

Guidelines on the handling of the antitrust compulsory license objection according to Huawei v. ZTE within the Munich Procedure of Handling Patent Infringement Cases

- non-literal translation provided by the Work Group on Patent Judicature in Germany –

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These Guidelines govern the handling of compulsory license objections under antitrust law in patent disputes [*hereinafter translated for short as "FRAND defence"*] in accordance with the principles laid down by the Court of Justice of the European Union in its decision Huawei v. ZTE (Case No. C-170/13) by the two patent litigation Chambers of the Munich Regional Court I. They apply until the publication of updated guidelines for patent disputes and for proceedings under the GebrMG and HalbSchG. The Chambers reserve the right to derogate from this rule in individual cases, after prior notice to the courts. The respective German version is authoritative.

I. Scope of application

The ECJ decision and these Guidelines relate exclusively to actions for injunctive relief, recall and destruction based on standard-essential patents to the extent that they confer a dominant position on the proprietor and to the extent that the proprietor or its legal predecessor has made a FRAND commitment to a standard-setting organisation. An assignment of the patent does not invalidate a FRAND promise once made. For other cases, the principles of the decisions of the Court of Justice of the European Union in "IMS/Health" (Case C-418/01) or of the Federal Court of Justice in "Standard-Spundfass" (Case KZR 40/02) and "Orange-Book" (Case KZR 39/06) apply.

II. Overview of the pre-litigation contract negotiation procedure to be observed

According to the principles of the ECJ decision "Huawei v. ZTE" and its understanding by the two patent litigation Chambers of the Munich Regional Court I, the patent proprietor and the person already using the patented teaching must, in principle, pass through various stages before bringing an action:

- 1) Notice of infringement, comprising at least the later patent in suit, by the patent proprietor to the patent user
- 2) Submission of the licensing request from the patent user to the patent proprietor, including at least the later patent in suit, whereby the patent user can reserve the right to claim nullity and/or non-use of the patents to be licensed immediately or at a later date
- 3) Submission of a draft FRAND license agreement from the patent proprietor to the patent user, including at least the later patent in suit

- 4) In the event of non-acceptance: transmission of an alternative draft FRAND license agreement from the patent user to the patent proprietor, comprising at least the later patent in suit, whereby the patent user may (again) reserve the right to claim nullity and/or non-use of the patents to be licensed immediately or at a later date
- 5) In case of non-acceptance: rendering of accounts and security deposit by the patent user
- 6) optional and voluntary third-party determination of the licence conditions

Re 3) The patent proprietor shall explain his licensing concept, and further state whether and with what content he has already concluded licence agreements comparable in terms of time and content and further why - if applicable – he has included other patents in his license offer in addition to those requested by the patent user. Insofar as the patent user concludes an appropriate confidentiality agreement, the patent proprietor must – as far as he is formally allowed to do so within the framework of the confidentiality obligations already entered into - also provide further confidential details on contracts already concluded. Insofar as this is not formally possible without a court order, such court order is to be obtained by the plaintiff in the infringement proceedings as quickly as possible. Reference is made to the instructions on how to handle requests for confidentiality during and outside the oral proceedings in patent litigation before the Munich I Regional Court.

III. Possibility of remedial until the end of oral proceedings

At the time of the conclusion of the oral proceedings, it will be assessed whether these steps have been duly completed, Section 136(4) of the Code of Civil Procedure. Within the framework the Munich Procedure of Handling Patent Infringement Cases, this point in time is the end of the Main Hearing. Individual deficiencies can therefore be remedied in the pending proceedings, subject to statutory or judicial deadlines. Within the framework of the Munich Procedure of Handling Patent Infringement Cases, the period between the Early First Hearing and the Main Hearing is available for this purpose, provided that the remedy of individual deficiencies has been announced at the latest in the Early First Hearing. In individual cases, the two patent infringement Chambers will - if possible - address the FRAND defence already in the Early First Hearing in order to give the parties the opportunity to remedy individual deficits. In the case of several actions brought by the same patent proprietor before the same Chamber with a uniform FRAND defence, this should take place in a joint Early First (non-technical) Hearing. Where several actions with a uniform FRAND defence are pending with both Chambers, the Chambers will endeavour to coordinate closely with each other.

