

## FRAND Defence

### Spundfass

In 2004, the German Supreme Court was faced with the indicated conflict for the first time (Standard Tight-Head Drum: Spundfass). An Italian manufacturer of barrels for chemical liquids argued that the patentee's refusal to grant the manufacturer a licence constituted an abuse of a market-dominating position by discriminating against the manufacturer in the face of other manufacturers to whom licences had been granted by the patentee. Indeed, a refusal of that licence would have kept the manufacturer away from a particular market. The German Supreme Court recognised that in such a situation, it is the patentee's duty to grant a licence and that, furthermore, the accused infringer may rely on a defence against an injunction requested by the patentee in patent litigation.

### Orange Book Standard

In a second decision from May 2009, the so-called Orange Book Standard decision, the court maintained its general position that the defendant can raise a defence in patent litigation when a market-dominating position could result from the assertion of a patent (Art. 102 TFEU) [\[1\]](#).

The parties in that case were not competitors within the product market. Rather, the patentee was essentially in the business of selling licences offered publicly on the internet under standard terms. The defendants, who found these terms to be commercially unacceptable, mainly sought to obtain more favourable conditions. When the defendants continued to use the patented invention by adhering to the technical standard, the plaintiff brought an infringement action seeking injunctive relief. The defendants claimed that they were entitled to a licence under Fair, Reasonable and Non-Discriminatory (FRAND) terms. The Federal Court of Justice concluded that such defence was admissible, provided, however, that the defendant had behaved like a "hypothetical licensee."

This requires the following:

(1) That the patentee holds a market-dominating position thanks to a patent or plurality of patents. This requirement is typically fulfilled if the use of the standard necessarily requires the use of the patent and if the standard compliance is a precondition to participate in a particular market.

(2) That the hypothetical licensee (i.e., accused infringer)

(a) Has made an unconditional offer to license under fair, reasonable and non-discriminatory terms that cannot be rejected by the patentee without violating the prohibition of discrimination and obstructive practices. The patentee is not obliged to make that offer, but it will violate antitrust law (Art. 102 TFEU) if it refuses an adequate and unconditional offer made by the accused infringer.

(b) Behaves like a licensee and renders account (i.e., produces adequate reports about past sales) and has compensated the patent owner for any previous use of the patent, under FRAND terms.

The accused infringer must have fulfilled the above conditions by the day of the hearing so that the court can take the defence into account.

*Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.*

*Such abuse may, in particular, consist in:*

*(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;*

*(b) limiting production, markets or technical development to the prejudice of consumers;*

*(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;*

*(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.*

## **Referral to the CJEU**

In a decision rendered on March 21, 2013, the DC Düsseldorf raised concerns as to the Orange Book Standard- case law. The decision also refers to a view of the EC expressed in a [press release dated December 12, 2012](#):

Therein the EC indicates, *“where a commitment to license SEPs on FRAND terms has been given by ... [i.e. the patentee], and where a potential licensee, ..., has shown itself to be willing to negotiate a FRAND licence for the SEPs, then recourse to injunctions harms competition”*.

In the light of these concerns the Court asked the CJEU to consider a set of questions concerning the understanding of how patent monopolies and standard-essential proprietary technologies can be incorporated in European Union's rules on competition and antitrust. A translation of these questions can be found here:

*“1. Does the owner of a SEP, who has declared to a standardisation body that he is willing to grant any third party a licence on FRAND terms, abuse his dominant market position if he files an action for an injunction against an infringer although the infringer has declared that he is willing to negotiate concerning such a licence,*

*or*

*is an abuse of the dominant market position only given if the infringer has made to the owner of a SEP an acceptable, unconditional offer to conclude a license agreement which the owner cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfils - in anticipation of the licence agreement to be conclude - his contractual obligations for acts of use already committed?*

*2. If abuse of a dominant market position is already to be presumed as a consequence of the infringer's willingness to negotiate:*

*Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can such willingness to negotiate be presumed if the patent infringer has merely stated (orally) in a general way that he is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which he is prepared to conclude a licensing agreement?*

*3. If the submission of an acceptable, unconditional offer to conclude a license agreement is a prerequisite for an abuse of a dominant market position:*

*Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to that offer? Must the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the SEP is actually used and/or is shown to be valid?*

*4. If the fulfilment of the infringer's obligations resulting from the licence agreement to be concluded is a prerequisite for an abuse of a dominant market position:*

*Does Article 102 TFEU lay down particular requirements as to those acts of fulfilment? Is the infringer particularly required to render account for acts of use committed in the past and/or to pay royalties? May the payment of the royalties fulfilled by the provision of security?*

*5. Do the conditions under which an abuse of a dominant position is committed by the owner of the SEP apply also other claims resulting from a patent infringement (rendering of accounts, recall of products, damages)?”*

On November 20, 2014 the Advocate General published his [opinion](#) about the conditions of the commitment to grant licenses to third parties on FRAND-terms and it seemed that the (patentee friendly) approach taken by German courts following the Orange book decision of the German Federal Court of Justice could not be maintained.