

The Determination of FRAND Royalties in Court Procedures in Germany

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by

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A) The Problem

No. 6.1 of ETSI IPR Policy (Nov. 26, 2008)

When an **ESSENTIAL IPR** relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI **shall immediately request the owner to give within three months** an irrevocable undertaking in writing that it is prepared to **grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions** under such IPR to at least the following extent:

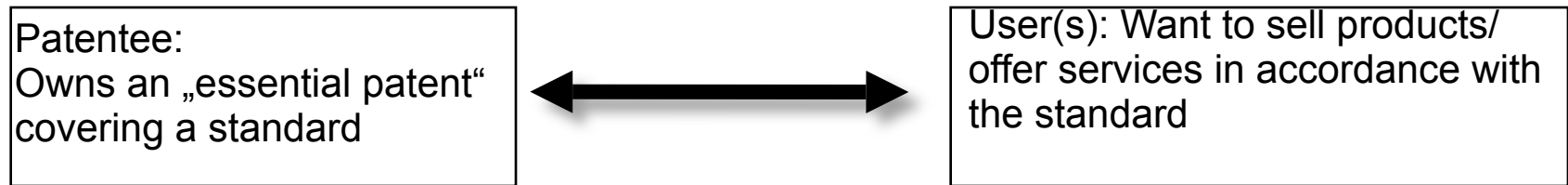
- MANUFACTURE, including the right to make ...;
- sell, lease, or otherwise dispose ...
- ...

A) The Problem

What is an 'Essential' IPR?

According to the [ETSI Directives](#) (Annex 6 of the ETSI Rules of Procedure, Article 15.6), 'ESSENTIAL' as applied to IPR means that it is not possible on technical (...) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to ... *use/practice* ... EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR ...

A) The Problem



Problems:

1. Is Section 6.1 of ETSI policy providing an (enforceable) claim against the patentee to grant a license, i.e. does the user have a right to file a **DJ action**?
2. Or contains Section 6.1 only the obligation for the patentee to start negotiations? What is if negotiations fail?
3. Who has to make the first move, i.e. who has to make a licensing offer?
4. On what basis can the offer be rejected by the Patentee, i.e. what is **FRAND**?

A) The Problem

5. Time constraints: Patentee has all time, user needs certainty is as soon as possible!

6. ETSI is subject to french law: Only if both parties **agree to basic features of license agreement (= royalty rate)** (!), a license agreement is concluded and a lawful use of the IPR is possible! I.e. during „negotiations“ the use of the IPR remains unlawful.

7. Finally, and most importantly, how are „FRAND“ royalties determined? What is the process?

A) The Problem

→ -User starts to use without license agreement!



- Patentee sues for patent infringement!

B) Example: Orange-Book-Standard

1. Decision of the Appeal Court Karlsruhe dated December 13, 2006 (court file 6 U 174/02).
2. Patentee (Philips) sued Defendant(s) for patent infringement (injunction, damage claim, etc.).
3. Defendant is producing CD-R and CD-RW and is marketing them across Europe; Patentee is the proprietor of the European patent X.
4. The CDs produced by defendant do comply with the technical specifications laid down in the so-called „Orange Book“ forming the technical standard for CDs. All CDs on the market have to comply with this standard; **all CDs complying with the standard infringe claims 1 & 2 of patent x.**

B) Example: Orange-Book-Standard

5. Defendant send a letter to Patentee offering a **royalty of 3% of the net sales price** of the CDs. According to defendant this offer representend a FRAND offer in view of comparative market sales prices in the **DVD and VHS market**, where royalties between 3%-5% are common.
6. Plaintiff rejected this offer as being too low and as not complying with it's standard license policy.
7. Defendant started to use the IPR of patentee by producing CDs according to the Orange Book Standard.
8. Plaintiff sued Defendant because of patent infringement.

What did the court say?

