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When patents become standard: litigation for 'essential' patents
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When patents become standard: litigation for ‘essential’ patents

Introduction

Over the past few years, litigation over the infringement of patents that are deemed to be essential to comply with certain technical standards has grown significantly throughout the world. Litigating such standard-essential patents is different from litigating ordinary patents. While it may be easier for patentees to demonstrate that a standard-essential patent is being infringed, the rules of the relevant standard-setting organisation, as well as antitrust considerations, may offer entirely new defences to the defendant. This chapter summarises the most important aspects that arise when dealing with standard-essential patents.

Standards, standard-setting organisations and FRAND licences

There are various standard-setting organisations which set certain technical standards to ensure that manufacturers seeking to make their devices comply with a certain technical standard are compatible with one another. Standard-setting organisations elaborate standards and promote their application. Standards exist, for example, with respect to UMTS, JPEGs, MP3s and G3.

The relevant standards set out a comprehensive body of essential and complementary features that must be fulfilled by any device seeking to comply with a particular standard. Usually, when a device complies with the requirements of the standard it is allowed to bear a reference (in most cases a mark) indicating to the public that it is compliant. Of particular importance are the essential features that must be complied with.

In most cases compliance with these essential features requires the use of some patents. In practice, this means that a licence of such essential patents is necessary to comply with the standard. But how can such a licence be obtained?

Standard-setting organisations generally require their members to undertake to grant irrevocable licences to companies that wish to use the standard in question. In

case a particular member does not provide such an undertaking, the standard will – at least ideally – not be adopted. To promote application of the standard and to avoid any competition concerns, such licences must be made available under fair, reasonable and non-discriminatory (FRAND) terms. The underlying rationale of this regime is that any patentee which is a member of the standard-setting organisation benefits because its technology is promoted (simply because the patent must be used in order to be standard compliant). In return, patentees must grant any entity that wants to make use of its essential patents a licence under FRAND terms.

More specifically, this regime prevents a patentee from obtaining an injunction against any entity that offers to take a licence under FRAND terms. The benefit for patentees is that they receive (potentially) more licence revenues than if their patent were not standard essential. The benefit for entities that seek to make use of the standard is that they are entitled to do so, subject to entering into a licence agreement with the patentees of essential patents and paying the necessary licence fees.

Reasons for disputes

So what happens if things do not turn out in the way contemplated in the guidelines of the standard-setting organisations (ie, if an entity refuses to apply for a licence)? Over the past few years, a whole body of disputes and issues has built up; a full discussion of all of these is beyond the scope of this chapter. However, it does appear that the majority of disputes arise because entities refuse to apply for a FRAND licence for a variety of reasons, including the following:

- The patent should be declared void (ie, it should never have been issued);
- Their device is not standard essential; or
- Their device does not fall under a particular essential patent.

Sometimes, defendants argue that the licence offered to them by the respective patentee is not ‘FRAND-ly’. In

other cases, they maintain that the patentee failed to disclose its patent application to the standard-setting organisation, thus gaining an unfair competitive advantage.

Proving infringement

With respect to whether a patent is essential, courts in various jurisdictions may help to provide the patentee with proof of infringement (this is the case, for example, in Germany).

If the patentee can demonstrate that a certain device is marketed as being in compliance with a given standard and, further, that its patent covers (an aspect of) an essential feature of that standard, then *prima facie* the device is making use of the patent in question. The underlying rationale of this rule of evidence is that if the device does not meet the standard, it should not have been marketed accordingly. The benefit of this rule for a patentee is obvious. Contrary to ordinary rules of proof of infringement, patentees need not analyse the allegedly infringing device to show that it is using its patent. In practice, this can be extremely burdensome when dealing with complex technical devices – specifically, telecommunications devices where most of the relevant features are hidden within the device (eg, the protocols used when a mobile phone receives a call). Instead, the standard lists the features that are essential in order for it to be met; if a device is marketed as having attained this standard, a patentee can rely on the standard to show how a device works, rather than analysing the specific device. In practice, this can be extremely valuable for patentees.