IV. Overview of the Procedure:

1. Prerequisites for a discussion on the merits of the FRAND defence:

- a) Assertion of the FRAND defence by the defendant.
- b) The complaint comprises a claim for injunction and/or recall and/or destruction.
- c) The defendant has made at least one counteroffer which comprises at least the later patent in suit and, after its rejection by the plaintiff, has rendered accounts and provided security – provided that at least one offer comprising at least the later patent in suit has been submitted and not accepted.

- d) If the patent in suit was licensed to the defendant, but he terminated this license agreement or otherwise contributed to its termination, for example by falling behind with the payment of the license fee, the FRAND defence shall not be available.
- e) If a license of the patent in suit was offered to the defendant, but he did not include it in his counteroffer, the FRAND defence shall not be available.

Re a) The defendant must raise the FRAND defence as early as possible, usually in the statement of defence.

Re c) The patent proprietor's last binding offer must not be plainly unacceptable (§ 242 BGB). This also applies to the patent user's counteroffer. The counteroffer can be of a smaller scope in terms of content and time but must at least include the (later) patent in suit. The defendant may further reserve the right to claim nullity and/or non-infringement with respect to the patents to be licensed, either immediately or at a later date. The defendant can also, instead of naming a concrete license fee, offer a determination [*of the fee*] by the patent proprietor according to § 315 BGB. The rendering of accounts and provision of security must at least be based on the counteroffer, covering the period from the first use until the expected availability of a provisionally enforceable first instance decision, and on the usual practices in the trade. In case of a counteroffer which does not specify a concrete fee, rendering of accounts and provision of security shall be based on [*patent proprietor's*] offer. In case of a global offer or global counteroffer, they [*i.e. rendering of accounts and provision of security*] may be limited to the turnover relating to the market in the Federal Republic of Germany, which may also be estimated. 110% of the relevant amount must be provided as security.

Re d) This situation may arise, for example, where the parties have concluded a licence agreement providing for an opt-out clause in favour of the patent user in respect of individual patents. Patent users who make use of this opt-out are no longer entitled to the FRAND defence because they already held a licence.

Re e) The same applies if the defendant did not include the patent in his counteroffer because he could have obtained a licence in this respect.

2. Prerequisites for a discussion on the merits of the FRAND defence already in the Early First Hearing:

- a) (Provisional) statements made by the applicant in the writ of complaint
- b) Raising the defence by defendant in the statement of defence

Re a) If the plaintiff seeks a discussion on the merits of the FRAND defence already in the Early First Hearing, the writ of complaint should already contain (provisional) statements on the expected FRAND defence of the defendant, not only if the action is also directed from the outset towards injunctive relief, recall and destruction, but also if a later enlargement of the complaint is kept as an option (after the introduction of the facts and the state of the dispute in the Early First Hearing, or at the latest between the two hearings if so announced in the Early First Hearing). In exceptional cases, for example in the case of an unforeseeable FRAND defence, the plaintiff may also be granted a further post-hearing brief upon request before the Early First Hearing.

Re b) The statement of defence should already contain (precautionary) statements on the FRAND defence, even in the case of a reserved or possible enlargement of the complaint, if also the defendant seeks a discussion on the merits of FRAND defence in the Early First Hearing.

3. Prerequisites for an enlargement of the complaint to include injunction, recall and destruction:

(a) An intended later enlargement of the complaint should be already disclosed in the writ of complaint. At latest, it shall be submitted in the Early First Hearing, or shall be at least announced in the Early First Hearing for the time between the two hearings.

(b) Any increases in the advance payment of court costs and/or security for legal costs that become necessary as a result of this [*i.e. extension of complaint*] must be processed and paid quickly.

(c) The action for rendering of information, renderings of accounts, and declaration of damages replaces the infringement notice according to step 1). The missing further negotiation steps pursuant Huawei v. ZTE are to be remedied at latest in the time between the two hearings. The Chamber to which the case is referred will assess this time frame in the light of the circumstances of the case. The time required can be shortened by including (precautionary) statements on the expected FRAND defence in the complaint. To the extent that the defendant has already commented on the expected FRAND defence in the statement of defence (as a precautionary measure), the Chamber may already communicate a preliminary opinion on individual aspects in the Early First Hearing.