B) Example: Orange-Book-Standard

9. The **District Court Karlsruhe** decided in favor of the **patentee (!!!)** and enjoined defendant(s) from further infringing patent X, awarded damages to patentee, etc.

10. The Appeal Court Karlsruhe **confirmed the decision of the District Court** and particularly confirmed that the plaintiff was **not estopped by plaintiff's obligation to license the patent under FRAND conditions**.

11. The Appeal Court first noted that there is no Supreme Court case law (yet) confirming an estoppel defense against a **request for injunction** of the patentee (a previous Supreme Court decision „Spundfass“ concerning such an estoppel confirmed it only in view of a damage claim!).

B) Example: Orange-Book-Standard

12. The Appeal Court then discussed the two existing opposing opinions in the legal literature:

-The first opinion is saying that such estoppel **must not exist**, because otherwise the „**law of the jungle**“ would apply in patent law: **No potential licensee would ever try to obtain a license, but would simply start to infringe the patent.**

- The second opinion is saying that such an estoppel **must exist** because „nobody may claim something (here the patentee claiming the injunction) what he is obliged to return immediately“ (the *dolo petit* (lat.) argument).

B) Example: Orange-Book-Standard

13. However, no matter which opinion finally succeeds, the Appeal Court highlighted that in any case the estoppel is only existing if the patentee is

a) **unreasonably discriminating** between the various licensees (the various arguments of the defendant were not founded), or

b) requiring **unreasonably high royalties** (the defendant even confirmed that in similar markets -DVD, VHS- royalties of 3%-5% are paid).

The defendant –having the burden of proof in this respect!!!- failed to proof in the present case the corresponding facts.

B) Example: Orange-Book-Standard

14. Also, since the defendants did not make -also not during the course of the court procedure- a detailed offer which they believed to be FRAND, in this case, no decision on the estoppel argument concerning injunctions was to be made!

Summarizing, the Appeal Court Karlsruhe posed all the risks&problems on the defendant:

- they have the burden of proof to establish the defense argument that the plaintiff violates antitrust law (discriminating and/or unreasonable license conditions), and
- they have to make the FRAND offer!

C. The Solution?

1. Federal Supreme Court, Decision dated May 6, 2009 - KZR 39/06 - Orange-Book-Standard!
2. „Who produces without a license in accordance with an industrial standard may defend himself in a patent infringement proceedings by an „**antitrust compulsory license estoppel argument**“ (Art. 82 EG, §§ 19,20 GWB).
3. The user of such patented technology has to proof that:
 - a. He unsuccessfully tried to obtain a license under reasonable terms, and ...

C. The Solution?

- b. the patentee refused to sign the license agreement because he expects a license under „unreasonable terms“, or because he want to apply an unjustified discrimination between licencees.
4. The user may file, to enforce his right to obtain a license, file a DJ action in front of a competent court.
5. If such DJ action is not filed (because of lack of time?), the user may, however, NOT simply start to use the invention, if the patentee rejected his license offer.
6. Instead, the user has to treat the patentee as if a license agreement would have been concluded!

C. The Solution?

7. This means:

- The user has to regularly render account to the patentee, and
- he has to pay royalties to the patentee (or to an escrow)!
- Because of the difficulties related to the determination of FRAND royalties, the user may preliminarily determine the royalties to be paid by best guess!
- In such a case, if the patentee nevertheless files a patent infringement action, it is sufficient for the rejection of such an action if the infringement court confirms that the preliminarily paid royalties objectively meet the requirements of FRAND royalties.

D. Conclusions

8. In case of a conflict, better pay too high royalties than too less!
9. In parallel, the user may file a DJ action to have the right (=FRAND) royalties determined by the court.
10. Alternatively, the user may wait until the patentee files the infringement action. **Risk: If the preliminarily paid royalties were not sufficient, the court will issue an injunction!**
11. There is an increasing need for comparative royalties in the various industry sectors: A (new) role for LESI?

Questions ?