

German Federal Court of Justice FRAND Judgment in *Sisvel v. Haier*

July 23, 2020

The German Federal Court of Justice (“FCJ”) recently published its long-awaited judgment in the patent dispute *Sisvel v. Haier*, which it had previously announced orally on May 5, 2020 (Case No. KZR 36/17).

Under the process laid out in the 2015 judgment of the Court of Justice of the European Union (“CJEU”) in *Huawei/ZTE*, the owner of a standard-essential patent (“SEP”) must grant a license to any implementer who has declared its willingness to take a license and can only seek an injunction if it first makes a fair, reasonable, and non-discriminatory (“FRAND”) offer to the alleged infringer and the latter fails to diligently respond to that offer.

The FCJ has now held that the lower court should have granted *Sisvel* an injunction because *Haier* did not express “unconditional willingness” to take a license on FRAND terms. The Court found that *Haier* employed delaying tactics in its approach to the negotiations and inappropriately conditioned its willingness to license on a court first ruling *Sisvel*’s SEP to be valid and infringed.

As a practical matter, then, for a FRAND defense to an injunction to succeed, the implementer should clearly state, as soon as it receives a notice of infringement, that it is willing to take a license so long as the offer is FRAND and should continue to express such willingness throughout the negotiations. It should not condition its signing of a license on first resolving validity or infringement proceedings (though the implementer may still reserve the right to challenge validity and infringement in parallel to, or after, signing a license).

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1. Factual Background

Sisvel is a non-practicing entity and holds a number of SEPs for various mobile telecommunications standards. Purporting to follow the *Huawei/ZTE* process, Sisvel notified mobile phone maker Haier that Haier was infringing one of Sisvel's SEPs. Haier first reacted to Sisvel's infringement notice about a year after receiving it by requesting more information on license royalties and a possible discount. Later, Haier expressed its willingness to take a license, but only on the condition that the patents were first found valid and infringed in court.

Sisvel made an initial licensing offer, which Haier rejected, and Haier made a counteroffer, which Sisvel rejected. The parties exchanged several more proposals, none of which led to an agreement. Sisvel eventually sued Haier for patent infringement in the Regional Court of Düsseldorf, seeking damages for Haier's past use, an injunction against Haier's sale of any products practicing Sisvel's patents as well as recall and destruction of such products.

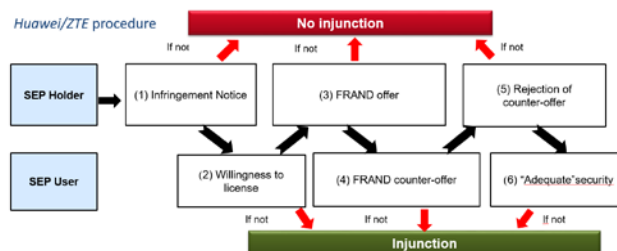
2. Prior Litigation

In 2015, the first instance court (Regional Court of Düsseldorf) granted Sisvel an injunction against Haier on the basis of the alleged infringement of Sisvel's SEP, and ordered Haier to render accounts and recall and destroy the infringing products.

On appeal, the appellate court (Higher Regional Court of Düsseldorf) found in 2017 that the injunction was not justified. It did not have to reverse the injunction because the patent had in the meantime expired. The appellate court held that the first instance court erred by failing to assess whether Sisvel's offer to Haier was FRAND. It found that Sisvel's offer to Haier was "discriminatory" and thus not FRAND, because Sisvel had offered Haier's competitor Hisense a significantly lower rate. As a result, the court held that Haier was not obliged to respond with a FRAND counteroffer. In that regard, the appellate court interpreted the CJEU's *Huawei/ZTE* decision as requiring that the SEP holder must first make a FRAND offer before any obligations arise on the implementer's reaction. Sisvel appealed the case to the FCJ.

3. The FCJ's Ruling

In its judgment, the FCJ clarified the parties' obligations under the FRAND procedure, which the CJEU had previously outlined in *Huawei/ZTE* as illustrated below:



In particular, the FCJ indicated what an implementer must do before it can rely on a FRAND defense.

Relying on Judge Birss' statements in the English case *Unwired Planet v. Huawei* (which is on appeal to the U.K. Supreme Court), the FCJ stressed that the implementer, to comply with its FRAND obligations, must negotiate in good faith with the SEP holder and, in particular, must not delay negotiations. Following the SEP owner's notice of infringement, the implementer cannot fulfill its FRAND obligations by merely announcing an abstract willingness to negotiate or by imposing conditions for negotiations. In line with *Unwired Planet v. Huawei*, implementers must make clear they are willing to take a license on "whatever terms are in fact FRAND." Only if the implementer clearly showed willingness to take a license is the SEP holder barred from seeking an injunction.

The FCJ found that Haier's delay in responding to the notice of infringement and its condition that it would take a license only once the patent was found valid and infringed in court showed that Haier was an unwilling licensee. Even apart from the delay in Haier's response to Sisvel's infringement notice (one year after its receipt), the Court noted that its content did not sufficiently show a clear willingness to take a license. Haier's initial response was limited to expressing a hope that the parties would have formal negotiations and to asking for more information. In later correspondence, Haier specified that it would be prepared to take a FRAND license once a German court had rendered a final and binding decision on the validity of the patent and its infringement. The FCJ found such "conditioned willingness to license"

to be insufficient. In light of the then-impending lapse of the patent, the Court qualified Haier's behavior as delaying tactics.

In short, Haier did not timely take the second step in the negotiation process described in the *Huawei/ZTE* judgment of the CJEU (illustrated in the process diagram above) and subjected that second step to an improper condition.

