

# WilmerHale Webinar: Injunctions and SEPs -The Outlook Following the European Commission's IP Package

January 18, 2018

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## Injunctions and SEPs - The Outlook Following the European Commission's IP Package

- On November 29, 2017 the European Commission published a package of papers relating to IP, including:
  - Guidance on the EU IP Enforcement Directive
  - A “communication” setting out the EU approach to SEPs
- The guidance on the IP Enforcement Directive relates to a number of aspects, including the scope of injunctions (with a focus on internet intermediaries, but it is not limited to that)
- In this webinar, we will discuss the current position in the UK and Germany relating to injunctions and SEPs, and the outlook following the EU IP Package



## Injunctions in Europe

- An injunction will generally follow a finding of infringement
  - There is no equivalent to *eBay v. MercExchange*
- In some jurisdictions historically judges have been considered to have no discretion following a finding of infringement, in others (e.g. UK) injunctions are discretionary, but still usual



# Injunctions in Europe

- EU IP Enforcement Directive 2004/48/EC
  - Article 3
    1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays
    2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse
  - Article 11



## Injunctions in the UK

- “Discretionary” – equitable remedy but not equivalent to analysis in U.S. following *eBay v. MercExchange*
- Refused where “grossly disproportionate” (*Navitaire Inc. v. Easyjet Airline* [2006] RPC 4 123, *Virgin Atlantic v. Premium Aircraft* [2009] EWCA Civ. 1513)
- Is it disproportionate “even having regard to the requirements of efficacy and dissuasiveness” (per Article 3)? – a heavy burden (*HTC Corporation v. Nokia Corporation* [2013] EWHC 3778 (Pat))
  - Examples:
    - FRAND
    - Second medical use?
    - Only small proportion infringed
    - Breaches were historic and unlikely to recur
    - 400 seats permitted to be fitted on aircraft (in addition to 2800 already supplied) provided aircraft was flown on non-competing routes



## Injunctions in Germany

- Under §139(1) Patent Act, historically has been interpreted to mean that injunctions should be granted following a finding of infringement (subject to the possibility of stays in some circumstances)
- There are few exceptions:
  - SEPs
  - Emergency compulsory licence was granted in *Shionogi v Merck* and upheld by Bundesgerichtshof (X ZB 2/17), involving a life-saving drug
- Inconsistency with the EU IP Enforcement Directive
  - The directive sets out a “minimum standard... and does not prevent Member States from laying down measures that are more protective” but CJEU leaves open the position if an exceptional case leads to an abuse of rights contrary to Article 3. *Stowarzyszenie 'Oławska Telewizja Kablowa'. v. Stowarzyszenie Filmowców Polskich* C-367/15



# Injunctions – Guidance on IP Enforcement Directive

- Sets out a number of principles (some from *UPC Telekabel Wien v. Constantin Film Verleih* C-314/12):
  - Must take into account the characteristics of case, proportionality, Article 3 of IPED and Charter of Fundamental Rights
  - Should not go beyond what is appropriate and necessary to prevent infringement
  - It can be sufficient to make difficult or seriously discourage, without complete cessation
  - Must not require unbearable sacrifices
  - Must not unnecessarily affect third parties
- No proposal for new legislation, but ...
- Enforcement proceedings under A.258 Treaty on the Functioning of the European Union (TFEU)
- More targeted guidelines to be published



## Standard Essential Patents – Recap of *Huawei v. ZTE* C-170/13

- Sets out the steps needed to be taken by patent holder and implementer to avoid or rely on abuse of a dominant position under Article 102 TFEU
  - SEP holder must inform implementer about infringement (identifying SEP, and explaining how infringed)
  - Implementer must express willingness to take a FRAND licence
  - SEP holder must make specific written offer (including the details of royalty and how calculated)
  - Implementer must respond diligently, making specific written counteroffer (if it rejects offer)
  - Implementer must immediately provide security if its counteroffer is rejected
  - Implementer may challenge validity and essentiality



## SEPs in the UK

- *Unwired Planet v. Huawei*, English Patents Court, [2017] EWHC 711 (Pat) (appeal to be heard in May 2018)
  - Flexible approach to *Huawei v ZTE* framework, allowing parties to negotiate freely (within reason)
    - Breaches of *Huawei v. ZTE* framework do not necessarily lead to an abuse of a dominant position
  - FRAND declaration is contractually enforceable
  - There is only one set of FRAND terms (i.e. not a range, cf. *TCL v. Ericsson* in U.S.)
  - Parties need not make FRAND offers, but must adopt a “FRAND approach”
  - FRAND royalty rate was based on benchmarks derived from comparable licence agreements; a top-down analysis was used as a cross-check
  - The only FRAND licence, in that case, was to a global portfolio
  - “Non-Discrimination” limb did not add much, as benchmarks were based on comparable licences and were applicable to all licensees



