

## 5. FRAND Defence in Patent Litigation under German Law

I have chosen Germany as a model jurisdiction for several reasons. First of all, Germany constitutes a large market in Europe and is reputed for having an effective and highly specialised patent court system. Accordingly, Germany is often the jurisdiction of choice for many multinational companies and patentees seeking to protect and enforce their IPRs.<sup>182</sup> In fact, approximately 70 percent of all European patent litigation cases are filed before Germany courts.<sup>183</sup> Furthermore, after the ECJ's rejection of the "*spider in the web*" doctrine under Article 5(3) of the Brussels Regulation<sup>184</sup> and thereby effectively limited the possibility of obtaining cross-border injunctions in transnational patent disputes<sup>185</sup>, it has been argued that this might add even more focus on Germany and make it one of the key jurisdictions within Europe for patent litigation.

Most of all, over the past five years, German courts have been involved in a number of FRAND cases in which the question of whether infringement claims can be made as claims for monetary compensation due to the market conduct or market power of the patentee has been raised. In these cases, the key question has been whether the use of injunctions<sup>186</sup> should be restricted to situations where a dominant patentee has discriminated the alleged infringer by granting licenses on terms that are not corresponding with other licenses agreements previously concluded by the patentee. In the following, I seek to provide a summary overview of recent legal developments on this front. In particular, I will deal with one subject, namely, under what circumstances the alleged infringer can raise FRAND as a defence in patent infringement proceedings in order to avoid the grant of injunction.

182 Alexander R. Klett, Mathias Sonntag, Stephan Wilske, "*Intellectual Property Law in Germany- Protection, Enforcement and Dispute Resolution*," Verlag C.H. Beck, Munich, 2008, p. 21.

183 Ibid..

184 Council Regulation 44/2001/EC of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.

185 Case C-539/03, *Roche/Primus* and Case C-4/03 *GAT v Luk*.

186 Under the German Patent Act (Patentgesetz PatG) §139(1), the patentee may assert a claim for injunctive relief against the infringer who is using the patented invention, if there is a risk for recurrence.

## 5.1 FRAND Defence and Limited Right to Injunctions

The first German landmark decision is the so-called *Standard Spundfass* decision by the Federal Supreme Court (“BGH”).<sup>187</sup> In this case, the BGH admitted that antitrust was relied upon as defence in a patent infringement proceeding regarding alleged non-compliance under Section 19 and 20(1) of the German Act against Restraints of Competition<sup>188</sup> and former Article 82 EC. The defence was declared admissible by BGH because the Court considered that the licensing market for standard-essential patents constituted a market of its own in which the patentee held a dominant position. For these reasons, the Court further found that the alleged infringer was entitled to be granted a license on reasonable and non-discriminatory terms. The Court’s finding was principally based on antitrust considerations. In its decision, the BGH also highlighted that where the use of a patent is indispensable for third parties, as is the case with patents included in standards, the patentee’s discretion with regard to the license terms and conditions on which he is willing to grant license might be restricted.<sup>189</sup>

This defence was further developed on the basis of the so-called *dolo-agit*<sup>190</sup> principle set forth in Section 242 of the German Civil Code in the form of a general requirement of good faith. In accordance herewith, the Düsseldorf District Court in 2006, in the *Video Signal-Codierung I*<sup>191</sup> case concerning the MPEG-2 standard, affirmed that it in principle could deny the availability of injunction and damages. According to the Court, in case a patentee denies granting a license to a third party, as for instance a member of the MPGE patent pool, on FRAND terms and the defendant has requested such license before making use of the patent, the patentee has acted abusively. With regard to the anti-competitive behaviour of the plaintiff, the Court reversed the burden of proof and found that the defendant had failed to submit adequate evidences in support of abusive conduct on plaintiff’s part.<sup>192</sup> As noted by *Schöler* two main questions need to be addressed for successfully raising an antitrust defence in patent infringement proceedings under German law. Firstly, the presumption of infringe-

187 Bundesgerichtshof (BGH), 13 July 2004, Case KZR 40/02, GRUR 2004, 966 – *Standard-Spundfass I*.

188 Gesetz gegen Wettbewerbsbeschränkungen (GWB).

189 Supra note 189.

190 This principle is originating from Roman law: “*Dolo agit, qui petit quod statim redditurus est*” (a claim is considered to be raised in bad faith, if the object of a claim is identical to that of a counterclaim for immediate return).

