

CLIENT ALERT

European Court of Justice Rules on Abuse of Dominance in the Context of SEP Injunction Proceedings

July 21, 2015

Late last week, in a long-awaited judgment concerning a dispute between Huawei and ZTE, the Court of Justice of the European Union (the "ECJ") confirmed that the owner of a standard-essential patent (SEP) subject to a fair, reasonable, and non-discriminatory (FRAND) commitment may seek an injunction against an alleged infringer that fails to negotiate towards a license in good faith without infringing Article 102 of the Treaty on the Functioning of the EU (TFEU). (Case C-170/13, *Huawei Technologies Co. Ltd. v ZTE Corp., ZTE Deutschland GmbH*, Judgment of the Court of July 16, 2015).

Background

The judgment responds to a request for a preliminary ruling under Article 267 TFEU from the *Landgericht* (Regional Court) Düsseldorf in Germany (the "Landgericht") dated March 21, 2013. The *Landgericht* requested guidance on the application of Article 102 TFEU to a patent licensing dispute between Huawei Technologies and ZTE Corp., both Chinese telecommunications companies. Between November 2010 and March 2011, Huawei and ZTE had been negotiating a license to resolve ZTE's infringement of European Patent 2 090 050 B 1. Huawei had declared that patent EP 2 090 050 B 1 was essential to practicing the European Telecommunications Standard Institute (ETSI) Long-Term Evolution (LTE) wireless broadband standard and had agreed to provide access to its patented technology on FRAND terms.

Huawei had proposed licensing terms that it considered reasonable, and ZTE sought a cross-license, but no agreement on the FRAND terms was ultimately concluded. ZTE continued to market LTE products that used the Huawei technology without paying a royalty or rendering an account for past use. In April 2011, Huawei filed suit in the *Landgericht* for infringement, seeking an injunction, an accounting of money due, the recall of products, and an award of damages. The *Landgericht* stayed the action to seek guidance from the ECJ on whether Huawei's conduct could be considered an abuse of dominance under Article 102 TFEU on March 21, 2013. The parties of the underlying case did not dispute that Huawei held a dominant position, so the questions regarding the ECJ were solely related to the standard for determining abuse.

The ECJ's Judgment

The ECJ's judgment notes the need to "strike a balance between maintaining free competition ... and safeguard[ing] that proprietor's intellectual-property rights and its right to effective judicial protection," effectively acknowledging the risk of hold-out alongside concerns about hold-up. In an effort to strike that balance, the Court describes the circumstances in which the owner of a SEP subject to a FRAND commitment may pursue an injunction without the risk of running afoul of Article 102 TFEU, specifically:

- It is not abusive for the owner of a SEP subject to a FRAND commitment to seek an injunction if it has (1) notified the alleged infringer of the unlawful use and (2) the alleged infringer has failed to signal that it is willing to conclude a license on FRAND terms.
- Where the alleged infringer has expressed that it is willing to conclude a license on FRAND terms, the SEP owner may pursue an injunction if it has (1) provided a written offer, specifying the royalty and the way in which it is to be calculated, and (2) the alleged infringer has failed to respond to the written offer in good faith.

However, Article 102 TFEU limits a SEP owner's ability to seek an injunction where the alleged infringer acts in good faith to negotiate a license after receiving a written offer.

Where the alleged infringer does not accept the written offer, good faith is to be judged according to objective factors. Those factors include whether the alleged infringer has promptly provided the SEP owner with a specific FRAND counter-offer, has not employed delay tactics and has otherwise acted "in accordance with recognized commercial practices."

Where the alleged infringer makes a counter offer but the parties cannot reach agreement, it must demonstrate continued good faith from the time its counter-offer is rejected by providing the SEP owner with appropriate security for continued use of the patent according to recognized commercial practices, such as providing a bank guarantee or deposit that reflects an accounting of past use of the patent. An alleged infringer does not, however, demonstrate bad faith by merely challenging infringement or validity while negotiating the terms of a license.

Where the alleged infringer does not evidence good faith by reference to objective criteria, Article 102 TFEU does not bar the SEP owner from pursuing an injunction after it has provided notice and a written offer to license on FRAND terms. The Court also held that the owner of a SEP subject to a FRAND commitment may seek damages or a rendering of accounts without restriction.

As is the case in preliminary ruling procedures, the ECJ rendered no decision in the underlying action for the judgment. It is now "for the referring court to determine whether the above-mentioned criteria are satisfied in the present case."

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

Lisa Kimmel, Ph.D.

Senior Counsel – Washington, D.C.

Phone: +1.202.624.2749

Email: lkimmel@crowell.com

Mark A. Klapow

Partner – Washington, D.C.

Phone: +1.202.624.2975

Email: mklapow@crowell.com