

Negotiating SEP licences in Europe after *Huawei v ZTE*: guidance from national courts

Dr Claudia Tapia and **Dr Spyros Makris** provide an overview of the case law of national courts in Europe exploring the framework for licensing negotiations regarding FRAND-accessible standard essential patents, which was established by the decision of the CJEU in the matter *Huawei v ZTE*

Digitalisation of the European economy, through the Internet of Things (IoT) and new 5G standards, is expected to create significant business opportunities for both existing players in the information and communication technology (ICT) sector and for new players outside the traditional ICT sector. Indeed, the European Commission (EC) estimates that the Digital Single Market will contribute €415 billion (\$510 billion) per year to Europe's economy and create thousands of new jobs (see EC Communication "Shaping The Digital Single Market", Brussels May 6 2015, COM(2015) 192 final, p3).

One of the main issues of discussion relates to the licensing of standard essential patents (SEPs), which is required when implementing many of the IoT or 5G standardised technologies. As a rule, SEP holders commit to license their SEPs on fair, reasonable and non-discriminatory (FRAND) terms and conditions. FRAND allows (i) users to access standardised technology on reasonable terms, so that they can successfully build their products or services on standards, and (ii) a return on investment for innovators by "fairly and adequately" rewarding companies sharing their patented technology with others (see ETSI IPR Policy).

The actual content of FRAND is to be determined on a case-by-case basis by the SEP holder and the standards implementer in good faith negotiations. A critical issue relating to FRAND licensing is the availability of injunctive relief. Should injunctive

1 MINUTE READ

In 2015, by its landmark decision in the matter *Huawei v ZTE* the Court of Justice of the European Union established a well-balanced framework for licensing negotiations regarding FRAND-accessible standard essential patents, imposing obligations of good faith conduct on both parties involved in such negotiations. Since the Court's decision, national courts in Europe have been steadily providing further guidance to stakeholders on how to live up to these obligations in practice. A review of the national case law following the *Huawei v ZTE* judgment reveals that national courts have, in general, managed to effectively capture and implement the spirit expressed by the Court. Although there will always remain legal points requiring judicial intervention, it is clear that national courts in Europe grappling with FRAND licensing disputes are providing increasing legal clarity on the scope of obligations and liabilities at play.

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relief be generally available, or should it be restricted, given the commitment to grant a FRAND licence for SEPs? The Court of Justice of the European Union (CJEU) has clarified that in order for the SEP holder and the implementer to obtain or avoid an injunction respectively, the parties should follow certain guidelines provided by the Court. What this means in practice is the subject of this paper.

Background

Courts address SEP licensing negotiations mainly in connection with the enforcement of SEPs accessible on FRAND terms (since parties' conduct in licensing negotiations is decisive when ruling on the availability of injunctive relief to the SEP holder against the infringement of its SEPs).

In 2014, at the height of the so-called smartphone wars, the EC chose to impose antitrust liability in two cases where SEP holders threatened or sought injunctions against an implementer that had expressed willingness to enter into a FRAND licensing agreement (see Commission's decision dated April 29 2014, Case AT.39939 – Samsung – Enforcement of UMTS standard essential patents, C(2014) 2891 final, as well as Commission's decision dated April 29 2014, Case AT.39985 – Motorola – Enforcement of GPRS standard essential patents, C(2014) 2892 final). On the other hand, German courts – which deal with the majority of SEP litigation in Europe – had traditionally relied on the Federal Supreme Court's (Bundesgerichtshof) Orange-Book-Standard decision (*Orange-Book-Standard*, Bundesgerichtshof, judgment dated May 6 2009, Case No. KZR 39/06) that imposed obligations on the implementer in order to avoid an injunction, i.e. to make a binding licensing offer to the SEP holder on terms which the latter could not refuse, without acting in an anti-competitive manner. Both positions were open to criticism (see *Advocate General Wathelet's* Opinion, Case C – 170/13, Nov 20 2014, footnote 20; *Jacob/Milner*, Lessons from Huawei v ZTE, October 2016, available at <https://www.4ipcouncil.com/research/lessons-huawei-v-zte>).

Facing this controversy, while having to decide on a case between Huawei and ZTE involving SEPs for which a FRAND commitment has been undertaken, the District Court (Landgericht) of Düsseldorf in Germany requested the CJEU to provide clarification on which legal principle to follow. In July 2015, the CJEU rendered its judgment (*Huawei v ZTE*, Court

of Justice of the European Union, judgment dated July 16 2015, Case No. C-170/13) in this matter (*Huawei v ZTE* judgment).

Huawei v ZTE

With the *Huawei v ZTE* judgment the CJEU struck a balance between the different interests of SEP holders and standards implementers. It did so by imposing affirmative obligations on both parties to act in good faith. Non-compliance carries risks in the national court's assessment of a FRAND dispute. In doing so, the CJEU did more than confirm that FRAND licensing is a two-way street; the CJEU made an important contribution towards mitigating the risks of patent holdup and holdout related to the licensing of FRAND-committed SEPs (on holdup and holdout see Angwenyi, Holdup, Holdout and F/RAND: The Quest For Balance, GRUR Int. 2017, pp. 105-114).

