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FRAND OR FOE? COMPETITION LAW AND SEP LICENSING: RECENT DEVELOPMENTS IN EUROPE AND THEIR IMPACT ON THE AUTOMOTIVE INDUSTRY

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Morgan Lewis Automotive Hour Webinar Series

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NOVEMBER 10 | New Market Entry and the Anachronistic US Distribution System: What the Future Portends

DECEMBER 8 | The IP Anatomy of the Automotive Nervous System

Table of Contents

- Section 01 – Introductions
- Section 02 – Standard Essential Patent
- Section 03 – Antitrust Theory of Harm
- Section 04 – Level of Protection in Europe
- Section 05 – SEPs in the Automotive Industry
- Section 06 – Outlook
- Section 07 – Questions

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Standard Essential Patent

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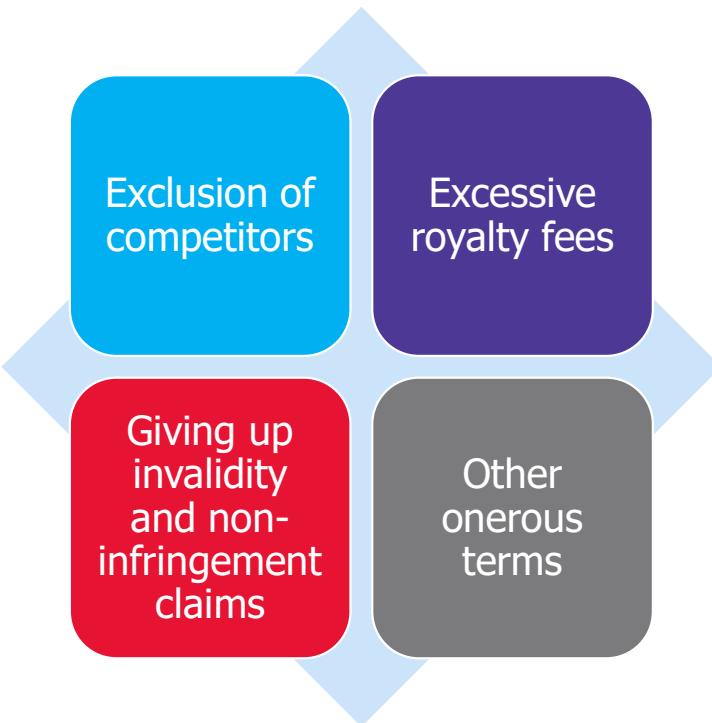
Standard Essential Patent

- Standard
 - Technical specifications defining requirements for products, production processes, services or test-methods
 - Set by standard setting organizations (SSOs):
 - European Telecommunication Standards Institute (ETSI)
 - International Communication Union
 - Examples: DVD, Blu-Ray, 2G (GSM/GPRS), 3G(UMTS), 4G (LTE), 5G
- Standard essential patent
 - A **patent** that protects technology **essential** to a **standard**

Antitrust Theory of Harm

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Antitrust Theory of Harm



Level of Protection in Europe

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Level of Protection in Europe – Development

German Courts

- Patentee friendly approach

(Federal Court of Justice, 2015, Orange Book Standard, KZR 39/06)

EU Commission

- Implementer friendly approach
(Motorola (2012)), Samsung (2014))

European Court of Justice

- Seeks a middle ground

(ZTE vs. Huawei, 2015, C-170/13)

Level of Protection in Europe – The ECJ's Initial Guidance*

- The SEP holder must alert the implementer of the alleged infringement.
- The implementer must express a willingness to conclude a licensing agreement on FRAND terms.
- The SEP holder must provide a specific, written offer for a licence on FRAND terms.
- The implementer must “diligently” respond to that offer, in particular no delay tactics
- In case of non-acceptance, prompt counter offer required on FRAND terms
- If the implementer is using the SEP before reach of a licensing agreement, the implementer must provide appropriate security re past and future use of the SEP.
- If no agreement after the counter-offer by the implementer, the parties may, by agreement, request that the amount of the royalty be determined by an independent third party
- The implementer is free to challenge, in parallel to negotiations for a grant of licence, the validity of the SEP or for reserving the right to do so in the future.

