

Title:

Abuse of market power

Concerns laws:

TFEU Art. 102

German Patent Act § 139 para. 1, para. 3, § 140a para. 1, para. 3, § 140b para. 1, para. 3

German Civil Code § 242

Guiding principles:

- 1. The filing of the action for damages and information as well as the rendering of accounts is a sufficient notice of infringement. (para. 4) (editorial guiding principle)**
- 2. An obligation of the patent proprietor to submit an offer does not initially apply if the user does not respond to the infringement notice within a reasonable period of time or has expressed by his conduct that he is not interested in a (FRAND) license (para. 9) (editorial guiding principle)**
- 3. If the patentee makes an offer to the user despite an insufficient declaration of willingness to license and the parties then enter into negotiations, the patentee cannot later claim that the FRAND objection does not apply because the user did not express his willingness to license prior to such an offer (para. 10) (editorial guiding principle).**
- 4. The submission of a non-FRAND-compliant first offer does not yet prove market abuse, but can be the starting point for negotiations in the course of which a FRAND-compliant offer by the patent proprietor can be developed (following BGHZ 227, 305 = GRUR 2021, 585 - FRAND- Einwand II). (para. 20) (editorial guiding principle)**
- 5. An adequate security must initially be based on the amount of the patent proprietor's offer to be examined and serves to secure the license fee that the plaintiff demands in the event of the conclusion of a license agreement on FRAND terms. (para.34) (editorial guiding principle)**

Keywords:

FRAND objection, abuse of rights, market power, patent infringement, active legitimation, suspension of litigation, license agreements

Lower courts:

Munich Regional Court I of -- - 7 O 14091/1

Munich Regional Court I, final judgment of 25.05.2022 - 7 O 14091/19

Reference:

GRUR-RS 2024, 30064

Tenor

I. The Senate considers it appropriate to inform the parties as well as the Commission participating in the hearing as *amicus curiae* in advance of the Senate's current, preliminary legal opinion regarding the examination of the defendant's FRAND objection. (Footnote: The first sentence has been linguistically corrected for the purpose of publication). It should be emphasized at this point that the sole purpose of sending this notice is to explain the Senate's view to the parties prior to the hearing. However, the notice does not serve the purpose of refusing to grant the parties any reductions in pleadings, insofar as these are necessary. In this respect, the same standard will have to be applied that is to be observed in the case of a notice that is only issued during the oral hearing itself. The Senate is aware that this notice was sent very shortly before the hearing; however, in view of the complexity of the case and the intensive deliberations, it was not possible to send it earlier.

II. The Senate is of the opinion that the fact that the Federal Court of Justice regards the defendant's FRAND objection as an anchor in order to give the plaintiff patent proprietor of a standard-essential patent an advantage that is compatible with the

The fact that the defendant's objection to the abuse of its dominant market position, which is accompanied by the enforcement of a claim for injunctive relief (see BGH, GRUR 2021, 585, para. 53 et seq. - FRAND-Einwand II), does not mean that an (assumed) abusive action would have to be dismissed due to abuse of rights and thus as inadmissible. Rather, the question of abuse of market power by the plaintiff - which is only to be examined on the defendant's objection - arises in the context of the merits, since the FRAND objection ultimately includes the defendant's objection that it has a claim against the plaintiff for the grant of a license (which is to be regarded as FRAND) (cf. BGH, GRUR 2021, 585, para. 83 - FRAND-Einwand II), so that it is in fact a *dolo agit* objection (§ 242 BGB) (see Kühnen, Hdb.Patentverletzung, 16th ed, Chap. E para. 265).

III. The Senate is also of the opinion that - because the plaintiff is not prevented from submitting a new offer to the defendant which complies with FRAND conditions by the assessment of its conduct under assessment as un-FRAND - a successful FRAND objection can "only" lead to the dismissal of the action as currently unfounded. Consequently, it should always be examined first whether the challenged embodiment(s) infringe(s) the respective patent in suit.