191 Landgericht (LG) Düsseldorf, 13 November 2006, Case 4b O 508/05, 7 InstGE 70-*Video-signal- Codierung I*.

192 Ibid.

ment is relatively easy to be met with regard to standard related patents, especially if defendant is manufacturing standard compatible products. Secondly, the reversed burden of proof part might cause significant obstacles for the defendant.<sup>193</sup>

In 2007, however, the Düsseldorf District Court allowed for the first time that a FRAND defence be made in the so-called *Zeitlagenmultiplexverfahren* case.<sup>194</sup> In this case, the Court found that the license offered was economically unfair for the defendant in a situation where the plaintiff owned only three percent of all relevant essential patents to the GSM standard. The Court considered that where all essential patent holders would ask equivalent royalties as defendant's, future potential costs for the licensees would exceed what the Court considered to be an amount appropriate to the price established under free market conditions.<sup>195</sup> In consequence, the Court ruled that plaintiff was bound by the ETSI regulation and therefore entitled to license on FRAND terms pursuant to Rule 6.1 of ETSI's IPR policy. This ruling by the Düsseldorf District Court is exceptional even seen from a global perspective. It seems to be one of the first patent disputes related to the GSM standard in which a court has accepted the FRAND defence as admissible based on plaintiff's commitments under the relevant SSO rules with the consequence that the plaintiff's request for injunction was rejected.

Finally, in May 2009, the BGH issued an important and long awaited decision in the *Orange Book* case<sup>196</sup>. In this decision, the BGH affirmed that antitrust defences in principal are admissible in response to a claim for injunction, when the patentee is in a dominant position. This controversial decision has led to a vivid debate within the academic community as well as among legal practitioners. This is particularly due to the fact that the procedures suggested by the BGH are not entirely clear and leaves a lot of room for interpretation.<sup>197</sup> Irrespective of the fact that the decision is not entirely clear it is likely that it will play an important

193 Karoline Schöler, "*Patents and Standards: The Antitrust Objection as Defence to Patent Infringement Proceedings, Patents and Technological Process in a Globalized World*," Springer-Verlag, Berlin Heidelberg, 2009, p.190.

194 Landgericht (LG) Düsseldorf, 13 February 2007, Case 4a O 124/05-GPRS, BeckRS 2008, 07732.

195 Landgericht (LG) Düsseldorf, 13 February 2007, Case 4a O 124/05-GPRS, BeckRS 2008, 07732..

196 Bundesgerichtshof (BGH), 6 May 2009, Case KZR 40/02, GRUR Int 2009, 747 – *Orange- Book Standard*.

197 A lot of attention was given to the *Orange Book* case at a Conference on Patent Exhaustion, jointly organized by EPO, the Japan Intellectual Property Association, MIPLC and GRUR held in Munich on 15 May, 2009.

role in a number of future patent infringement cases regarding standard-essential patents.<sup>198</sup>

The BGH introduces a number of strict prerequisites, which must be met in order for the defendant to successfully rely on FRAND as its defence. First, it is required that the defendant has made a binding and unconditional offer on terms that the licensor cannot reject without at the same time violating the non-discrimination requirement or engaging in anti-competitive behaviour. In the case at hand, the BGH did not specify what it considered the payable amount of royalties should be, but indicated that the amount might be more than considered reasonable from the licensee's perspective. In essence, the BGH found it necessary that the defendant would act as a licensee who fulfils its royalty and accounting obligations to the licensor. In practical terms, licensees should escrow a sufficient amount to a blocked bank account, which would then be subject to judicial review.

