



European Court rules on an SEP holder's right to seek an injunction



In *Huawei v ZTE*¹ the European Court provided further guidance on when the holder of a standard essential patent (SEP) can apply for an injunction against an alleged infringer and in what circumstances the raising of injunction proceedings can amount to an abuse of a dominant position. The European Court largely followed the earlier opinion from the Advocate General by telling the parties that they need to behave reasonably and diligently in negotiations.

The European Court sets out basic rules for negotiations between the parties which are necessary for an SEP holder to be able to raise injunction proceedings (if negotiations fail) or for the alleged infringer to rely on an antitrust defence in such circumstances.

What does the European Court say?

The European Court confirmed settled case law that a holder of an exclusive right, such as a patent, has a right to enforce it against potential infringers (even if the holder is in a dominant position). However, where the patent in question is an SEP and where the patent holder has given an irrevocable undertaking to grant licenses on FRAND terms, this right has limits.

In such circumstances the raising of injunction proceedings can amount to an abuse of dominance under European law where the SEP holder raises such an action without prior notice or without consultation with the alleged infringer. If the alleged infringer indicates its willingness to conclude a license on FRAND terms then the SEP holder needs to present a written offer for a license, setting out the amount of royalty and the method of calculation. Not doing so will mean that any ensuing injunction proceedings would be an abuse of dominance.

The alleged infringer needs to respond to such an offer diligently, in accordance with recognised commercial practices and in good faith (otherwise the SEP holder is entitled to raise injunction proceedings). That does not mean that the alleged infringer needs to accept any commercial terms offered. If it rejects the offer it must submit to the SEP holder promptly and in writing a specific counter offer that corresponds to FRAND terms and without delaying tactics, otherwise it loses the right to claim that any ensuing injunction proceedings are abusive.

¹ The full judgment in English can be found here:

<http://curia.europa.eu/juris/document/document.jsf?jsessionid=9ea7d0f130d54ece910068154f54a8c29de8b1a40a49.e34KaxilC3eQc40LaxqMbN4ObN4Re0?text=&docid=165911&pageIndex=0&doclang=en&mode=req&dir=&occ=first&part=1&cid=114192>



Where the intellectual property is used before the conclusion of a licensing agreement it is not abusive for a SEP holder to require appropriate security for the likely royalties. Nor is it an abuse to seek from the alleged infringer's accounts of the products sold using the technology (as this does not impact the sales of the products in question).

What does the ruling not say?

The judgment is quite unspecific in a number of material respects. This is because the judgment is a response to a preliminary ruling request from a national court (here the German court in Düsseldorf). In such proceedings the lower national courts ask the European Court for guidance on questions of European law and it is then up to the national courts to apply the answers in the judgment to the specific facts of the case.

Very often parties do not agree on the level of royalties but often ancillary conditions can also be a matter of intense commercial negotiation. The judgment gives rise to a number of questions:

- When are negotiations not diligently pursued?
- What are the relevant 'commercial practices' in a specific context?
- At what point have negotiations really broken down?
- When is the other side's negotiation purely a delaying tactic or otherwise unreasonable?

Whilst in many situations it will be clear for a court to identify whether a particular side has acted reasonably and within the framework provided by the European Court, it seems likely that these questions will be the subject of further rulings by national courts and, most likely, by the European Court.

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