In summary, when considering the legitimacy of a request for an injunction for infringement of an SEP or the defence thereto, national courts are required to consider the following actions of the parties: (i) did the SEP holder notify the implementer of the infringement, providing details of the infringed patents?; (ii) has the implementer diligently expressed its willingness to conclude a FRAND licence?; (iii) did the SEP holder then make a written FRAND offer for a licence, specifying the royalty rate and how it was calculated?; (iv) did the implementer diligently respond, either accepting the offer or making a prompt written FRAND counter-offer?; and (v) if the SEP holder rejected the counter-offer, has the implementer provided appropriate security and rendered accounts?

While the CJEU clarified European law and set out a general framework for good faith negotiations, it refrained from specifying the detail or scope of every obligation imposed on the parties. This is not entirely surprising, because the CJEU is constrained to answering the specific questions asked of it by the national court, but also because each case is heavily fact-specific. The CJEU, therefore, provided the national courts in the EU member states with the flexibility needed to apply the *Huawei v ZTE* framework to the facts brought before them.

However, following the *Huawei v ZTE* ruling, concerns were expressed that the framework established by the CJEU was "still very incomplete, with many uncertainties and open questions", including on "highly relevant" technical questions such as "the required level of technical specifications to sustain the essentiality claim or the timing and basis for a FRAND counter-offer" or "how to deal with portfolio licensing and related damages claims, or the impact of alternative dispute resolution mechanisms", so that additional referrals to the CJEU could occur, leading to further uncertainty. This perceived enforcement uncertainty left room for "aggressive licensing practices", which could "deter IoT businesses from entering the SEP space" or undermine "the capacity of SEP holders to exert their IP rights due to delaying tactics by the potential infringer of the patent" (see *EC Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs*, Roadmap for a Communication on Standard Essential Patents for a European digitalised economy, April 10 2017, Reference Ares(2017)1906931).

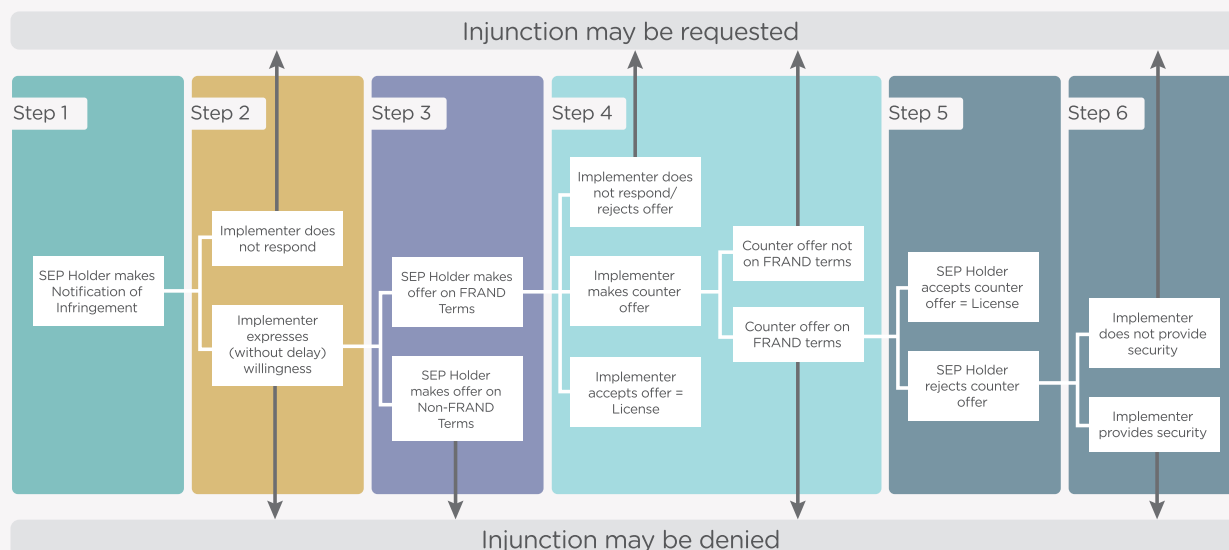
Negotiating licenses for essential patents in Europe: Guidance from national courts

Increased clarity provided on the principles established by the Court of Justice of the European Union in *Huawei v ZTE*.

The Court of Justice of the European Union clarified, in *Huawei v ZTE* (Case No. C-170/13), European law relating to the availability of injunctive relief for infringements of FRAND-based standard essential patents. In doing so, the Court provided a legal framework focused on the good faith conduct to be expected of both parties. Since the Court's decision in 2015, national courts have been steadily exploring the scope of these obligations, providing further clarity on what is or is not to be considered appropriate behaviour. Below is a summary of these steps drawn from 4iP Council's post-*Huawei v ZTE* case search tool.

This information is not intended as legal advice and, in the event of dispute, independent advice should be sought. In addition, the precedential nature of these decisions depends on the jurisdiction and instance in which they were delivered.