Defence: no infringement

The most common defence used by alleged infringers is to argue that the respective patent is, in fact, not essential. In such cases, the alleged infringer will admit to complying with the standard, yet maintain that it was able to fulfil the obligations set out by the standard without using the disputed patent. This is not so different from an ordinary defence that a device does not infringe because certain features of a patent are not fulfilled.

Defence: violation of antitrust rules

Under certain conditions, an alleged infringer will be entitled to more defences, stemming from either contract law or antitrust rules. Careful consideration must be paid to the specific pattern of facts, as well as national rules. However, the following issues may lead to a viable defence.

In some cases, members of standard-setting

organisations fail to disclose their patents, contrary to the guidelines of such organisations. Consequently, these patents become factually essential. In such a situation, a defendant may argue that had the standard-setting organisation known about the disputed patent, it might have circumvented its use (by drafting the standard differently). Once the standard has been adopted, such a patentee may claim (unreasonable) royalties for the use of its (undisclosed) patents. Such a situation is commonly referred to as a patent ambush.

It is difficult to provide clear guidance on how such cases will be decided by the courts. However, it is worth pointing out that the European Commission has initiated proceedings against Rambus because it believes that Rambus committed a patent ambush, which can be regarded as intentional deceptive conduct resulting in abuse of a dominant market position. It remains to be seen what the outcome of the commission's investigation will be.

Another issue of practical importance is whether patentees that grant FRAND licences, and then later assign their patent without passing on the obligation to the assignee to grant a FRAND licence, will be liable towards a third-party request for such a FRAND licence, or whether the assignee is under an obligation to grant FRAND licences.

In some jurisdictions, there may be further possibilities of raising an antitrust defence based on the theory that a patentee may – by virtue of the patent granted – dominate a particular market. Although a patent is, in general, a recognised monopoly granted to an individual, exercising the rights resulting from this monopoly can raise antitrust concerns. An alleged infringer might argue that it needs to be granted a licence in order to enter a particular market. More specifically, it could argue that the patentee's attempt to enforce its patent constitutes misuse of its market-dominant position, as the patentee's refusal to grant a licence to the alleged infringer is preventing it from entering into the market.

Whether this is a viable defence requires a concrete analysis of the underlying facts and will depend on the view of the court in the particular jurisdiction. In Germany, for example, the Federal Supreme Court recently held in its *Orangebook Standard* decision that a patentee should be denied an injunction if the following two conditions are met:

- The alleged infringer which requests the licence makes an unconditional offer for the licence on terms that cannot be refused by the patentee without violating antitrust laws; and
- The alleged infringer, which has been using the

patent without a licence, meets the conditions for a hypothetical licence agreement.

The conditions for a hypothetical licence agreement include providing the patentee with an accounting of the extent of past use and paying licence fees for this use. As regards the licence fee, the Federal Supreme Court provides for either direct payments or a deposit in favour of the patentee.

Irrespective of any problems that this decision will raise when it is applied in practice, it shows that antitrust considerations may help a defendant. Crucially, this defence does not come for free: it can be effective only when the alleged infringer is prepared to pay (either directly or by way of a deposit) licence fees for its use of the patent, even if the patentee refuses to grant a licence. It is likely that the *Orangebook Standard* decision will

gain importance in a number of infringement cases at least in Germany, which is the most frequently selected jurisdiction for patent cases in Europe.

Outlook

Standard-relevant patents play an increasingly important role in litigation. This is apparent when looking at high-stakes cases throughout Europe. Many standards have evolved over the last few years, particularly in the area of telecommunications, and the use of these standards requires (essential) patents. As outlined in this chapter, handling such cases differs from ordinary patent infringement actions. It is particularly important that practitioners carefully analyse the underlying facts and the respective national laws, in particular the application of antitrust laws, by the respective national courts.



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