4. Individual requirements for the parties' submissions:

a) In particular, the defendant must raise the FRAND defence and submit and prove that its factual requirements are met, i.e. in particular that and why the plaintiff's last binding offer is violating antitrust law (being not FRAND).

b) To the extent that the defendant has not submitted a counteroffer, he must demonstrate and prove that the plaintiff's last binding offer is plainly unacceptable from an antitrust perspective or that the plaintiff would have been required to license the defendant's suppliers. However, this latter "derived" FRAND defence is not applicable if the defendant himself could have concluded a licence agreement in which subsequent exhaustion or licensing in the value chain would have been adequately, sufficiently and retroactively taken into account, and it would have been ensured that corresponding information may also be communicated to the defendant by the other members of the value chain. It must also be ensured that a double license payment to the patent holder cannot be achieved by claiming damages.

c) The plaintiff has a secondary burden of proof with regard to his licensing concept and whether and if so, with what content comparable licensing agreements have already been concluded in terms of time and content, insofar as this information is not freely accessible or already available to the defendant. This applies to contracts concluded earlier even if the portfolio has been transferred. If a number of transfers and/or portfolio recompositions have created a confusing situation (patchwork), the Chamber will define the degree of detail required in each individual case.

d) Insofar as the defendant criticising the amount of the offered licence fee has been offered a licence agreement with an appropriate, sufficient and retroactive most-favoured nation clause by the plaintiff, which is particularly appropriate in the case of a first licence, the plaintiff must present and prove that the licence fee offered is

nevertheless too high. In so far as the defendant asserts that contracts concluded earlier were concluded as a result of a pressure situation, it must also state in specific terms and, if necessary, prove which other, lower licence rate or which other, more favourable conditions the then contracting parties would have agreed on absent the pressure situation.

e) Insofar as the defendant having reserved the right to do so (cf. steps 2 and 4) claims the invalidity and/or non-use and/or exhaustion and/or licensing (hereinafter: objections) of individual portfolio patents offered, which are currently not patents in suit, in the infringement proceedings as a defence in the context of an objection, he must present the details of this and prove the requirements in the case of dispute. In addition, the defendant must specifically submit and, if necessary, prove that and why the objections concerning individual portfolio patents offered have a not only insignificant influence on the amount of the licence fee offered. If the portfolio offered is dynamic, this possibility exists only with regard to licensed patents and patent applications that have been granted or published at the time of the conclusion of the oral proceedings. In the event of an objection, the plaintiff has a secondary burden of proof in that he must state why he has included these patents in the portfolio offered and whether and, if so, how the alleged objections regarding individual portfolio patents affect the amount of the license fee offered. The possibility of asserting these objections regarding individual portfolio patents as a defence in infringement proceedings shall not be available to the Defendant to the extent that the Plaintiff has offered the Defendant a licence agreement in which the later assertion of these objections regarding individual portfolio patents in separate proceedings or under other contractual mechanisms is taken into account by means of an appropriate, sufficient and retroactive adjustment clause.

f) To the extent that the Defendant claims the invalidity, non-infringement, exhaustion and/or licensing of these portfolio patents in separate proceedings and/or - to the extent permissible - in counterclaims, the distribution of the burden of proof and representation shall be determined in accordance with the general principles.

V. Handling of requests for confidentiality during and outside the oral proceedings

Reference is made to the separate Guidelines for handling requests for confidentiality during and outside the oral proceedings in patent litigation before the Munich I District Court.

VI. Time between the two hearings

The time between the two hearings of the Munich Procedure of Handling Patent Infringement Cases can be used profitably by the parties for renegotiations, mediation attempts before the court's mediation judge or other alternative dispute resolution mechanisms.

VII. Contract clauses

Against the background of contractual freedom and the private autonomy of the market participants, the two Chambers refrain from prescribing the concrete content of the contractual clauses referred to. However, the wording chosen must meet the requirements of the individual case and bring the conflicting interests of the two contracting parties to a fair balance. If available, third party templates published for this purpose may be used for the drafting.