Huawei v ZTE process



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	Term	Country	Interpretation	Case reference
Step 1	Notification of infringement	Germany	SEP holder's notification of infringement does not have to contain either the original written FRAND declaration, nor proof that a FRAND declaration has been made during the development of the standard, provided that SEP holder leaves no doubt that it is bound by a FRAND licensing commitment.	Pioneer v Acer , LG Mannheim, 8 January 2016 -Case No. 7 O 96/14
		Germany	SEP holder's notification of infringement has to (1) specify the infringed patent, including its number, (2) inform that the patent has been declared standard-essential, (3) name the relevant standard, (4) inform that the implementer uses patent's teachings as well as (5) indicate which technical functionality of the challenged embodiment makes use of the patent. The level of detail depends on the specific circumstances of the case, particularly the technological knowledge of the implementer (or the availability of external expertise gained by reasonable efforts). However, the information does not need to be as substantiated as facts submitted with a statement of claim in patent litigation. As a rule, reference to claim charts suffices.	NTT DoCoMo v HTC , LG Mannheim, 29 January 2016 Case No. 7 O 66/15 Philips v Archos , LG Mannheim, 1 July 2016 Case No. 7 O 209/15 Philips v Archos , LG Mannheim, 17 November 2016 Case No. 7 O 19/16
		Germany	SEP holder's notification of infringement has to take place before an action is filed, at the latest, prior to the advance payment on costs by the SEP holder. The notification must indicate, at least, (1) the number of the patent, (2) the contested embodiments and (3) the alleged acts of use performed by the implementer. The court did not rule on whether additional information, such as an interpretation of the patent claims or information regarding the part of the standard the patent reads, are also required. SEP holder is not obliged to notify the patent infringement to third parties (for instance to suppliers of the implementer), unless third parties submit a request for a license on FRAND terms to the SEP holder.	Saint Lawrence v Vodafone , LG Mannheim, 31 March 2016 Case No. 4a O 73/14 Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
		France	SEP holder's notification of infringement has to contain the following information: (1) an overview, including each SEP and its filing date, (2) the parts of the standard implementing the respective patented technology, (4) an indication of the devices embodying such use (4) an indication of the consequences of acts of unauthorized use as well as (5) information to the recipient about its option to contest both the communicated information and the validity of the patents at issue.	Wiko v Sisvel , Tribunal de Commerce de Marseille, 20 September 2016 Case No. RG: 2016F01637
		Italy	A notification of infringement towards the parent company of the implementer does not meet the Huawei requirements, if the SEP holder brings an action only against the implementer.	Sisvel v ZTE , Tribunale Ordinario di Torino, 18 January 2016 Case No. 30308/2015 R.G.
	Claim charts	Germany	Presenting claim charts to the implementer, which according to commercial practice are also used in licensing negotiations, is an adequate way to give notification of infringement.	NTT DoCoMo v HTC , LG Mannheim, 29 January 2016 Case No. 7 O 66/15
		Germany	Presenting customary claim charts (containing the relevant patent claims and the corresponding passages of the standard) to the implementer is an adequate mean to give notification of infringement	LG Mannheim, 4 March 2016 Case No. 7 O 24/14

	Term	Country	Interpretation	Case reference
Step 2	Willingness	UK	The Huawei requirement of "willingness to enter into a license" refers to a willingness which is unequivocal. In other words, a willing licensee must be one willing to take a FRAND license on whatever terms are in fact...	Unwired Planet v Huawei , UKSC Court of Justice, 5 April 2017

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“Moreover, national courts have often addressed implementer’s expression of willingness to obtain a FRAND licence, which must follow SEP holder’s notification of infringement, in terms of both content and timeliness”

Nevertheless, the reality is that since *Huawei v ZTE*, there are an increasing number of rulings from national courts that flesh out the CJEU’s framework. It is, therefore, very valuable to understand how national courts throughout the EU have interpreted the requirements established by the CJEU in the *Huawei v ZTE* judgment.

Against this background, 4iP Council decided to monitor the respective case law of national courts and provide interested parties, particularly new market entrants in the IoT sector with tools allowing a quick and easy access to information needed for participating in good faith licensing negotiations regarding FRAND-accessible SEPs. In addition to the present paper and the corresponding infographic, 4iP Council has also prepared English summaries of all relevant court decisions, which are available at its website (see <https://caselaw.4ipcouncil.com/>). The information contained in these tools is, nevertheless, not intended as legal advice, so that, in the event of dispute, independent advice should be sought. Furthermore, the precedential nature of the decisions discussed below depends on the jurisdiction and instance in which they were delivered.

SEP holder’s notification of infringement

Regarding a SEP holder’s notification of infringement to the implementer, national courts, especially in Germany, have specified the concrete content of such notifications in several judgments. For instance, the Regional Court of Mannheim has ruled that an SEP holder’s notification needs, at least, to:

- 1) specify the (allegedly) infringed SEP, including its number;
- 2) inform that the SEP has been declared standard-essential;
- 3) name the relevant standard;
- 4) inform that the implementer uses SEP’s teachings; as well as
- 5) indicate which technical functionality of the challenged embodiment makes use of the SEP

(see *NTT DoCoMo v HTC*, Landgericht Mannheim, judgment dated January 29 2016, Case No. 7 O 66/15; *Philips v Archos*, Landgericht Mannheim, judgment dated July 1 2016, Case No. 7 O 209/15 and judgment dated November 17 2016 – Case No. 7 O 19/16).

In this context, the Regional Court of Mannheim also held that SEP holders comply with the infringement notification requirement, if they present claim charts customarily used in licensing negotiations to the implementer (see *NTT DoCoMo v HTC*, Landgericht Mannheim, judgment dated January 29 2016, Case No. 7 O 66/15; Landgericht Mannheim, judgment dated March 4 2016, Case No. 7 O 24/14; *Philips v Archos*, Landgericht Mannheim, judgment dated July 1 2016, Case No. 7 O 209/15).

On whom to notify, national courts stated that it is sufficient to notify the implementer’s parent company, instead of all individual companies within a group (see *Sisvel v Haier*, Landgericht Düsseldorf, judgment dated November 3 2015, Case No. 4a O 93/14; *Sisvel v Haier*, Oberlandesgericht Düsseldorf, judgment dated March 30 2017, Case No. I-15 U 66/15).