It is obvious that the BGH in its decision imposes burdens on both parties. In order to avoid injunction, the alleged infringers must be prepared to make payments, as result of their use, which may involve rather large investments and this irrespective of whether this would be in line with the FRAND terms. Therefore, one of the biggest problem remains, namely how much the licensee should be prepared to offer in order for the patentee to be obliged to accept. This is not an easy task, especially if the licensor's standard conditions are not known. However, those dominant patentees who have believed that they could always use the threat of enforcing their patent rights through an injunction without considering their FRAND obligations, and in all cases obtain alleged excessive or discriminatory royalty rates in this way, will have to reconsider their strategy after this judgement. It remains to be seen how German courts will react to the BGH "Orange Book solution". Additional important cases have already arisen and are currently pending before German courts.

198 Ibid, panel discussion on the topic: "*FRAND/Antitrust Objection as Defence to Patent Infringement*," panelists: Gisbert Steinacker, former President Judge of the Patent Senate, Düsseldorf Court of Appeals, Circuit Judge Randall R. Rader, U.S. Court of Appeal for the Federal Circuit, Prof. Hans Ullrich, Max Planck Institute and Judge Ryoichi Mimure, the Tokyo High Court.

## 5.2 The ICom v Nokia Case

In 2009 ICom, a patent “holding”<sup>199</sup> company domiciled in Munich, was preparing a patent infringement proceeding against Nokia before the Mannheim District Court<sup>200</sup>, in which it was claiming 12 billion euro in licensing fees and asking for injunction.<sup>201</sup> The dispute relates to 160 patent families worldwide, which ICom acquired from Robert Bosch in 2007, out of which 35 have been declared essential to the GSM standard. The licensing negotiations between ICom and Nokia had been going on for a long time without any results. In the proceedings, ICom is claiming about 5 percent of Nokia’s revenue in the countries covered by the Bosch patents, which Nokia refused to license to ICom *inter alia* relying on FRAND as its defence. According to Judge Voss with the Mannheim District Court, 12 cases between ICom and Nokia are currently pending before the Court.<sup>202</sup> On December 2009 the Court put on hold an application by ICom for injunction, pending final decision on the validity of the patents by the European Patent Office.

In a dispute between ICom and the Taiwanese smart phone maker HTC concerning patents identical to those in dispute in the ICom v. Nokia proceedings, the Mannheim District Court has granted an injunction in March 2009 after ruling that HTC had infringed ICom’s patents.<sup>203</sup> It is therefore not surprising that ICom also initiated its infringement proceedings against Nokia before the Mannheim District Court. As noted by *Meibom* and *Nack*, strategic planning forms an essential part of any patent litigation. The challenge is to find a strategy that enables the patentee to optimize its position and to avoid unpleasant surprises.<sup>204</sup> As affirmed by the injunction granted by the Mannheim District Court

199 Term patent holding company refers to the commonly used term for patent trolls, patent licensing enforcement companies and non-practising entities. The Managing Director of ICom, Mr. Bernhard Frohwitter describes ICom as an “*intellectual property asset manager*”. ICom is part of the Schoeller Group of Pullach, a packing, container and logistic company. 50% is of the company is held by the New York based private equity fund Fortress Investments. ICom does not appear to have its own webpage.

200 LG Mannheim, file references 180/08, 181/08, 182/08.

201 Article in *Süddeutsche Zeitung*: “*Warum die Finnen zwölf Milliarden Euro zahlen sollen*”, 31 January 2007, available at: <http://www.sueddeutsche.de/wirtschaft/872/431623/text/>.

202 My phone interview of Judge Andreas Voß, the Mannheim District Court, conducted on phone 8 September 2009.

203 LG Mannheim, 27 February 2009, Case 7 O 94/08, GRUR-RR 2009, 222, (FRAND-Erklärung).

204 *Wofgang von Meibom and Ralph Nack, “Patents without Injunctions? Trolls, Hold-ups, and Other Patent Warfare, Patents and Technological Process in a Globalized World,”* Springer-Verlag, Berlin Heidelberg 2009, p.500.