

E-ALERT | Antitrust & Competition Law

November 25, 2014

ADVOCATE GENERAL'S OPINION IN CASE C-170/13 HUAWEI TECHNOLOGIES CO. LTD V ZTE CORP., ZTE DEUTSCHLAND GMBH

The Reference

On 5 April 2013, the Landgericht Düsseldorf referred questions relating to injunctive relief over standard-essential patents (“SEPs”) to the Court of Justice (“CJEU”) in connection with a patent dispute between Huawei Technologies Co. Ltd (“Huawei”) and ZTE Corp., ZTE Deutschland GmbH (“ZTE”) relating to an alleged infringement by ZTE of a patent owned by Huawei and declared to be essential in connection with the LTE standard. As the Advocate General (“AG”) put it in his 20 November Opinion, the CJEU “is called for the first time to answer whether seeking an injunction by the holder of SEP, committed to grant licenses on FRAND [fair, reasonable, and non-discriminatory] terms, against a candidate-licensee may amount to an abuse of dominant position and which conditions apply.”

Advocate General Wathelet's Opinion

In his carefully worded Opinion, which expressly notes the “considerable degree of uncertainty” caused by the “plethora of actions” pending across various courts in Europe and beyond, the AG has sought what he characterizes as “a middle path” between the interests of the holder of a SEP (the German Supreme Court's *Orange Book*-Standard which the AG believes “would result in the over-protection of the SEP holder”) and the interests of the implementer (which risks “under-protecting” the SEP holder if one were to follow the EU Commission's approach in the Samsung Commitments).

As a preliminary observation, AG Wathelet advocates that SEP licenses should be negotiated and concluded *ex post* (i.e., after the potential licensee started using the teaching of the patent), for three reasons: the very high number of patents that are usually incorporated in a standard, the difficulty in determining which of these patents are valid and essential to the standard, and the need for manufacturers to be able to react fast to get their products to market. Further, the AG makes it clear that determination of the specific terms of a FRAND license remains a matter for the parties and, where appropriate, the courts and arbitration tribunals. This pragmatic approach suggests that the AG has a sense of the commercial reality of the technology sector.

The AG's recommendations regarding the circumstances in which injunctions can be granted will be very significant if the Judges rule along similar lines. The AG declined both to apply the *Orange Book*-Standard and to accept the EU Commission's view as expressed in the *Samsung* Commitments that the implementer need only express a “highly vague and non-binding” willingness to negotiate to curtail the SEP holder's right to enjoy.

First, the AG has recommended that a SEP holder be required to inform the allegedly offending implementer of its infringement in writing, clearly identifying the relevant SEP(s) involved and the manner of infringement, unless the SEP holder can provide that the implementer know of the existence of the patent. The AG explained his approach here by noting that an implementer may not

have previously checked either or both of the essential character and validity of all patents on which the LTE standard reads.

The SEP holder should then present a FRAND licensing offer that contains all of the licensing conditions that are customary for that sector (including the precise royalty and the way in which it is calculated) to the implementer. The AG considers that these requirements are justified and proportionate given that it can be expected that the SEP holder may have prepared a licensing offer when it gave the FRAND commitment. Moreover, it can be assumed that the SEP holder is best positioned to know the information that should be provided in the offer, especially if it has already concluded similar agreements.

The AG goes on to propose that the patent implementer – the potential licensee – demonstrate that it is objectively prepared, willing and capable to conclude a licensing agreement. It must consider the SEP holder's offer carefully and provide a serious response. If it disagrees with the terms offered, it must make the SEP holder a "serious and diligent" counter-offer regarding the clauses with which it disagrees. In the event that the implementer's behaviour was purely tactical and dilatory and not serious, the SEP holder would be entitled to seek to enjoin implementation of the SEP(s). The appropriate timing for the offer and counter-offer should be assessed by reference to the timeframe that the SEP holder normally takes into account when commercialising its patent in the relevant sector.

If negotiations are not opened or are unsuccessful, and the dispute is taken to a court or arbitration tribunal, the AG takes the view that the SEP holder is entitled to ask the implementer either to provide a bank guarantee for the payment of royalties or to deposit a provisional sum at the court or arbitration tribunal relating to its past and future use of the patent. The SEP holder can take legal action to have accounts rendered, and can bring a claim for damages in respect of past use of the patent(s), without that being "tactical and dilatory" or otherwise abusive.

The AG also opined that the implementer should be entitled to reserve the right, after entering into a licence agreement, to challenge infringement, essentiality and validity before a court or arbitration tribunal. Indeed, he characterised the right to appeal validity as being a matter of public interest. Finally, the AG took the view that an implementer is entitled to request that FRAND terms be fixed either by a court or by an arbitration tribunal when negotiations are not opened or are unsuccessful without that leading to the implementer being viewed as being dilatory or not serious.

Beyond addressing these issues, the AG also considered the question of the dominance of a SEP-holder. The AG noted that the Landgericht Düsseldorf had not justified its conclusion that Huawei has an "indubitable dominant position", noting that the fact that a company holds a SEP does not necessarily mean that it holds a dominant position – this is a matter to be decided on a "case by case" basis.

Next Steps

The AG's Opinion is not binding upon the Judges of the CJEU, who are expected to hand down their judgment in the first half on 2015. While that judgment will, on its face, be limited to responding to the Landgericht Düsseldorf's questions, the judgment will have broad precedential implications.

Some Observations

While it remains to be seen how the CJEU will rule, the AG is proposing an approach that is significantly different to that implemented under the *Orange Book* Standard. If the CJEU follows the AG, the ability of SEP holders to obtain injunctions from the German regional courts will be materially

constrained – if an implementer requests that a court or arbitration panel determine the FRAND rate no injunction will be granted in the interim. However, the AG’s approach stops well-short of the broadest interpretation of the EU Commission’s views as expressed in the *Samsung* commitments (namely that an implementer need only express some unspecified willingness to negotiate – essentially, show up to meetings – to avoid being enjoined). The AG makes it clear that he is recommending that the implementer must be seriously interested in obtaining a licence.

Indeed, bearing that balancing act in mind, while the AG’s proposal to require that implementers respond to the SEP holder’s offer in a “diligent and serious manner”, it will be interesting to see whether the CJEU takes a broader view regarding the requisite standard of conduct throughout the negotiation. For example, if an implementer were to delay entry into a non-disclosure agreement, such that the SEP holder would risk publication of any offer, would that conduct be “purely tactical and/or dilatory and/or not serious”, such that to seek to enjoin the use of the SEPs would not be abusive?

Clearly, the AG has sought to balance the interests of SEP holders and implementers. Aside from the injunction issue, the Opinion has also something substantive for both SEP holders and implementers, if the CJEU would follow its AG: on the one hand, SEP holders can challenge whether mere ownership of a SEP confers monopoly power; on the other hand, implementers can challenge validity, essentiality and implementation.

Finally, the AG has made it clear that competition law has no role in determining FRAND terms. He places this firmly in the hands of the parties and, as the case may be, the courts and arbitration tribunals that resolve disputes over those terms.

If you have any questions concerning the material discussed in this client alert, please contact the following members of our antitrust & competition law practice group:

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