Implementer’s willingness to obtain a licence

Moreover, national courts have often addressed implementer’s expression of willingness to obtain a FRAND licence, which must follow an SEP holder’s notification of infringement, in terms of both content and timeliness.





In terms of content, the UK High Court of Justice ruled that the respective obligation is met, when the implementer is willing to take a FRAND licence on whatever terms are in fact FRAND (so called “unqualified” willingness, see *Unwired Planet v Huawei*, High Court of Justice, judgment dated April 5 2017, [2017] EWHC 711 (Pat), Case No. HP-2014-000005).








In terms of timeliness, German courts despite making very clear that the appropriate time to declare willingness depends on the specific circumstances of each individual case, attempted to set a mark particularly in two decisions. The Regional Court of Düsseldorf ruled that reacting to an SEP holder’s notification more than five months after its receipt was not in line with the *Huawei v ZTE* judgment (see *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14). The Regional Court of Mannheim reached the same conclusion in a case, in which it had taken the implementer more than three months to react, since it had become aware of a court action brought by the SEP holder against the distributor of its products using the SEP in question (see *Saint Lawrence v Deutsche Telekom*, Landgericht Mannheim, judgment dated November 27 2015, Case No. 2 O 106/14).

SEP holder’s licensing offer

Furthermore, national courts have paid particular attention to the content of SEP holder’s written licensing offer to the implementer.

The Regional Court of Mannheim repeatedly ruled that the SEP holder’s offer must contain all essential contractual terms and specify the conditions in a manner that, in order to conclude a licensing agreement, the implementer only has to accept the offer (see *Pioneer v Acer*, Landgericht Mannheim, judgment dated January 8 2016, Case No. 7 O 96/14; *Philips v Archos*, Landgericht Mannheim, judgment dated July 1 2016, Case No. 7 O 209/15).

Step 2	Term	Country	Interpretation	Case reference
	Willingness (to conclude licensing agreement)	 UK	The Huawei requirement of "willingness to enter into a license" refers to a willingness which is unqualified. In other words, a willing licensee must be one willing to take a FRAND licence on whatever terms are in fact FRAND.	Unwired Planet v Huawei , High Court of Justice, 5 April 2017 Case No. HP-2014-000005, [2017] EWHC 711 (Pat)
		 Germany	The declared willingness of a device manufacturer to enter into a FRAND license could preclude the granting of an injunction requested by SEP holder against the distributor of the same devices.	Saint Lawrence v Deutsche Telekom , OLG Karlsruhe, 23 April 2015 Case No. 6 U 44/15
	Without delay	 Germany	The more detailed the infringement notification is, the less time is available to the implementer to express its willingness to conclude a FRAND licensing agreement. The implementer did not comply with the Huawei requirements, since it took more than five months to react to SEP holder's notification of infringement and its reaction consisted only in asking for proof of the alleged infringement.	Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
		 Germany	The implementer did not sufficiently express its willingness to conclude a FRAND licensing agreement, since it took him more than three months to request a license from the SEP holder, after it had become aware of the court action brought by the SEP holder against the distributor of its products using the SEP in question.	Saint Lawrence v Deutsche Telekom , LG Mannheim, 27 November 2015 Case No. 2 O 106/14

