Recent Developments in Compulsory Licensing in Europe

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OVERVIEW

- The “FRAND” defense in Germany
- Response to the “FRAND” defense: Netherlands
- The EU position: licensing commitments for industry standards
PATENT HOLDER’S VIEW
OF COMPULSORY LICENSING
The “FRAND” Defense in Germany
Philips sues SK Kassetten GmbH & Co. in Germany for infringement of patents concerning Orange Book standard for optical disks.

Kassetten charges Philips with abuse of dominant market position under Article 82 of the European Treaty, and corresponding German competition statute, for refusing to license on FRAND terms.

In May 6, 2009 decision, German Federal Supreme Court (BGH) announces FRAND defense to infringement charge.

BGH rejects the argument that compulsory FRAND license violates Article 31 of TRIPS.

BGH finds that compulsory license does not apply to Defendant Kassetten in this case.

PHILIPS WINS!
“A Defendant who has been sued on the basis of a patent may, in response to a cease and desist demand by the Patent Proprietor, object that the Patent Proprietor is *abusing its dominant market position by refusing to enter into a patent license agreement* with the Defendant, the agreement having *non-discriminatory and unobstructive terms.*”
“FRAND” DEFENSE: REQUIREMENTS

1. Unconditional and irrevocable offer to license on FRAND terms

2. Refusal to license by patentee with dominant market position

3. Actual payment of royalties to patentee, or to court to hold on patentee’s behalf
WHAT IS FRAND?

FAIR
REASONABLE
AND
NON-
DISCRIMINATORY

- Licensing rate and terms that are not anticompetitive, and that allow access to the marketplace.

- Same as, or equivalent to, rates and terms offered to others — no opportunity to unfairly exclude.
WHAT IS FRAND?

FAIR
REASONABLE
AND
NON-DISCRIMINATORY

RESULT

- License rate and terms should fairly compensate patentee for the value of the technology

- BUT, does not allow patentee to protect its market share, or extract value from the its power to exclude
Response to the “FRAND” Defense: Netherlands
Philips sues SK Kassetten in Netherlands for infringement of Orange Book optical disk patents

Defendant charges Philips with abuse of dominant market position under Article 82 of the European Treaty, and corresponding Dutch competition statute, for refusing to license on FRAND terms

In March 17, 2010 decision, the District Court of The Hague finds Kassetten infringes, and rejects the FRAND defense

The Dutch court found that claim for entitlement to a compulsory license under competition law would not prevent a patentee from enforcing its rights

PHILIPS WINS!
CONTRARY TO DUTCH PATENT LAW

- Until claim for entitlement to compulsory license is converted into an actual license, Philips can enforce its patents. Compulsory license under Dutch patent law is not valid until actual license concluded, or court decision with res judicata effect.

CREASES UNCERTAINTY

- Without actual license, cannot know if entitlement is justified, or what terms should be.

UNNECESSARY FOR PROTECTION OF LEGITIMATE INTERESTS

- Defendant could have timely arranged for license.
- Defendant could have requested a provisional license.
- Defendant can be compensated for any damage suffered if it is determined defendant is entitled to a compulsory license.
The FRAND defense appears to assume dominant market position based on the patent alone. There is no attempt to analyze what the relevant market is, and whether the patentee has market power in the relevant market.

The FRAND defense assumes that a mere refusal to license by dominant market participant is sufficient for an antitrust violation.

The central dispute, whether the 3% royalty offered by Defendant was FRAND, was not addressed by either court.
The EU Position: Licensing Commitments for Industry Standards
“Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements” issued in draft form by the Commission on May 4, 2010.

Will replace the current guidelines, which expire on December 31, 2010. May be amended to reflect submissions received during the comment period, which closed in June 2010.

The purpose of the Guidelines is to set out the principles for the assessment of agreements between competitors under Article 101.

While the Guidelines do not discuss compulsory licensing, in the context of standard setting, they state that failure to make an irrevocable commitment to offer licenses on FRAND terms may be a violation of Article 101.
The draft Guidelines now address standard setting activity, and attempt to set out rules under which standard setting agreements can be assessed under Article 101.

Three recommendations for IPR policy:

- Disclosure of intellectual property rights that might be essential for implementation while the standard is being developed
- Irrevocable commitment to offer licenses on FRAND terms
- Proper FRAND analysis
“Thus, the IPR policy should require good faith disclosure of those intellectual property rights that *might be essential for the implementation of a standard under development* before that standard is agreed.”

Draft Guidelines, ¶281
“The IPR policy should also require that all holders of essential
IPR in technology which may be adopted as part of a standard
provide an irrevocable commitment in writing to license their IPR
to all third parties on fair, reasonable and non-discriminatory
terms ("FRAND commitment").”

Draft Guidelines, ¶282
GUIDELINES FOR FRAND ANALYSIS:

- “FRAND commitments are intended to prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) …” ¶283

- “In principle, cost-based methods are not well adapted to this context because of the difficulty in assessing the costs attributable to the development of a particular patent or groups of patents.” ¶284

- Evaluate and compare terms offered before the lock-in (ex ante) to after (ex post), and any unilateral ex ante disclosures of most restrictive licensing terms. ¶284-85

- Independent expert evaluation of relevant IPR portfolio’s objective quality and centrality to the standard issue. ¶285
Thank You!

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