See Unwired Planet v. Huawei 2019, par. 242.
- 50 Unwired Planet v. Huawei 2019, par. 237.