Step 3	Term	Country	Interpretation	Case reference
	SEP owner's offer	 Germany	SEP holder's offer made only towards the parent company of the implementer is in line with the Huawei requirements. It is not required that SEP holders submit an individual offer to each company within a group of companies.	Sisvel v Haier , LG Düsseldorf, 3 November 2015 Case No. 4a O 93/14
				Sisvel v Haier , LG Düsseldorf, 3 November 2015 Case No. 4a O 144/14
		 Germany	SEP holder's offer must contain all essential contractual terms and specify the conditions in a way that, in order to conclude a licensing agreement, the implementer only has to accept the offer. The calculation of the license fee must be explained in a manner that enables the implementer to objectively assess its FRAND conformity. SEP holder meets the Huawei requirements, even if its offer lies slightly above the FRAND threshold. This is, however, no longer the case, if the SEP holder offers conditions to the implementer that are manifestly economically less favourable than the conditions offered to other licensees without objective justification. In this context, the court is only required to determine on the basis of a summary assessment, whether SEP holder's licensing offer evidently violates FRAND. (In variance with the decision Pioneer v Acer, LG Mannheim, 8 January 2016, Case No 7 O 96/14)	Pioneer v Acer , LG Mannheim, 8 January 2016 Case No. 7 O 96/14
				NTT DoCoMo v HTC , LG Mannheim, 29 January 2016 Case No. 7 O 66/15
		 Germany	If the implementer does not express its willingness to conclude a licensing agreement in due time, the SEP holder can submit a licensing offer on FRAND terms even in the course of ongoing litigation against the implementer.	Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
				Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
		 Germany	SEP holder's offer has to fully qualify as FRAND. Offers, which lie even slightly above the FRAND threshold, are not in line with the Huawei requirements. The court competent for the injunction proceedings has to finally assess the FRAND compatibility of SEP holder's offer. A summary assessment of whether SEP holder's offer is evidently non-FRAND does not suffice.	Pioneer v Acer , OLG Karlsruhe, 31 May 2016 Case No. 6 U 55/16
		 Germany	SEP holder's offer must contain all essential contractual terms and specify the conditions in a way that, in order to conclude a licensing agreement, the implementer only has to accept the offer. The calculation of the license fee must be explained in a manner that enables the implementer to objectively assess its FRAND conformity. In the case of quota license agreements, it is not sufficient to indicate the royalties per unit without substantiating their FRAND character. The royalty amount must be made sufficiently transparent, for instance by reference to an existing standard licensing program or by indicating other reference values allowing to deduce the royalty demanded, such as a pool license fee covering patents also relevant for the standard in question. The court repeated that in this context, the court competent for the injunction proceedings is only required to determine on basis of a summary assessment, whether SEP holder's licensing offer evidently violates FRAND (and not to fully assess FRAND conformity as requested in OLG Karlsruhe, 31 May 2016, Case No. 6 U 55/16).	Philips v Archos , LG Mannheim, 1 July 2016 Case No. 7 O 209/15
		 Italy	SEP holder's offer for a licensing agreement towards the parent company of the implementer does not need to meet the Huawei requirements, if SEP holder brings an action only against the implementer.	Philips v Archos , LG Mannheim, 17 November 2016 Case No. 7 O 19/16
				Sisvel v ZTE , Tribunale Ordinario di Torino, 18 January 2016 Case No. 30308/20215 R.G.
	Recognized commercial practices	 Germany	SEP holder's offer for a worldwide portfolio license addressed to the parent company of a group of companies complies with the Huawei requirements, since it corresponds to the respective recognized commercial practice in the field of standards applicable worldwide.	Pioneer v Acer , LG Mannheim, 8 January 2016 Case No. 7 O 96/14
				Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
		 Germany	Recognized commercial practice in the relevant sector has to be considered, when determining whether the (geographical) scope of the licensing agreement offered by the SEP holder complies with FRAND.	Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
	Portfolio license	 Germany	SEP holder's offer for a (worldwide) portfolio license is in line with the Huawei requirements.	Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
				Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
		 UK	SEP holder's offer for a (worldwide) portfolio license is not contrary to competition law.	Unwired Planet v Huawei , High Court of Justice, 5 April 2017 Case No. HP-2014-000005, [2017] EWHC 711 (Pat)
	Worldwide portfolio license	 Germany	SEP holder's offer for a worldwide portfolio license addressed to the parent company of a group of companies complies with the Huawei requirements, since it corresponds to the respective recognized commercial practice in the field of standards applicable worldwide.	Pioneer v Acer , LG Mannheim, 8 January 2016 Case No. 7 O 96/14
				Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
		 Germany	SEP holder's offer for a (worldwide) portfolio license is in line with the Huawei requirements, unless the circumstances of the specific case (for instance, if the implementer limits its market activity to one geographical market) require a modification.	Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
				Saint Lawrence v Vodafone , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
		 UK	SEP holder's offer for a worldwide portfolio license is not contrary to competition law. As willing and reasonable parties would agree on a worldwide portfolio licence, the insistence by the implementer on a license which was limited to a single market (UK) is not FRAND compliant.	Unwired Planet v Huawei , High Court of Justice, 5 April 2017 Case No. HP-2014-000005, [2017] EWHC 711 (Pat)
	FRAND range	 UK	In each individual case, there is only a single FRAND compliant set of terms (including royalty rates); the so-called "true FRAND" terms. However, the fact that an opening offered rate is higher than the "true FRAND" rate does not mean of itself that a SEP holder has failed to take a FRAND approach.	Unwired Planet v Huawei , High Court of Justice, 5 April 2017 Case No. HP-2014-000005, [2017] EWHC 711 (Pat)

"Regarding the question emerging in this context of whether an offer lying above the FRAND threshold still suffices to meet the requirements set forth by the Huawei v ZTE judgment, national courts have not reached a common understanding, yet"

and *NTT DoCoMo v HTC*, Landgericht Mannheim, judgment dated January 29 2016, Case No. 7 O 66/15).

With respect to the calculation of the licence fee offered to the implementer particularly in quota licence agreements, the Regional Court of Mannheim requested the SEP holder to make the royalty amount sufficiently transparent, for instance by reference to an existing standard licensing programme or by indicating other reference values allowing to deduce the royalty demanded, such as a pool licence fee covering patents also relevant for the standard in question. Accordingly, the court held that the sole indication of the royalties per unit in an SEP holder's offer, without further substantiation, does not comply with the *Huawei v ZTE* judgment (see *Philips v Archos*, Landgericht Mannheim, judgment dated July 1 2016, Case No. 7 O 209/15 and judgment dated November 17 2016, Case No. 7 O 19/16). Nevertheless, in cases where the implementer refuses to sign a non-disclosure agreement, the SEP holder is only obliged to make "merely indicative observations", instead of a detailed FRAND offer to the extent this is required for protecting its justified confidentiality interests (see Oberlandesgericht Düsseldorf, judgment dated July 18 2017, Case No. I-2 U23/17).