*ZTE vs. Huawei, 2015, C-170/13

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Level of Protection in Europe – An ongoing discussion (1/2)

- May 2020: German Federal Supreme Court, KZR 36/17, Sisvel vs. Haier
 - First ruling since ECJ's 2015 decision strengthening of SEP holder's position
 - Willingness: Active engagement by the implementer required
 - Portfolio license offer has pro-competitive effects
 - FRAND: No obligation to offer identical conditions to all implementers based on FRAND declaration

Level of Protection in Europe – An ongoing discussion (2/2)

- August 2020 – United Kingdom Supreme Court, *Unwired Planet / Huawei*
- Strengthens SEP holder's position
 - Methodology on determination of FRAND Rates
 - A UK court can grant an injunction against infringement of a UK patent that is an SEP if the infringer does not take a global license on FRAND terms
 - Determination of GLOBAL FRAND rate by UK court possible
 - No separate violation of the non-discrimination requirement
 - No need to offer FRAND terms before commencing litigation
 - “[i]n contrast [to Germany], in the United Kingdom, it is not the practice to grant a final injunction unless the court is satisfied that the patent is valid and infringed, and it has determined a FRAND rate.”

SEPs in the Automotive Industry

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SEPs in the Automotive Industry (1/2)

- Late 2018: Complaint by patent user against patent holder at the EU Commission; joined by various third parties
- March 2019: EU Commission sends out RFIs to market participants
- April 2019: Various SEP holders file total of 16 lawsuits against the patent user in Germany in 2019, 10 of which in April
- August 2020: Decision of Regional Court Mannheim (Germany)
 - Injunction against user for SEP patent infringement
 - Alleged insufficient willingness to license by the SEP user
 - Court imposed a security deposit of €7 billion for enforcing the decision
 - No referral to ECJ despite respective request by German Federal Cartel Office

SEPs in the Automotive Industry (2/2)

- September 2020: Munich Regional Court issues injunction in another SEP infringement dispute
- November 2020: Decision by Regional Court Düsseldorf
 - Referral of case to the ECJ (next slide),
 - Decision appealed by SEP holder

Regional Court Düsseldorf – Referral to ECJ (1/3)

I. Is there an obligation to give licensing priority to suppliers?*

1. May a company at a downstream stage of the patent holder's action for an injunction against infringement of a SEP regarding which the patent holder has irrevocably committed itself vis-a-vis this organization to grant a license to any third party on FRAND terms, raise the defense of abuse of a dominant position within the meaning of Art. 102 TFEU, if the standard (or parts thereof) for which the patent at issue is essential has already been implemented in an intermediate product purchased by the allegedly infringing party, and the patent holder refuses to grant suppliers of such intermediate product (who are willing to obtain a license) an own unlimited license for all patent-relevant types of use on FRAND-terms for the products implementing the relevant standard?
 - a) Does this apply in particular if, in the relevant industry of the end-product distributor, the intellectual property rights for patents used by suppliers are customarily dealt with by licensing to suppliers?
 - b) Is licensing priority to be given to suppliers at *any* stage of the supply chain or only to the supplier immediately upstream of the end-product distributor at the end of the value chain? Are business customs relevant in this context as well?

* English convenience translation of referral questions

Regional Court Düsseldorf – Referral to ECJ (2/3)

2. Does the antitrust law prohibition of abuse require that the supplier be granted its own, unlimited license for all patent-relevant types of use on FRAND terms for products implementing the standard in the sense that the end-product distributors (and possibly the upstream buyers) in turn no longer require their own, separate license from the SEP holder in order to avoid patent infringement in the event of the intended use of the relevant supplier part?
3. If the question under 1. referred for a preliminary ruling is answered in the negative: Does Article 102 TFEU impose specific qualitative, quantitative and/or other requirements on the criteria to be considered by the SEP holder when deciding which potential infringers at different levels of the same production and value chain it will include in its injunction action?

Regional Court Düsseldorf – Referral to ECJ (3/3)

II. Specification of the requirements of the decision of the Court of Justice in *Huawei v. ZTE* (judgment of 16 July 2015, C170/13):

