

3 Takeaways From Landmark German FRAND Decision

By **Dani Kass**

Law360 (July 15, 2020, 7:46 PM EDT) -- Germany's top court provided long-awaited guidance this month over how companies are expected to act when negotiating fair, reasonable and nondiscriminatory licenses for standard essential patents, penning a decision that attorneys say will make Germany the venue of choice for patent owners in licensing disputes.

In *Sisvel v. Haier*, the German Federal Court of Justice said the entire burden of offering a FRAND license can't fall on the patent owner. The 41-page decision — issued in July to explain the court's initial May ruling — also says patent owners can still meet FRAND requirements when requiring licenses to include large, multinational patent portfolios and while offering different rates to competing licensees.

"What I'd do tomorrow, if I was a patent owner who was not getting traction on my standard essential patent, is I'd run over to Germany and file suit against the company that's not [taking an offered license]," said Michael T. Renaud, a member of Mintz Levin Cohn Ferris Glovsky and Popeo PC who represents owners of standard essential patents, or SEP.

He added: "[But before suing,] I'd say to them, 'Hey, stop complaining that my offer is a worldwide offer. Stop complaining that it's a portfolio license. Stop complaining you don't have enough technical information, and stop complaining that it's not the same offer I made somebody else.' None of those things are going to stop me from prevailing in Germany."

The German ruling came in a dispute between Sisvel, a Luxembourg-based patent licensing company, and Haier, a Chinese consumer electronics manufacturer. Sisvel had accused Haier of infringing patents that are essential to the general packet radio service wireless communication standard.

A Düsseldorf court had ruled in favor of Sisvel on the FRAND question, saying Haier didn't sufficiently respond to the licensing offers. But then the regional appeals court reversed course, finding Sisvel didn't offer a license on FRAND terms because it didn't offer Haier the same type of discounts it had offered another Chinese company, Hisense.

The German Federal Court of Justice once again turned around the decision and granted a win to Sisvel. Since Sisvel's patents have expired, any award would be just for damages and not injunctive relief.

But the decision will have big implications for cases coming down the line and the global FRAND arena, so here's what patent attorneys need to know.

Licensees Must Play Ball

The German high court made clear that the obligation to find a license on FRAND terms doesn't rest entirely on the SEP owner. The potential licensee — referred to as an implementer — must make clear that it's going to actively participate in the process.

"The [court] clarifies that a high standard has to be met by an alleged patent infringer to sufficiently show the willingness to license," said Munich-based Mewburn Ellis partner Christoph Moeller. "A future implementer must therefore consider very carefully how to behave in FRAND negotiations with a patent owner in order to avoid being accused of lacking the will to negotiate."

Companies alerted to potential infringement must now expressly state that they are willing to take a license on whatever terms are found to be FRAND, said Henrik Holzapfel, a Düsseldorf-based partner at McDermott Will & Emery LLP. He pointed to a specific line in the German high court's ruling citing a U.K. court decision: "a willing licensee must be one willing to take a FRAND license on whatever terms are in fact FRAND."

"If you are on the implementer side, be sure to make this declaration in exactly this form," Holzapfel said.

Without such a statement, the court said the implementer is signaling that it's not interested in taking a license, which opens it up to an injunction.

However, the German court said the burden doesn't end after that statement is made, and the implementer must continue to engage, including not using delay tactics to stall licensing talks.

In this case, the court concluded that Haier was unreasonably delaying the talks by repeatedly asking for more information and saying the offer it was given wasn't FRAND, rather than providing a counter offer that would move the talks along.

"It was a six-year drama where it looked like Haier could just keep hiding and running from its day of reckoning," Renaud said. "[The court said] you can't escape your obligations, Haier, by hiding behind 'you don't believe there was a FRAND compliant offer.' You can't put it all on the patent owner."

With this ruling in SEP owners' pockets, Holzapfel said implementers can expect less patience.

"SEP holders will make clear that they expect compliance with this guidance from the implementers, which means they may be less patient with feedback, expecting more timely or more swift feedback from the implementers," he said.

PacTech Law PC founder Dave Djavaheerian, who represents implementers, said the decision isn't necessarily applicable to all cases, given the egregiousness of Haier's conduct.

"It seems there were some unique facts in the case, such as last-minute cancellation of meetings after international travel was in process, that raised the court's concerns about the defendant's good faith," Djavaheerian said. "It is not clear that the same concerns will apply in other cases where the parties' behavior is less problematic."

Different Isn't Discriminatory

The ruling at the regional appeals court had been that Sisvel's license offer to Haier had been discriminatory, since the patent owner had offered Hisense a large discount that it didn't offer Haier.

The discount for Hisense — which Holzapfel said was about 80% — stemmed from the Chinese government exerting pressure, which the high court said could make the disparity justifiable.

"The Court of Appeal did not consider whether the plaintiff's submissions made it possible to establish that the plaintiff was forced to grant preferential conditions to the third-party licensing company through intimidation or pressure from a foreign authority," the top court said, according to a translation from Sisvel's lawyers. "It erred in law in assuming that this could not in itself constitute an objective justification for the unequal treatment."

The court added that SEP owners may have reasons to accept "inadequate" licensing offers, such as when government threats would make it harder to enforce the intellectual property otherwise.

Renaud said that while the parameters of when something becomes discriminatory still need to be defined, there are some instances that would be obvious: "I can't offer \$10 a unit to Apple and \$1 a unit to Samsung, and expect to win in a FRAND dispute," he said.

"The offers can be different; they don't have to be exactly the same. But they have to be close," Renaud said.

Patent Owners Decide the Scope

The ruling also makes clear that a SEP owner isn't required to license its patents one by one, or country by country, and that an offer for a worldwide license on a portfolio of patents can indeed be considered FRAND. However, the offer can't require payment for nonessential patents, and the patent owner needs to provide sufficient information to the implementer, the court said.

Renaud said that means the SEP owner gets to decide which patents are at play and where.

"Any [implementer] who says, 'I only want German patents, two patents,' can't hide behind that," he said. "If someone makes you a worldwide offer for an entire portfolio, you have an obligation to make a worldwide counteroffer. That's what the rule now is."

This was something "broadly accepted" in German courts, Holzapfel said, but "it's important that it's been confirmed" by the high court.

Whether worldwide licenses are FRAND is currently before the U.K. Supreme Court as well, in a case called *Unwired Planet v. Huawei*, where companies are waiting for a ruling to come down.

But Renaud said for most companies, the German ruling will be a bigger deal because the country has a larger economy. An implementer hoping to avoid a German court's injunction can avoid selling infringing products there, but a lot of companies aren't willing to take the financial hit of losing German sales, he said.

"If Huawei loses in the U.K., where their market share is so small compared to their total revenue, I think

they might just exit and say they're not going to sell in the U.K. because it's not worth it for [the company] to pay a worldwide license. But Germany's trickier," he said. "For some companies, the German market is so big that they can't afford not to be in it. In some instances, people will exit, but Samsung's not exiting the German market. Apple's not exiting the German market."

Renaud added that while some Chinese companies may be able to keep afloat with sales outside of Germany, those who want to stay in Europe after this ruling are going to negotiate in good faith.

"They can't not," he said.

--Editing by Jill Coffey.