## SEPs in Germany

- *Sisvel v Haier*, Higher Regional Court of Düsseldorf, I-15 U 66/15, March 2017
  - Injunction proceedings (appeal pending before Bundesgerichtshof, KZR 36/17)
  - Gives further guidance on application of *Huawei v ZTE*
  - Patent holder must give notice; the time for implementer to respond will depend on circumstances of the case (including extent of information given)
  - If subsequent offer made by patent holder is not FRAND, implementer is under no obligation to make a counteroffer
  - Patent holder's offer was not FRAND as it was not non-discriminatory:
    - Compared with other licences under the same patent
    - Dismissed arguments justifying differences based on first mover advantage, quick conclusion of agreement or down payment
    - Patent holder can remedy the position after the hearing by making a new FRAND offer, that will need to be accepted by the implementer



## European Commission Guidance on SEPs

- Guidance on three main aspects:
  - Transparency of information about SEPs
  - FRAND licensing principles
  - Enforcement



# European Commission Guidance on SEPs: Transparency

- SSO Databases
  - Improve searchability, in particular based on standardisation projects
  - Remove duplications and flaws
  - Links to Patent Office databases
- Declarations of Essentiality
  - Review of declarations at time of (i) adoption of standard, and (ii) when patent is granted (incentivize with fees?)
  - Declarations should refer to section of standard and patent family and identify contact at owner/licensor
  - Encourage reporting of decisions on SEPs
  - Independent checks of essentiality (but limited: e.g. only on request, and one check per patent family)
    - Commission to launch pilot project
  - Will SSOs and SEP holders take pre-emptive action?



# European Commission Guidance on SEPs: Licensing Principles

- Terms must relate to economic value of technology, but should not include any element of value resulting from inclusion in standard [*English court took a different position*]
- Present value added of patented technology, discounted over time
  - Value should be irrespective of market success of product that is unrelated to patented technology
- Avoid royalty stacking by taking into account reasonable aggregate rate
  - “an individual SEP cannot be considered in isolation”
- Patent pools and other licensing platforms encouraged
- Commission will monitor licensing practices, in particular in IoT sector
  - Expert group to be set up to gather industry practice and expertise on FRAND licensing
- No statement on where in supply chain FRAND licences should be available



# European Commission Guidance on SEPs: Enforcement

- Elaboration of *Huawei v. ZTE* principles:
  - Patent holder to provide sufficiently detailed and relevant information on: essentiality, alleged infringement, proposed royalty calculation and non-discrimination element
  - Implementer to make concrete and specific counteroffer and must provide explanation of its exact use of the standard in the specific product
    - Implementer should not generally refer to third party determination, but the willingness of the parties to submit to binding third-party FRAND determination is an indicator of FRAND behaviour
  - Time for making counteroffer depends on information given by patent holder
  - Security should be at a level that discourages hold-out



# European Commission Guidance on SEPs: Enforcement

- Injunctive relief and damages
  - Proportionality assessment is required when ordering injunctions, applying A.3(2) of the IP Enforcement Directive, consideration should be given to:
    - The relative relevance of the disputed technology for the application in question
    - The potential spill-over effect of an injunction on third-parties
  - Commission will support an exchange of best practice by stakeholders and experts on the calculation method of damages in SEP cases
- Litigation on the basis of patent portfolios
  - The Commission is to work with stakeholders to develop consistent methodologies to facilitate efficient SEP dispute resolution (e.g. sampling)
- Patent assertion entities and SEPs
  - Commission to monitor impact of PAEs on the SEP licensing market in Europe, particularly once the Unitary Patent is operational. It states that increased transparency and predictability, and the application of proportionality, will provide safeguards



## Outlook

- European Commission has set out detailed guidance re SEPs and made clear statements about the proportionality of injunctions
- It has decided not to legislate further, for now
  - IP Enforcement Directive is ‘fit for purpose’
- In the meantime, SSOs such as ETSI appear reluctant to adopt a number of the suggestions relating to SEPs, as not inclined to be involved in policing essentiality and defensive about existing transparency



## Outlook

- The Commission will be monitoring SEP licensing markets and “assess need for further measures”
- It is also setting up an expert group, and a pilot project to determine essentiality
  - The use licence v. licence for all debate remains open
- Also, the Commission expects its guidance on IP Enforcement Directive to be followed
  - It will “inform and contribute to the Commission’s enforcement policy under Article 258 TFEU”. If no change, in future years, Commission could bring enforcement proceedings.
  - Further targeted guidelines to be published
- Making your voice heard continues to be important



# Questions?

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