1. Is it, irrespective of the fact that the reciprocal duties requiring action by the SEP holder and SEP user (notification of infringement, licensing request, FRAND license offer; license offer to the supplier to be licensed with priority) should be fulfilled prior to litigation, possible to meet the duties requiring action that were not fulfilled prior to litigation in the course of legal proceedings in a manner that safeguards the law?
2. Can a licensing request by the patent implementer only be assumed if on the basis of a comprehensive assessment of all circumstances of the case, there is a clear and unambiguous indication of the SEP user's willingness and readiness to conclude a license agreement with the SEP holder on FRAND terms, whatever these FRAND terms may be (which, in the absence for a formulated license offer at that time, are not yet foreseeable)?
 - a. Does an infringer that fails to respond to a notice of infringement for several months regularly indicate that it is not interested in obtaining a license, so that, despite verbally requesting a license, there is effectively no license request, with the consequence that the SEP holder's request of injunctive relief must be granted?
 - b. Can it be inferred from license terms which the SEP user has submitted with a counter-offer that there is a lack of willingness to take a license, with the consequence that the SEP holder's action for an injunction is subsequently granted without prior examination as to whether the SEP holder's own license offer (which preceded the SEP user's counter-offer) actually corresponds to FRAND conditions?
 - c. Is such a conclusion [as described in b)] in any case precluded if the license terms of the counter-offer, on the basis of which the absence of a license request is to be inferred, are such for which it is neither obvious nor clarified by a final instance decision that they are incompatible with FRAND terms?

Outlook

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Outlook (1/2)

- Consequences of the referral decision to the ECJ
- EU Commission
 - IP action plan to support the EU's recovery and resilience in favor of „Industry led initiatives“
 - Publication of expert report on SEP licensing expected in early 2021 – emerging thinking:
 - Publication of licensing terms and royalty rates by SEP holders/SDOs
 - Registration by implementers of use of standard in SDOs databases on market entry or otherwise pay a higher royalty
 - Courts ask litigating parties to refer disputes to an expert committee to determine e.g. who in the supply chain ought to take the license
- Independent patent essentiality analysis program (Japan 2018)
 - European Commission is studying a similar program – pilot study November 2020

Outlook (2/2)

- Reform of patent law, SDOs
- Litigation in the United States and China
- Merger control
- Trade policy

Questions?

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Coronavirus COVID-19 Resources

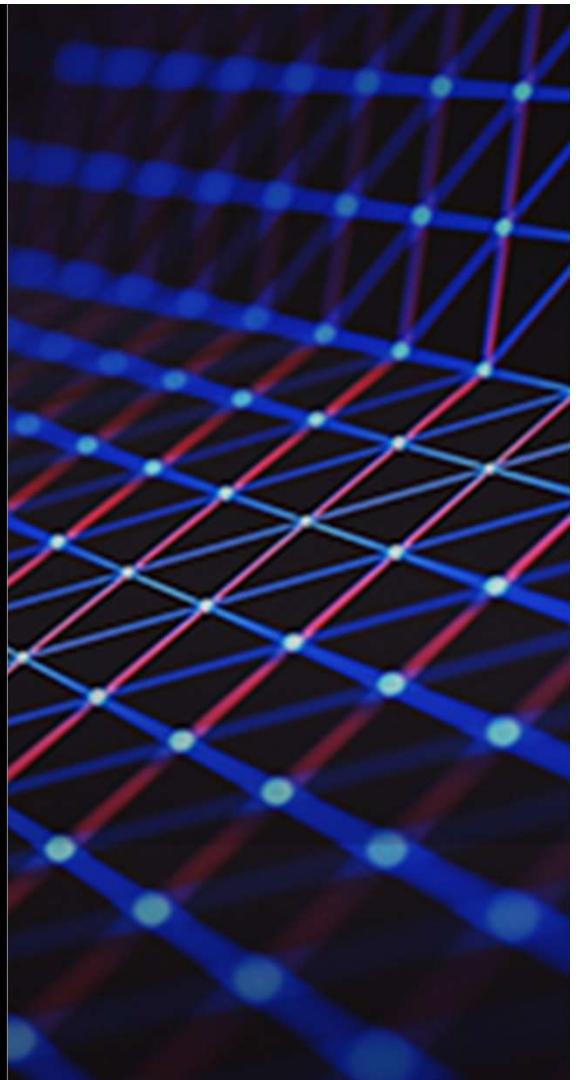
We have formed a multidisciplinary **Coronavirus/COVID-19 Task Force** to help guide clients through the broad scope of legal issues brought on by this public health challenge.

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To help keep you on top of developments as they unfold, we also have launched a resource page on our website at

**[www.morganlewis.com/
topics/coronavirus-
covid-19](http://www.morganlewis.com/topics/coronavirus-covid-19)**

If you would like to receive a daily digest of all new updates to the page, please visit the resource page to **subscribe** using the purple "Stay Up to Date" button.



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