



- Courtesy Translation -

**Guidelines on the Handling of the FRAND Defence Pursuant to Huawei v. ZTE
Within the Munich Patent Infringement Proceedings**

(As of February 2020)

These Guidelines govern the handling of the FRAND defence in patent disputes in accordance with the principles laid down by the Court of Justice of the European Union in its decision Huawei v. ZTE (Case No. C-170/13) by the two patent infringement Chambers of the Munich I Regional Court. They apply until the publication of updated Guidelines for patent disputes and for disputes related to utility models and semiconductor protection. The Chambers reserve the right to derogate from this rule in individual cases, after prior notice by the Courts. The respective German version is authoritative.

I. Scope of Application

The CJEU decision and these Guidelines relate solely to actions for injunctive relief, recall and destruction based on standard essential patents, insofar as they confer their owner a dominant position on the market and insofar as the owner or his legal predecessor has made a FRAND commitment to a standards-setting organisation. A transfer of the patent does not invalidate a FRAND commitment once made. For other cases, the principles of the decisions of the Court of Justice of the European Union in "IMS/Health" (Case C-418/01) or of the Federal Court of Justice in "Standard-Spundfass" (Case KZR 40/02) and "Orange-Book" (Case KZR 39/06) apply.

II. Overview Over the Procedure to be Followed Before Litigation Regarding Contract Negotiation

According to the principles of the CJEU decision "Huawei v. ZTE" and its understanding by the two patent infringement Chambers of the Munich I Regional Court, the patent proprietor and the person already using the patented teaching must, in principle, pass through various stages before bringing an action:



- 1) Notice of infringement, comprising at least the subsequent patent in suit, by the patent proprietor to the patent user.
- 2) Submission of the licensing request from the patent user to the patent proprietor, including at least the subsequent patent in suit, whereby the patent user can reserve the right to claim the nullity and/or non-infringement of the patents to be licensed immediately or at a later date.
- 3) Submission of a draft FRAND license agreement from the patent proprietor to the patent user, including at least the subsequent patent in suit.
- 4) In the event of non-acceptance: submission of an alternative FRAND license agreement draft from the patent user to the patent proprietor, comprising at least the subsequent patent in suit, whereby the patent user can (again) reserve the right to claim the nullity and/or non-use of the patents to be licensed immediately or at a later date.
- 5) In case of non-acceptance: rendering of information and security deposit by the patent user.
- 6) optional and voluntary third-party determination of the licence conditions

Re 3) The patent proprietor shall explain his licensing concept and further state whether and with what content he has already concluded licence agreements comparable in terms of time and content and further why - if applicable - he has included other patents in his licence offer in addition to the patents desired by the patent user. Insofar as the patent user concludes an appropriate confidentiality agreement, the patent proprietor must - insofar as this is formally possible within the scope of the confidentiality obligations already entered into - also provide further details on contracts already concluded which require confidentiality. Insofar as this is not formally possible without a court order, this court order is to be obtained by the plaintiff in the infringement proceedings as quickly as possible. Reference is made to the instructions on how to handle requests for confidentiality during and outside the oral patent litigation proceedings before the Munich I Regional Court.

III. Possibility of Remedial Until the End of the Oral Proceedings

Whether these steps have been properly completed must be assessed at the time of the conclusion of the oral proceedings, Section 136(4) of the German Code of Civil Procedure (ZPO). Within the Munich patent infringement proceedings, this is the end of the main oral hearing.



Individual deficiencies can therefore be remedied during the pending proceedings, subject to statutory or judicial deadlines. Within the framework of the Munich patent infringement proceedings, the period between the advance first hearing and the main hearing is available for this purpose, provided that the remedy of individual deficiencies has been announced at the latest in the advance first hearing. The two patent infringement Chambers will - if possible - negotiate on the FRAND defence in individual lawsuits already in the advance first hearing in order to give the parties the opportunity to remedy individual deficits. In the case of several actions brought by the same patent proprietor before the same chamber with a uniform FRAND defence, this should be done in a common first early (non-technical) hearing. If several actions with a uniform FRAND defence are to be heard before both Chambers, the Chambers will endeavour to coordinate closely with each other.