Regarding the question emerging in this context of whether an offer lying above the FRAND threshold still suffices to meet the requirements set forth by the *Huawei v ZTE* judgment, national courts have not reached a common understanding, yet. On the one hand, the UK High Court of Justice has ruled that the fact that an opening offered rate is higher than the FRAND compliant set of terms (defined by the court as "true FRAND terms") does not mean of itself that the SEP holder has failed to fulfil its obligations under the *Huawei v ZTE* judgment (see *Unwired Planet v Huawei*, High Court of Justice, judgment dated April 5 2017, [2017] EWHC 711 (Pat), Case No. HP-2014-000005). Similarly, the Regional Court of Mannheim found that a SEP holder meets its respective obligation, even if its offer to the implementer lies above the FRAND threshold, unless the conditions offered are manifestly economically less favourable than the conditions offered to other licensees, without objective justification (see *Pioneer v Acer*, Landgericht Mannheim, judgment dated January 8 2016, Case No. 7 O 96/14 and *NTT DoCoMo v HTC*, Landgericht Mannheim, judgment dated January 29 2016, Case No. 7 O 66/15). On the other hand, the Higher Regional Court (Oberlandesgericht) of Karlsruhe ruled, by contrast, that SEP holder's offer must fully qualify as FRAND. The SEP holder does not fulfil

its respective obligation under the *Huawei v ZTE* judgment, if its offer lies above the FRAND threshold (see *Pioneer v Acer*, Oberlandesgericht Karlsruhe, judgment dated May 31 2016, Case No. 6 U 55/16).

On the question of whether an SEP holder's offer for a worldwide portfolio licence complies with the *Huawei v ZTE* judgment, national courts appear, in turn, to follow a common course. Both the UK High Court of Justice and the District Court of Düsseldorf (as well as the Bucharest Court of Appeal) have found that offers for a worldwide portfolio licence are, as a rule, FRAND conform and, therefore, fulfil the requirements laid down by the CJEU in the *Huawei v ZTE* judgment (see *Unwired Planet v Huawei*, High Court of Justice, judgment dated April 5 2017, [2017] EWHC 711 (Pat), Case No. HP-2014-000005; *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14 and judgment dated March 31 2016, Case No. 4a O 126/14; Landgericht Mannheim, judgment dated March 4 2016, Case No. 7 O 24/14; *Vringo v ZTE*, Bucharest Court of Appeal 4th Civil Division, judgment dated October 28 2015, Case No. 29437/3/2015).

Regarding FRAND indicators, the District Court of Düsseldorf as well as the UK High Court of Justice have clarified that comparable agreements are "an important indicator of the adequacy of the licence terms offered", representing "the best evidence of the value of the portfolio in issue", whereas the significance of patent pools' rates on FRAND determination is considered "limited", since within a patent pool, as a rule, lower royalties per patent will be paid than in licensing of the portfolio of only one company (see *Unwired Planet v Huawei*, High Court of Justice, judgment dated April 5 2017, [2017] EWHC 711 (Pat), Case No. HP-2014-000005; *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14).

Implementer's reaction and counter-offer

National courts have further addressed the scope of the implementer's obligation to respond to an SEP holder's licensing offer and have also specified the concrete requirements which the implementer's counter-offer to the SEP holder has to meet.

National courts had particularly to decide the question whether under the *Huawei v ZTE* judgment the implementer's obligation to respond to the SEP holder's offer is triggered, in case such offer is not FRAND. Again, the courts have not adopted a common approach on this question, yet. The Regional Court of Mannheim ruled that the implementer is required to respond to an SEP holder's licensing offer, even if it is not FRAND, unless the SEP holder's offer is evidently not FRAND on basis of a summary assessment (see *Philips v Archos*, Landgericht Mannheim, judgment dated July 1 2016, Case No. 7 O 209/15 and judgment dated November 17 2016, Case No. 7 O 19/16 as well as *NTT DoCoMo v HTC*, Landgericht Mannheim, judgment dated January 29 2016, Case No. 7 O 66/15). Similarly, the Regional Court of Düsseldorf found that the implementer must react to the SEP holder's offer, regardless of whether that offer is FRAND conform or not (see *Sisvel v Haier*, Landgericht

