The Third Way: Advocate General’s Opinion in Huawei v ZTE

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Abuse of dominant position; EU law; Fair reasonable and non-discriminatory terms; Infringement; Injunctions; Standard-essential patents

Background

The Opinion of A.G. Wathelet in Huawei Technologies Co Ltd v ZTE Corp, ZTE Deutschland GmbH was delivered on November 20, 2014 in response to a request for a preliminary ruling on the circumstances in which a prohibitory injunction may be granted, lodged by the Landgericht Düsseldorf on April 5, 2013.

The request arises in the course of proceedings in which Huawei alleges that ZTE infringed a patent essential to the Long Term Evolution (LTE) standard, developed by the European Telecommunications Standards Institute (ETSI). “Standard essential patents” (SEPs) must be implemented for certain technologies to comply with industry standards, i.e. there is no “workaround” for the SEP. Holders of SEPs must offer a commitment to the standard setting organisation to license their technology on fair, reasonable and non-discriminatory (FRAND) terms. Without clear judicial guidance on what is or is not a FRAND offer or licence rate, litigation in this area is growing, with high profile “patent wars” being waged in cases such as Apple v Samsung and Motorola Mobility v Microsoft. Huawei, which had given a commitment to ETSI to license the patent on FRAND terms, brought legal proceedings following the breakdown of negotiations. It sought an injunction against ZTE.

A divergence of paths—case law considered

Orange-Book Standard (KZR 39/06)¹

A.G. Wathelet noted factual differences between the present case and the previous Orange-Book Standard case of the German Federal Supreme Court. That case held that if a potential licensee (the defendant) wishes to argue that it has a defence against an injunction on the grounds that the owner of the patent in suit (the applicant) abuses its dominant position by seeking an injunction, it may do so where: (1) the defendant has made the applicant an unconditional offer to conclude a licensing agreement; and (2) if the defendant is already making use of the subject-matter of the patent before the applicant accepts its offer, it must meet the obligations which will be incumbent on it under the future licensing agreement. The Advocate General noted that the Orange-Book Standard case concerned a de facto standard, whereas the present case concerns an SEP in respect of which the owner is bound by FRAND obligations. In cases such as the Orange-Book case, an action for a prohibitory injunction would only be considered abusive where the royalty demanded was “clearly excessive”.

Volvo v Veng (238/87)²

Relying on the judgment of the ECJ in Volvo, the Advocate General advised that any consideration of conduct that may be capable of constituting abuse of a dominant position requires an assessment: (1) of the “relationship of dependence” between the IPR holder occupying a dominant position and other undertakings; and (2) of the abusive exploitation of that position by the right holder through recourse to methods different from those governing normal competition. Findings of an abuse of a dominant position in the context of standardisation can only be made after consideration of the conduct of both the IPR holder and the infringer.

Finding the middle course

The referring court had proceeded on the presumption that Huawei would be dominant. This was therefore not a question before the Advocate General. A.G. Wathelet nonetheless noted that the referring court did not say that it is beyond question that the holder of an SEP has a dominant position. He took the opportunity to state that he shares the view that, while there was a presumption of dominance, this could be rebutted with “specific, detailed evidence”.

In considering abuse the Advocate General recognised the need to find a balance between the rights of the SEP holder to protect his intellectual property and access to the courts and the right to freely conduct business enjoyed by implementers. The Advocate General accepted that seeking an injunction in relation to FRAND-encumbered patents does have the potential to distort competition. However, he also noted that a prohibitory injunction is an essential means of asserting intellectual property and cannot of itself amount to an abuse. Limitation of this essential right should only be permitted in exceptional circumstances.

¹ Pat Treacey is a Partner and Chloe Dickson a Trainee at Bristows, London.
² Huawei Technologies Co Ltd v ZTE Corp, ZTE Deutschland GmbH (C-170/13), Opinion of A.G. Wathelet, November 20, 2014.
A.G. Wathelet laid out certain specific steps which an SEP holder must take before bringing an action for infringement seeking an injunction:

- first the SEP holder must alert the other party of the alleged infringement, unless it is established that it is fully aware of the issue; and
- secondly, the SEP holder must present a written licence offer on FRAND terms.

The alleged infringer must respond in a diligent and serious manner. It is for the national courts to determine whether these guidelines have been complied with, the timelines for doing so and the content of any offer argued to be FRAND.

A.G. Wathelet also found that an alleged infringer must be objectively ready, willing and able to conclude a licensing agreement. The holder of a FRAND-encumbered patent should not require the infringer to fulfil the obligations of a licence that has not yet been concluded. However, it is open to an SEP holder to require the provision of a bank guarantee or deposit of a provisional sum for past and future use of the patent.

Comment

It seems that A.G. Wathelet sought to suggest that the European Court adopt a “middle-course” between the more “patentee-friendly” approach taken by the German courts following the Orange Book decision and that of the European Commission in its Samsung and Motorola decisions, which has been more “implementer-friendly”. However, the Advocate General recognises that an implementer’s approach to negotiations may be dilatory and that seeking an injunction in such circumstances may be legitimate. A.G. Wathelet’s statement that it may be reasonable and proportionate for an SEP holder to seek a bank guarantee or deposit, or to claim for damages or other remedies arising under art. 10 of Directive 2004/48, appears to be intended to ensure that implementers do not abuse the negotiation process. On the other hand, the Advocate General confirmed that an implementer may still challenge validity, infringement and use of a patent without being considered an “unwilling licensee”. These statements seem calculated to offer protection for both patentees and implementers.

What happens next?

The CJEU is expected to hand down its judgment in early 2015. However, even if it follows the Advocate General’s Opinion, this will still leave much to be determined by the national courts. The Opinion contains no guidance on the setting of FRAND royalties or how a national court is to determine that the content of any offer made before commencing litigation was FRAND. The judgment of the CJEU is therefore unlikely to mark the end of the “FRAND wars”.