IV. In the case in dispute, the Senate tends to agree with the Regional Court that the patent in suit has been infringed. It is also likely that the active legitimacy is to be affirmed and a suspension of the legal dispute is not appropriate. The details of this will be discussed during the oral hearing. It is therefore likely to be decisive in the present case whether the defendant's FRAND objection - as the Regional Court believes by analogy - does not hold up due to its conduct during the negotiations and - if it does - which specific steps are to be taken to further examine the FRAND objection.

V. In examining these questions, the Senate is guided by the principles of ECJ and BGH case law and endeavors to further specify these principles where necessary. The starting point for the examination is the steps outlined in ECJ case law, which are clearly intended to ensure that license agreements are negotiated rather than contested.

Reasons

1. Step: Notice of injury by the plaintiff

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According to both the ECJ (GRUR 2015, 746, para. 61, 62 - Huawei Technologies/ZTE) and the Federal Court of Justice (GRUR 2021, 585, para. 55 - FRAND-Einwand II), a notice of infringement is required first.

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However, it is unclear what consequences are linked to a failure to notify infringement. The view that a failure to file a notice of infringement before filing an action should lead to the action being dismissed as (currently) unfounded could be contradicted by the fact that, according to the above explanations, the FRAND objection is generally to be regarded as a *dolo agit* objection. However, it could be considered whether the initiation of court injunction proceedings without prior notice of infringement is to be regarded as inadmissible in individual cases due to a general abuse of rights pursuant to Section 242 BGB. However, this is unlikely to be relevant in the case in dispute.

3

Irrespective of this, it remains to be seen whether a notice of infringement can be seen in the plaintiff's letters of 21 August 2019 and 16 September 2019, in which the plaintiff "invited" the defendant (or its parent company) to find out more about the licensing possibilities with regard to its patent portfolio essential for the EVS standard, as assumed by the Regional Court (see also Mannheim Regional Court; left open by Karlsruhe Higher Regional Court).

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In any case, the filing of the action for damages and information/rendering of accounts in the present proceedings (receipt: 11.10.2019; service: 27.11.2019) should be regarded as sufficient notice of infringement.

2. Step: Declaration of willingness to license by the defendant

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The parties dispute whether the defendant's response of 26.11.2019 (to the unsolicited license offer sent by the plaintiff on 25.10.2019) can be seen as an expression of the defendant's willingness to license.

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The Regional Court denied this in terms of content, as it was an insufficient conditional declaration of willingness to license within the meaning of the BGH decision FRAND-Einwand II (para. 94, 95), because the defendant had limited its willingness to license to patents that were "valid, actually essential and enforceable" (aA LG Mannheim).

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In the current opinion of the Senate, however, this "2nd step" should not be understood to mean that the defendant's FRAND objection is automatically and without exception not valid due to an initial lack of a declaration of the type described.

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The ECJ mentions this step only in passing in a subordinate clause in para. 63 of the Huawei decision:

"On the other hand, it is incumbent on the patent proprietor, after the alleged infringer has expressed his intention to conclude a license agreement on FRAND terms, to submit a specific written license offer on FRAND terms to the alleged infringer in accordance with the obligation he has assumed vis-à-vis the standardization organization and, in particular, to indicate the license fee and the way in which it is calculated."

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The Senate takes from this the statement that the patent proprietor is (initially) not obliged to submit an offer if the user does not respond to the infringement notice within a reasonable period of time or if the user declares or expresses through his conduct that he is not interested in a (FRAND) license at all.

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However, if the patent proprietor nevertheless makes an offer to the user despite the lack of or insufficient declaration of willingness to license and the parties then enter into negotiations (as is the case here), the patent proprietor cannot later, in the opinion of the Senate, invoke the FRAND objection because the user did not express his willingness to license prior to such an offer (aA Kühnen, Hdb.Patentverletzung, 16th ed., Chapter E para. 476).

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This view should also not contradict the case law of the Federal Court of Justice, which places strict requirements on the declaration of willingness to license, FRAND-Einwand II para. 57:

"It is generally not sufficient for the infringer to merely respond to the infringement notice by indicating its willingness to consider concluding a license agreement or to enter into negotiations as to whether and under what conditions it would consider concluding a contract. Rather, the infringer must for its part clearly and unambiguously declare its willingness to conclude a license agreement with the patent proprietor on reasonable and non-discriminatory terms and must also subsequently participate in the license negotiations in a targeted manner (BGH GRUR 2020, 961 para. 83 = WRP 2020, 1194 - FRAND-Einwand)."