IV. Overview Over the Proceedings

1. Prerequisites for a factual discussion of the FRAND defence:

- a)** Assertion of the FRAND defence by the defendant.
- b)** The action is directed towards an injunction and/or recall and/or destruction.
- c)** The defendant has - to the extent that at least one offer comprehensively has been submitted and not been accepted which comprises at least the later patent in suit - made comprehensively at least one counteroffer comprising at least the later patent in suit and, after its rejection by the plaintiff, has rendered information and provided security.
- d)** If the defendant was already a licensee of the patent in suit but has terminated this license agreement or otherwise contributed to its termination, for example, by being in arrears with payment of the license fee, the possibility of raising a FRAND defence shall not apply.
- e)** If the defendant had been offered a license with respect to the patent in suit, but did not include it in his counteroffer, the possibility of raising a FRAND defence does not apply.

Re a) The defendant must raise the FRAND defence as early as possible, usually in the statement of defence.



Re c) The patent proprietor's last binding offer must not be simply unacceptable (Sec. 242 of the German Civil Code, BGB). This also applies to the patent user's counteroffer. The counteroffer can be of a smaller scope in terms of content and time but must at least include the (later) patent in suit. The defendant may further reserve the right to claim nullity and/or non-infringement with respect to the patents to be licensed, either immediately or at a later date. The defendant can also, instead of identifying a specific license fee, offer a determination through the patent holder according to Sec. 315 BGB. Rendering information and provision of security must at least be based on the counteroffer with regard to the period from the first use until the expected existence of a provisionally enforceable first instance decision and on the usual practices in the trade. In the case of an unspecified counteroffer, the accounting and the provision of security shall be based on the [patent proprietor's] offer. In the case of a global offer or global counteroffer, they may be limited to the turnover relating to the market in the Federal Republic of Germany, which may also be estimated. 110 percent of the relevant amount must be deposited.

Re d) This situation may arise, for example, where the parties have concluded a licence agreement providing for an opt-out clause in favour of the patent user in respect of individual patents. Patent users who make use of this opt-out are no longer eligible for the FRAND defence because they already held a licence.

Re e) The same applies if the defendant did not include the patent in his counteroffer because he could have obtained a licence in this respect.

2. Prerequisites for an objective discussion of the FRAND defence already in the advance first hearing:

- a) (Precautionary) statements made by the plaintiff in the complaint
- b) Raising the defence by defendant in the statement of defence

Re a) If the plaintiff seeks a factual discussion of the FRAND defence already in the advance first hearing, the complaint should already contain (precautionary) statements on the expected FRAND defence of the defendant, not only if the complaint is also directed from the outset towards injunctive relief, recall and destruction, but also if an extension of the action (after the



introduction to the facts and the state of the dispute in the advance first hearing or at the latest between the two dates after prior announcement in the advance first hearing) is intended to be kept open. In exceptional cases, for example in the case of an unforeseeable FRAND defence, the plaintiff may also be granted a further post-hearing brief upon request before the advance first hearing.

Re b) The statement of defence should already contain (precautionary) statements on the FRAND defence, even in the event of a reserved or possible extension, insofar as the defendant for its part also seeks a factual discussion of the FRAND defence in the advance first hearing.

3. Prerequisites for an extension of complaint to include injunction, recall and destruction:

- a) A later intended extension of the complaint should already be disclosed in the complaint. It must be carried out at the latest in the advance first hearing or at least announced in the advanced hearing to occur in the time between the two hearings.
- b) Any increases in the advance payment of court costs and/or security for legal costs that become necessary as a result of this [extension of complaint] must be processed and paid in quickly.
- c) The action for rendering of information and account and damages replaces the infringement notice according to step 1). The missing further negotiation steps pursuant to Huawei v. ZTE are to be remedied at the latest in the time between the two hearings. The Chamber to which the case is referred will assess this time frame in the light of the circumstances of the case. The time required can be shortened by including (precautionary) statements on the expected FRAND defence in the complaint. To the extent that the defendant has already commented on the expected FRAND defence in the statement of defence (as a precautionary measure), the Chamber may already communicate a preliminary opinion on individual aspects in the advance first hearing.



