

EU Advocate General: No injunction against users of standard essential patents without an offer to license

The owner of a standard essential patent (SEP) may have to make a licence offer before seeking an injunction, following the non binding opinion of the Advocate General in the *Huawei/ZTE* case before the EU's top court. The Court of Justice of the European Union is set to rule on a reference from the Regional Court of Düsseldorf, asking for guidance on the application of the EU prohibition on abuse of market dominance to the enforcement of SEPs. The dispute relates to an essential patent for the 4G 'LTE' standard for mobile telecommunications; moreover, this guidance will be helpful for SEP owners and licensees not only in the telecommunications industry but more generally where one standard involves a large number of patents.

The Court is not required to follow the Advocate General's opinion, however, to date, it has done so in approximately 70 - 80% of cases.

There are three main points in the Advocate General's opinion.

1. No injunction against a ready, willing and able SEP licensee

For its patent to achieve SEP status, the owner of a SEP must commit to grant third parties a licence on fair, reasonable and non-discriminatory (FRAND) terms. The Advocate General considers that, before it can take action to stop an alleged infringement by a SEP user, the SEP owner must actually have made that user an offer to license its patent on FRAND terms.

If the SEP owner fails to do this, or if it fails to pursue a FRAND licence with a SEP user that has indicated it is "ready, willing and able" to enter into such a licence, then the SEP owner is likely to abuse a dominant market position if it seeks an injunction or corrective measures (such as a recall of the allegedly infringing products) against the SEP user. (The Advocate General notes that there is a rebuttable presumption that a SEP owner is market-dominant.)

2. The SEP owner and user both have obligations in licence negotiations

The Advocate General addresses in some detail the practical steps that need to be taken by the SEP owner and the user in negotiating a licence. Although these may be described as common sense, it is useful to have them clearly articulated.

Before seeking an injunction or corrective measures, the SEP owner should write to the user, notifying it of the details of the alleged infringement and offering it a licence on FRAND terms. Those terms should include all the terms normally included in a licence in the sector, in particular, the proposed amount of the royalty and how it is calculated.

The user must then provide a considered and serious response to the SEP owner's offer within a reasonable time. If it does not accept the offer, its response should contain a reasonable written counter-offer, setting out the clauses it does not accept. Where it can be shown that the user is engaging in conduct that is purely tactical, dilatory or not serious, the SEP owner may obtain an injunction or corrective measures without breaching competition law.

If the parties are unable to reach an agreement in good faith, they may request that the FRAND terms be fixed by a court or an arbitration tribunal. The SEP holder may also ask the infringer to provide a bank guarantee for the payment of royalties or to deposit a provisional sum for its past and future use of the patent.

None of these scenarios deprives the user of the right to challenge the validity of the SEP and it can insist on this right being a term of any licence that is agreed.

3. The SEP owner can seek damages or rendering of accounts

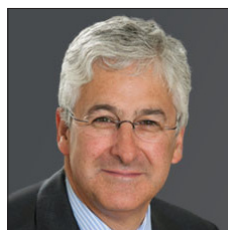
Although the SEP owner cannot stop the alleged infringement until it has taken the steps described above, it can take legal action in respect of past conduct. If it succeeds, firstly, it can obtain compensatory damages for the past use of the patent. Secondly, it can secure the rendering of accounts to determine the extent to which the user has used the SEP and the amount of royalty due, although its actions must be reasonable and proportionate.

Comment

The pragmatic steps the Advocate General proposes seek to strike a balance between ensuring that SEP users do not face unnecessary delays in bringing their products to the market and that SEP owners receive the protection and royalties they are due. If the Court of Justice follows the Advocate General's approach, the SEP owner will bear the burden of identifying the SEPs allegedly being infringed and of proposing FRAND licence terms to govern the further use of the SEP. However, the SEP owner will also benefit from certain safeguards against abuse and in particular will not be prevented by the rules against abuse of market dominance from taking action where the SEP user's approach to negotiating the licence is not genuine.

Whether the Court of Justice, which is expected to publish its final judgment in the *Huawei/ZTE* case in early-mid 2015, will follow this approach remains to be seen.

If you have any questions in connection with this article, please contact either your usual Mayer Brown contact or one of the authors:



Mark Prinsley

Partner

T: +44 20 3130 3900

E: mprinsley@mayerbrown.com



Gillian Sproul

Partner

T: +44 20 3130 3313

E: gsroul@mayerbrown.com



Zsolt Vertessy

Trainee

T: +44 20 3130 3179

E: zvertessy@mayerbrown.com

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