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However, this cannot apply in the constellation (not yet decided by the Federal Court of Justice) where the patent proprietor sends the user an unsolicited offer before having sufficiently informed the user of the infringement or before the user has had sufficient time to react to the notification. Such a constellation would exist here if the "invitations" of 21.8.2019 and 16.9.2019 were not yet regarded as sufficient notice of infringement (but only the action for damages/information).

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However, even if one assumes that the aforementioned letters were notices of infringement ("1st step") to which the defendant did not respond in time, the lack of an express request for licensing ("2nd step") is likely to be dispensable in any case if the defendant does not respond in time.

patent proprietor - such as the plaintiff in this case on October 25, 2019 - actually sends an offer. Thus, the Federal Court of Justice also generally assumes that omissions can be made up for by subsequent greater efforts and that the user does not permanently lose the FRAND objection due to a one-time omission (see FRAND objection II, para. 60, see also para. 79 et seq., in particular para. 83).

3. Step: (first) offer by the patent proprietor

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In the present case, the plaintiff submitted an initial offer to the defendant on October 25, 2019, as already explained.

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It is questionable whether this - first - offer by the plaintiff had to be FRAND (and whether this must be examined in the court proceedings - in advance - for objections by the defendant).

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In any case, the legal consequences would be clear if the first offer was already FRAND-compliant. In that case, the user's only permissible reaction would have been to accept the offer. Even if there is a range of FRAND-compliant solutions (see BGH, FRAND-Einwand II, para. 70), the user must accept an offer from the patent proprietor that is within this range because in this case (even if the offer was only "just FRAND") the patent proprietor is not abusing its dominant market position with its injunction and the defendant is not entitled to conditions at the more favorable end of the range. In view of this, it must be irrelevant how the defendant (if it did not accept the offer) reacted to it, i.e. whether it did not react at all, openly showed itself unwilling to license, rejected the offer with a reasoned counter-offer and/or provided security or not, etc., for example. This is because the FRAND objection cannot prevail in this case.

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Whether the defendant's FRAND objection must therefore be examined on the basis of the patentee's first offer depends on the consequences that follow if the patentee's first offer was not FRAND.

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Kühnen (Hdb.Patentverletzung, 16th ed. ch. E para. 477) - and the Senate also understands the Commission's opinion in this sense - probably takes the view that the FRAND objection must then always prevail (i.e. the action would have to be dismissed as currently unfounded). Whether and how the user reacted to the offer and whether there may have been further (improved) offers from the patent proprietor is, according to this view, not relevant. The consequence would be that the patent proprietor would only have one attempt.

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For the court proceedings, this would mean that the first offer would always have to be examined for its FRAND compliance and would ultimately be the only decisive factor in determining whether the FRAND objection would prevail or not. Everything else that happened afterwards would never be relevant, because if the first offer was FRAND, the user would have had to accept it (see above), if not, according to this view, the patent proprietor would always "lose out" (Kühnen loc. cit.).

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According to the Senate's interpretation, the BGH has very clearly rejected this view, cf. in particular para. 54, 70 et seq. of the FRAND Objection II decision. As can be seen from this, in the opinion of the BGH, market abuse does not yet lie in the submission of a non-FRAND-compliant first offer. Rather, this is only the starting point of the negotiations in the course of which a FRAND-compliant offer by the patent proprietor is to be developed. Only if the patent proprietor "is not prepared to back down [from inappropriate license terms] even at the end of negotiations" (cf. para. 54) is there abusive conduct.

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In the opinion of the Senate, the ECJ case law cannot be understood to mean that it is "over" after the third step if the patent proprietor's offer did not meet FRAND conditions.

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It is true that the Huawei decision states in para. 63 (see above):

"On the other hand, it is incumbent on the patent proprietor, after the alleged infringer has expressed his intention to conclude a license agreement on FRAND terms, to submit a specific written license offer on FRAND terms to the alleged infringer in accordance with the obligation he has assumed vis-à-vis the standardization organization and, in particular, to indicate the license fee and the way in which it is calculated."