4. Individual requirements for the parties' submissions:

- a) In particular, the defendant must raise the FRAND defence and submit and prove that its factual requirements are met, i.e. in particular that and why the plaintiff's last binding offer is violating anti-trust law (not FRAND).
- b) To the extent that the defendant has not submitted a counter-offer, he must submit and prove that the plaintiff's last binding offer is simply unacceptable from an antitrust point of view or that the plaintiff would have been required to license the defendant's suppliers. This last mentioned "derived" FRAND defence is not applicable if the defendant himself could have concluded a license agreement in which later exhaustion or licensing in the value chain would have been taken into account appropriately, sufficiently and retroactively and if it would have been ensured that corresponding information may also be communicated to the defendant by the other members of the value chain. It must also be ensured that a double license payment to the patent proprietor cannot be achieved by claiming damages.
- c) The plaintiff has a secondary burden of proof with regard to his licensing concept and whether and if so, with what content comparable licensing agreements have already been concluded in terms of time and content, insofar as this information is not freely accessible or already available to the defendant. This also applies with regard to previously concluded contracts even if the portfolio has been transferred. If a number of transfers and/or portfolio recompositions have created a confusing situation (patchwork), the Chamber will define the degree of detail required in each individual case.
- d) Insofar as the defendant, who criticises the amount of the licence fee offered, has been offered a licence agreement with an appropriate, sufficient and retroactive most-favoured nation clause by the plaintiff, which is particularly appropriate in the case of a first licence, the plaintiff must submit and prove that the offered licence fee is not too high. In so far as the defendant asserts that contracts concluded earlier were concluded as a result of a pressure situation, he must also submit in specific terms and, if necessary, prove which other, lower licence rate or which other, more favourable conditions the then contracting parties would have agreed on without the pressure situation.
- e) Insofar as the defendant who has reserved the right to do so (cf. steps 2 and 4) claims the invalidity and/or non-infringement and/or exhaustion and/or licensing (hereinafter: objections) of individual portfolio patents offered, which are currently not patents in suit in the



infringement proceedings, as a defence in the context of an objection, he must present the details of this and prove the requirements in the case of dispute. In addition, the defendant must specifically submit and, if necessary, prove that and why the objections concerning individual portfolio patents offered have a significant influence on the amount of the licence fee offered. If the portfolio offered is dynamic, this possibility exists only with regard to licensed patents and patent applications that have been granted or published at the time of the conclusion of the oral proceedings. In the event of an objection, the plaintiff has a secondary burden of proof in that he must state why he has included these patents in the portfolio offered and whether and, if so, how the alleged objections regarding individual portfolio patents affect the amount of the license fee offered. The possibility of asserting these objections regarding individual portfolio patents as a defence in infringement proceedings shall not apply to the defendant if the plaintiff has offered the defendant a licence agreement in which the later assertion of these objections regarding individual portfolio patents in independent proceedings or within the framework of other contractual mechanisms is taken into account by means of an appropriate, sufficient and retroactive adjustment clause.

- f) To the extent that the Defendant claims the invalidity, non-infringement, exhaustion and/or licensing of these portfolio Patents in separate proceedings and/or - to the extent permissible - in counterclaims, the distribution of the burden of proof and representation shall be determined in accordance with the general principles.

V. Handling of Requests for Confidentiality During and Outside the Oral Proceedings

Reference is made to the separate Guidelines for Handling Requests for Confidentiality During and Outside the Oral Proceedings before the Munich I Regional Court.

VI. Time Between the Two Hearings

The time between the two hearings of the Munich patent infringement proceedings can be used profitably by the parties for renegotiations, mediation attempts before the Court's mediation judge or other alternative dispute resolution mechanisms.



VII. Contract Clauses

Against the background of contractual freedom and the private autonomy of the market participants, the two Chambers refrain from prescribing the specific content of the contractual clauses referred to. However, the wording chosen must meet the requirements of the individual case and bring the conflicting interests of the two contracting parties to a fair balance. If necessary, drafts communicated by third parties for this purpose may be used in the formulation.