The FCJ found Haier's argument that it needed more information to engage in negotiations to be without merit. According to the Court, a patentee must inform an implementer that it is infringing a patent and give the implementer an opportunity to signal its willingness to license before the patentee sues for an injunction or other remedies. However, the patentee does not on its own initiative need to provide details beyond identifying the patent in question and stating that it is being infringed. In particular, although common, the Court noted that a patentee is not required to present claim charts. Claim charts suffice for notice, but are not necessary. Moreover, the Court stated that while the implementer can request details about the calculation of the proposed license fees from the patentee, it can only do so once it has demonstrated its willingness to take a license. Before that point, the patentee is under no obligation to provide concrete license terms at all.

In the oral hearing, the FCJ had reportedly stated that an implementer can cure a failure to clearly declare its willingness to take a license but had questioned if and to what extent such a belated declaration of willingness was still possible once the SEP holder had filed for an injunction. In the written judgment, the FCJ deliberately refrained from offering final guidance on this question because it found that Haier's later correspondence with Sisvel while the first appeal was pending (*i.e.*, after the first instance judgment) still did not show the required unconditional willingness to take a license.

Moreover, the FCJ found that the better licensing terms Sisvel had offered to Haier's competitor Hisense were due to political pressure from the Chinese government and were thus not a comparator to determine the FRAND rate. As a result, imposing a higher rate did not constitute discrimination.

With respect to the permissibility of worldwide portfolio licenses, the FCJ noted that (i) an SEP owner may insist on a license to all of its relevant SEPs for the standards implemented in the infringing product (*i.e.*, not non-SEPs, unless they are included without additional payment), and that (ii) an SEP owner may insist on a worldwide license, so long as a potential licensee who only develops products for a specific geography suffers no disadvantage.

Finally, referring to the CJEU's decision in *Huawei/ZTE* (para. 74), the FCJ stressed that a patentee's claim for damages does not constitute an abuse of a dominant market position even where SEPs are at issue because a damages claim does not restrict market access. Therefore, contrary to a view previously held by German courts and legal commentators, a patentee's damages claim is not necessarily limited to the amount of FRAND license fees the patentee could have received; the patentee could also claim damages that go beyond that. In that case, it is up to the implementer to file a counterclaim for damages resulting from the patentee's failure to comply with its obligation to conclude a license agreement on FRAND terms with the willing licensee. Here, Haier would not have been able to raise such a counterclaim because – given Haier's failure to comply with its own obligations to signal willingness – Sisvel did not violate its FRAND obligations.

4. Conclusions

The FCJ's judgment in this case has long been awaited by the patent law community. The implications for both patentee and implementer are as follows:

- The FCJ stressed that Haier should have shown unconditional willingness to take a license on FRAND terms and should have done so without undue delay. To be on the safe side, implementers should ensure that they **express such unconditional willingness shortly after receiving a notice of infringement** from the SEP holder and throughout the negotiations and to condition such willingness only on the licensor's offer being FRAND. Implementers may also want to document their efforts at good-faith

negotiations in case this later becomes a point of dispute.

- Implementers should not insist on first obtaining a court judgment finding the patents **valid and infringed** as a condition for taking a license (without prejudice to the right to challenge the validity and infringement of the patent at any time during negotiations or after taking a license).
- The FCJ noted that **damage claims** based on SEP infringement are not necessarily limited to a FRAND royalty amount, but that implementers can achieve the same result by filing a counterclaim. Implementers faced with damages claims may consider filing such a counterclaim if they are of the view that the patentee has not complied with its FRAND obligations.
- The FCJ judgment answers two questions still pending before the UK Supreme Court on discrimination and worldwide licensing. First, an SEP owner does not violate its FRAND obligation by requiring a **worldwide portfolio license**, so long as potential licensees who only develop products for a specific geography suffer no disadvantage. Second, the **discrimination** limb of a FRAND obligation only prohibits differential treatment that places the implementer at a competitive disadvantage and is not justified. It is not equivalent to a “most favored licensee” clause. The FCJ thus refused to apply a “hard-edged” discrimination test. While the burden of alleging obstruction or differences in treatment rests on the alleged infringer (and the burden of justifying them on the patent holder), the patent holder may need to provide more information to enable the implementer to assess the impact of differences in treatment.
- The FCJ judgment does not answer three further questions that currently divide

opinions, namely (i) whether an SEP owner is required to grant a **license to all interested parties**, including upstream component suppliers, (ii) whether the SEP owner can charge **value-based royalties**, that differ depending on the application or end-product in which a component implementing the SEPs is used, and (iii) whether (as some German courts have suggested) an SEP owner is entitled to an injunction if the implementer’s counteroffer was not FRAND, regardless of whether the SEP owner’s initial offer was FRAND (in other words, where step 3 in the process diagram above is skipped).

- Commentators suggest that the FCJ judgment, by (i) imposing strict conditions on the obligations of the implementer, (ii) relieving the SEP owner of the duty to provide claims charts, and (iii) refusing to apply a “hard-edged” discrimination criterion, will increase the risk of injunctions against SEP implementers. This could increase the importance of the ongoing discussion about including an explicit **proportionality test** in Section 139 of the German Patent Act (which provides for a claim for an injunction in case of infringement). A draft amendment has recently been proposed by the Ministry of Justice.¹ Including a proportionality requirement in Section 139 should align German patent law with Article 3(2) of the European IP Enforcement Directive 2004/48/EC, which requires patent enforcement measures to be proportionate, and could mitigate the risk of disproportionate injunctions in light of the *Sisvel v. Haier* judgment.

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¹ See Bill of the German Federal Ministry of Justice and Consumer Protection for a Second Act concerning the Simplification and Modernization of German Patent

Law (Second Patent Law Modernization Act (2. PatMoG)) [here](#), and commentary [here](#).