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However, the ECJ requires a counter-reaction by the user, in particular a counter-offer, in recitals 65 and 66 of the decision:

"On the other hand, it is incumbent on the alleged infringer to respond to this offer with diligence, in accordance with accepted commercial practices in the field and in good faith, which is to be determined on the basis of objective considerations and implies, inter alia, that no delaying tactics are pursued.

If the alleged infringer does not accept the offer made to him, he can only invoke the abusive nature of an injunction or recall action if he makes the owner of the SEP in question a concrete counter-offer in writing within a short period of time that complies with the FRAND conditions."

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However, a (FRAND-compliant) counter-offer by the user should only make sense in the event that the patent proprietor's offer was not FRAND-compliant (because otherwise the user only has the option of accepting the - FRAND-compliant - offer of the patent proprietor, cf. above: the user has no claim to the conclusion of a license agreement on "his" terms, even if these may also be FRAND).

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It follows that a non-FRAND-compliant (first) offer by the patent proprietor should not automatically lead to the FRAND objection taking effect. If this were the case, there would no longer be any need for negotiations or a counter-offer (as required by the ECJ) (as correctly stated by the Federal Court of Justice in para. 73 of the FRAND Objection II decision). This understanding also takes into account the fact that the FRAND plea is to be understood as a *dolo agit* plea, which cannot (or can no longer) apply if the defendant has received an offer from the plaintiff that is FRAND.

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As a result, it can only be stated at this point ("3rd step") that the plaintiff in the dispute submitted a (first) license offer to the defendant on 25.10.2019, without it being (at least initially) important whether this was FRAND-compliant.

4. Step: Counteroffer from the user

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As already explained, the ECJ requires the patent user to respond to the patent proprietor's offer with a counter-offer (which complies with FRAND conditions). The Federal Court of Justice also assumes this in principle (although in the case of an offer that is obviously contrary to FRAND, it may even be sufficient for the user not to submit a counter-offer of his own, but merely to explain why the patent proprietor's offer is obviously not FRAND, see FRAND Objection II, para. 71 aE).

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It is questionable whether this step is always mandatory or whether the user may "skip" it and immediately proceed to "step 5" and provide adequate security and thereby force the (first) plaintiff's offer to be checked for its FRAND compliance. However, this seems doubtful, as according to the BGH, the first offer should not be able to justify abusive behavior, but should only be the starting point of the

negotiations and the patent proprietor should/must have the opportunity to improve its initial offer, taking into account the counter-offer (or the user's explanations).

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However, this can be left aside in the event of a dispute, as the defendant submitted a counteroffer (and subsequently others) on March 17, 2020.

5. Step: Security deposit

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Since the plaintiff did not accept the defendant's counter-offer of March 17, 2020 (and also the other counter-offers), the conditions for the "5th step" - obligation to provide adequate security - are in any case fulfilled in the dispute in accordance with the case law of the ECJ. This is stated in Huawei, para. 67:

"In addition, if the alleged infringer uses the SEP before a license agreement has been concluded, the alleged infringer shall, from the time his counter-offer has been rejected, provide adequate security in accordance with accepted commercial practice in the relevant field, e.g. by providing a bank guarantee or depositing the required amounts. The calculation of this security must include, inter alia, the number of past acts of use in relation to the SEP for which the alleged infringer must be able to provide an accounting."

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In the present case, the defendant deposited ... (Footnote: Note: Blurred for the purpose of publication.) euros with the Mannheim Regional Court as security, as it only had to provide such security for the use of the one patent in suit and for acts of use in Germany.

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In the opinion of the Senate, this does not appear to be sufficient: Both the requirement of a counter-offer ("4th step") and the provision of security ("5th step") are, in the opinion of the Senate, concretizations of the "continued willingness to license" (= willingness to license) of the patent user required by the BGH as specified by the ECJ. In any case, this generally means that the user/defendant can basically only (still) demonstrate and prove its willingness to license in this phase of the "Huawei program" through these concrete actions, in particular "adequate security" (see below for what this means). Conversely, this means that the user/defendant who meets these requirements (in particular provides security in the following sense) must generally (at least if he has previously submitted a counter-offer in accordance with "Step 4") be considered willing to license, regardless of whether he has given cause to doubt his willingness to license through his other previous conduct.