Step 4

Term	Country	Interpretation	Case reference
Obligation to respond	Germany	Even if SEP holder's licensing offer is not FRAND, the implementer still has to react. (In variance with the decision <i>Sisvel v Haier</i> , OLG Düsseldorf, 13 January 2016, Case No. 15 U 65/15)	<i>Sisvel v Haier</i> , LG Düsseldorf, 3 November 2015 Case No. 4a O 93/14
			<i>Sisvel v Haier</i> , LG Düsseldorf, 3 November 2015 Case No. 4a O 144/14
	Germany	The implementer has to submit a FRAND counter-offer, irrespective of whether the preceding licensing offer made by the SEP holder is FRAND. Implementer's obligation is triggered, when SEP holder's offer formally contains all information (in particular regarding the royalty calculation) required for the implementer to make a FRAND counter-offer.	<i>Saint Lawrence v Deutsche Telekom</i> , LG Mannheim, 27 November 2015 Case No. 2 O 106/14
	Germany	The implementer is not required to respond to a SEP holder's license offer, if the terms of such an offer are not FRAND.	<i>Sisvel v Haier</i> , OLG Düsseldorf, 13 January 2016 Case No. 15 U 65/15
	Germany	The implementer is required to respond to SEP holder's license offer, even if, in his view, this offer is not FRAND. This is not the case, when SEP holder's offer is evidently not FRAND on basis of a summary assessment. (Contrary to the decision <i>Sisvel v Haier</i> , OLG Düsseldorf, 13 January 2016, Case No. 15 U 65/15).	<i>NTT DoCoMo v HTC</i> , LG Mannheim, 29 January 2016 Case No. 7 O 66/15
			<i>Philips v Archos</i> , LG Mannheim, 1 July 2016 Case No. 7 O 209/15
			<i>Philips v Archos</i> , LG Mannheim, 17 November 2016 Case No. 7 O 19/16
			LG Mannheim, 4 March 2016 Case No. 7 O 24/14
Without delay	Germany	Submitting a counter-offer only 1.5 years after receiving SEP holder's licensing offer and half a year after the SEP holder brought an action against the implementer is not in line with the Huawei requirements.	<i>NTT DoCoMo v HTC</i> , LG Mannheim, 29 January 2016 Case No. 7 O 66/15
Recognized commercial practices	Germany	The implementer's obligation to respond to SEP holder's offer is a manifestation of its due diligence obligations arising from the principle of good faith as well as recognized commercial practice in the business field in question.	<i>NTT DoCoMo v HTC</i> , LG Mannheim, 29 January 2016 Case No. 7 O 66/15
	Germany	A counter-offer needs to be made in due course, which means as soon as possible, taking into account the recognized commercial practice in the field and the principle of good faith.	<i>Philips v Archos</i> , LG Mannheim, 17 November 2016 Case No. 7 O 19/16
			LG Mannheim, 4 March 2016 Case No. 7 O 24/14
Implementer's counter-offer	Germany	Implementer's counter-offer is not "specific" in terms of the Huawei requirements, when the royalty amount is not specified in the counter-offer itself, but shall be determined by an independent third party, instead.	<i>Saint Lawrence v Deutsche Telekom</i> , LG Mannheim, 27 November 2015 Case No. 2 O 106/14
	Germany	Implementer's counter-offer limited to a license for one single market (Germany) is non-FRAND, particularly if implementer (or the group of companies it belongs to) distributes products using the SEP in question also in other markets.	<i>Pioneer v Acer</i> , LG Mannheim, 8 January 2016 Case No. 7 O 96/14
	Germany	Implementer's counter-offer does not meet the Huawei requirements, when the royalty amount shall be determined by an independent third party and the counter-offer is limited to a license for one single market (Germany), although the implementer (potentially) infringes the SEP in question in several countries in which the SEP is protected.	<i>Saint Lawrence v Vodafone</i> , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
			<i>Saint Lawrence v Vodafone</i> , LG Düsseldorf, 31 March 2016 Case No. 4a O 126/14
FRAND-range	UK	In each individual case, there is only a single FRAND compliant set of terms (including royalty rates), the so-called "true FRAND" terms. However, the fact that an offered rate is lower than the "true FRAND" rate does not mean of itself that an implementer has failed to take a FRAND approach.	<i>Unwired Planet v Huawei</i> , High Court of Justice, 5 April 2017 Case No. HP-2014-000005, EWHC 711 (Pat)

Step 5&6

Term	Country	Interpretation	Case reference
Provision of security	Germany	The implementer is obliged to both render accounts regarding acts of use and to provide security for potential royalties, both based on its counter-offer. The implementer has to fulfil this obligation after the rejection of its first counter-offer, regardless of whether subsequent offers and counter-offers were made. Fulfilling this obligation more than a month after implementer's first counter-offer was rejected, does not meet the Huawei requirements.	<i>Sisvel v Haier</i> , LG Düsseldorf, 3 November 2015 Case No. 4a O 93/14
	Germany	The fact that the implementer has - allegedly - terminated its use of the SEP, does not remove its obligation to provide security for past periods of use.	<i>Pioneer v Acer</i> , LG Mannheim, 8 January 2016 Case No. 7 O 96/14
	Germany	Security has to be provided after the rejection of the implementer's first counter-offer by the SEP holder, regardless of whether subsequent offers and counter-offers were made. Payment of security several months after implementer's first counter-offer was rejected does not meet the Huawei requirements. This is also true, if implementer provides security only with respect to acts of use in one market (Germany). The Huawei requirements are also not met, when the implementer only proposes to have the security - if requested by the SEP holder - determined by an arbitration tribunal or by a different (English) court.	<i>Saint Lawrence v Vodafone</i> , LG Düsseldorf, 31 March 2016 Case No. 4a O 73/14
Rendering of accounts	Germany	The fact that the implementer has - allegedly - terminated its use of the SEP, does not remove its obligation to render accounts for past periods of use.	<i>Pioneer v Acer</i> , LG Mannheim, 8 January 2016 Case No. 7 O 96/14



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"National courts have also provided some clarification on the scope of implementer's obligation to provide security and render accounts for the use of SEPs"

Düsseldorf, judgment dated November 3 2015, Case No. 4a O 93/14 and judgment dated November 3 2015, Case No. 4a O 144/14). On the other hand, the Higher Regional Court of Düsseldorf adopted, by contrast, the exact opposing view: the court decided that a non FRAND-compliant licensing offer does not trigger the implementer's obligation to respond (see *Sisvel v Haier*, Oberlandesgericht Düsseldorf, judgment dated January 13 2016, Case No. 15 U 65/15).

Regarding the implementer's obligation to make a counter-offer to the SEP holder, national courts have provided guidance in terms of both content and timeliness.

In terms of content, both the Regional Courts of Mannheim and Düsseldorf ruled that the implementer's counter-offer does not meet the requirements arising from the *Huawei v ZTE* judgment, when the royalty amount is not defined in the counter-offer itself, but has to be determined by an independent third party, instead (see *Saint Lawrence v Deutsche Telekom*, Landgericht Mannheim, judgment dated November 27 2015, Case No. 2 O 106/14 as well as *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14 and judgment dated March 31 2016, Case No. 4a O 126/14). The same applies also when the counter-offer is limited to a licence for one single market, particularly if the implementer (or other companies belonging to the same group) make use of the SEP in question in several countries in which the SEP is protected (see *Pioneer v Acer*, Landgericht Mannheim, judgment dated January 8 2016, Case No. 7 O 96/14 as well as *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14 and judgment dated March 31 2016, Case No. 4a O 126/14).

In terms of timeliness, the Regional Court of Mannheim found that a counter-offer submitted by the implementer to the SEP holder only one and a half years after receiving the SEP holder's licensing offer (and almost half a year after the SEP holder brought an action before court requesting an injunction against the implementer) was – in that case – not in line with the *Huawei v ZTE* judgment (see *NTT DoCoMo v HTC*, Landgericht Mannheim, judgment dated January 29 2016, Case No. 7 O 66/15).

Provision of security and rendering of accounts

Lastly, national courts have also provided some clarification on the scope of the implementer's obligation to provide security and render accounts for the use of SEPs.

In general, the Regional Court of Mannheim has pointed out that the implementer's respective obligations are not removed by the fact that the implementer has – allegedly – terminated its use of the SEP (see *Pioneer v Acer*, Landgericht Mannheim, judgment dated January 8 2016, Case No. 7 O 96/14).

Judging on the concrete prerequisites for fulfilling the obligation to provide security to the SEP holder, the Regional Court of Düsseldorf ruled that a security must be paid shortly after the rejection of the implementer's first counter-offer by the SEP holder, regardless of whether subsequent offers and counter-offers are made. Paying the security several months after the SEP holder rejects the implementer's first counter-offer did not meet – in that specific case – the requirements set forth by the *Huawei v ZTE* judgment (see *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14 and judgment dated March 31 2016, Case No. 4a O 126/14). In another case, the same court even went as far as to decide that the payment of security more than a month after the rejection of implementer's first counter-offer by the SEP holder was, at least in the case at stage, not acceptable under the *Huawei v ZTE* judgment (see *Sisvel v Haier*, Landgericht Düsseldorf, judgment dated November 3 2015, Case No. 4a O 93/14).

Besides the above, the Regional Court of Düsseldorf held that the implementer fails to meet its obligation to provide security, when he pays security only with respect to acts of use in one market (although the SEP is used in products distributed also in other markets). In the court's view, the same is true, when in its counter-offer the implementer only commits to pay the amount of security determined in the future by an arbitration tribunal or by court, without actually paying any security after its counter-offer was rejected (see *Saint Lawrence v Vodafone*, Landgericht Düsseldorf, judgment dated March 31 2016, Case No. 4a O 73/14 and judgment dated March 31 2016, Case No. 4a O 126/14).

Finding a balance

Since 2015, the CJEU's ruling has been implemented by national courts in Europe in a significant number of cases and, although there may still be some uncertainty, this is entirely normal while jurisprudence settles and the law corrects itself through decisional practice.

Recently, the European Commission published a Communication (EC Communication) expressing its (non-binding) views on specific issues regarding SEP licensing (see Communication from the European Commission, *Setting out the EU Approach to Standard Essential Patents*, Brussels November 29 2017, COM(2017) 712 final). The EC Communication stresses the importance of access to standardised technology for a fair return, reflecting value, R&D and standardisation efforts.

In several points, the Commission's position adopted the same balanced approach of the CJEU. Reflecting that balance, the EC Communication recognises for the first time both holdup and holdout concerns. With reference to the SEP licensing negoti-

ation framework established in the *Huawei v ZTE* judgment, the Commission expressly addressed the issue of holdout by recommending setting the amount of security to be paid by the implementer for the use of an SEP “at a level that discouraged holdout strategies” (see EC Communication, p. 10). The fact that the Commission refers to both holdup and holdout as risks attached to SEP licensing is important, since the patent holdup theory has attracted much attention, although it has been hardly backed-up by substantial evidence, overshadowing holdout concerns to a great extent (critical towards holdup Heiden/Petit, *Patent “Trespass” and the Royalty Gap: Exploring the Nature and Impact of Patent Holdout*, 34 Santa Clara High Tech. L.J., pp. 179-249 and Angwenyi/Barani, *Smokescreen Strategies: What Lies Behind the Hold-up Argument*, GRUR Int. 2018, pp. 204-216). Such concerns have been clearly articulated also by senior members of the US Department of Justice, for example that “too often lost in the debate over the holdup problem is recognition of a more serious risk: the holdout problem” (speech by assistant attorney general for antitrust, Makan Delrahim November 2017, available at <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-usc-gould-school-laws-center>).

Through its Communication the EC has avoided the temptation of any regulatory corrections to judicial activity. Moreover, the Commission referred to existing case law of the national courts in the EU referring to good faith SEP licensing negotia-

tions. For instance, the Commission agreed with the UK High Court of Justice (see *Unwired Planet v Huawei*, High Court of Justice, judgment dated April 5 2017, [2017] EWHC 711 (Pat), Case No. HP-2014-000005) that worldwide portfolio licensing, as a rule, complies with FRAND (see EC Communication, p7).

To sum up, the analysis of the national case law following the *Huawei v ZTE* judgment leads to the conclusion that national courts of the EU member states have, in general, managed to effectively capture and implement the spirit expressed by the CJEU through said judgment, by applying the reasonable mutual obligations of conduct imposed by the CJEU on parties involved in licensing negotiations related to FRAND-accessible SEPs. As the legal positions of the parties become clearer, so do their negotiating positions and parties will have more certainty in coming to bilaterally agreed solutions, than needing court FRAND determinations. National courts appear to be well situated to balance the interests of SEP holders and standards implementers in an efficient manner.

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