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Any delays etc. should therefore not be relevant if the defendant has documented its willingness to license by providing the security; any previously assumed unwillingness to license, for example due to delaying tactics, should be "cured" by this.

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In the opinion of the Senate, the amount of adequate security must initially be based on the offer of the patent proprietor/plaintiff to be examined. According to the above explanations, this is not necessarily the first offer, but in principle the last offer made by the plaintiff. If this includes a (worldwide) portfolio license, the security must cover the license fee due for this and may not be "calculated down" to the patent in suit in isolation and the territory of the Federal Republic of Germany.

This is because the security does not serve to secure the claim for damages (which may only extend to the patent in suit and the territory of the Federal Republic of Germany). Rather, in the present context, this security serves to secure the license fee which the plaintiff can demand in the event of the conclusion of a license agreement on FRAND terms (demanded by the defendant and owed by the plaintiff). In principle, however, the offer (alone) of a worldwide portfolio license can be FRAND (see BGH, GRUR 2020, 961 para. 77 f. - FRAND-Einwand I). If such a worldwide portfolio license is available on the basis of the plaintiff's offer, the security must therefore also refer to this.

Similarly, the plaintiff's offer (and not any counter-offer by the defendant) is also decisive for the amount (e.g. license rate or lump-sum one-off payment) for the assessment of the security. This is because the defendant argues that the plaintiff's offer is not FRAND.

conditions (and this offer alone can be decisive for the abuse, see above), and he seeks a judicial review of this offer.

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Finally, this also results from the fact that the security deposit - as explained above - is a concretization of the willingness to license: The defendant, who claims to be prepared to conclude a contract on FRAND terms ("whatever terms are in fact FRAND"), must consequently be prepared to accept and accept the plaintiff's offer under review in the end if this should turn out to be FRAND-compliant in the further course (in particular after judicial, possibly expert examination). He can therefore (only) prove a corresponding willingness to license by providing security in this amount.

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It also follows that a binding declaration by the user/defendant must ensure that the patent proprietor/plaintiff receives the security if its offer ultimately proves to be FRAND-compliant and the patent infringement asserted in the action for an injunction is also upheld by a final judgment. Although this requirement cannot be directly inferred from the ECJ ruling, it follows from the requirement of "adequate security". This must therefore be suitable for securing the claim to a FRAND license fee. However, this purpose would be defeated or the plaintiff would not be "secured" in this respect if the defendant, who - in contrast to the plaintiff - is not obliged to conclude a license agreement in principle, were to decide, after the FRAND examination by the court (possibly with the help of an expert) with the help of an expert) (for example, if it becomes apparent that the plaintiff's offer was actually FRAND) and he could reject the offer, waive the FRAND objection and instead be ordered to cease and desist - and receive the security back (at least to the extent that it exceeds the - possibly significantly lower - claim for damages). This would mean that the defendant might have achieved exactly what the security was intended to prevent, namely that the defendant would have engaged in pure delaying tactics, he would have continued to use the patent without a license and the patent proprietor would ultimately only be referred to the (weak) claim for damages.

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If the user/defendant does not provide security in the aforementioned sense, a prerequisite according to the ECJ Huawei is missing or the defendant is generally to be regarded as unwilling to license. If the user/defendant provides security in the aforementioned sense (e.g. by deposit/bank guarantee and declaration of commitment or by concluding a license agreement subject to a condition precedent in accordance with the plaintiff's last offer or similar), the way is opened for the actual FRAND examination of the plaintiff's offer.

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In the case in dispute, the defendant has not yet provided any security that meets these requirements. However, this does not (yet) deprive it of its FRAND objection. Rather, he will be given the opportunity to provide such security within a period to be determined. Since, according to the file, the plaintiff last submitted two alternative offers on May 6, 2020 and June 30, 2021, the defendant is free to decide which of the two offers is to be secured. The Senate would then examine this offer for its FRAND compliance.