

GSMA

2010 IPR Legal Summit

Sabine AGÉ

16 February 2010 - Barcelona

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1. (F)RAND issues in France

- no decision on (F)RAND in France
- but French lawyers have given thoughts to the construction of ETSI Frand undertaking
- and the court of appeal of Paris issued in Sept. 2008 a decision which could provide guidance





ETSI Frand undertaking

- ETSI IPR Policy – article 6.1:

*When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an **irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR** to at least the following extent:*

- ▶ *MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee's own design for use in MANUFACTURE;*
- ▶ *sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;*
- ▶ *repair, use, or operate EQUIPMENT; and*
- ▶ *use METHODS.*

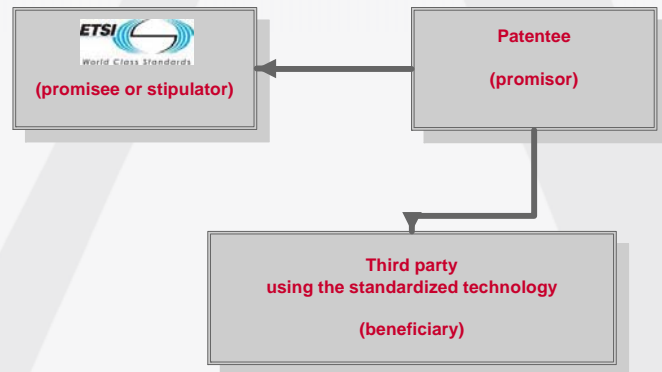
The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate (...).

Nature of the ETSI FRAND undertaking: a mere offer to negotiate a licence?

- according to some, the declaration made to ETSI only expresses an intention to negotiate a licence with possible candidates in good faith
 - ▶ because essential elements of the licence, in particular the "price" (royalties) is not yet determined or capable of being determined
 - ▶ such that the declaration cannot be construed as a granted licence pursuant to which the patentee may have waived its right to sue, obtain injunctions and other remedies

Nature of the ETSI FRAND undertaking: a stipulation in favour of a third party?

- according to others, by "*irrevocably undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions*" under its patent, the patentee **committed** to ETSI to grant a license to third parties willing to implement the standard



Nature of the ETSI FRAND undertaking: a stipulation in favour of a third party?

- third party beneficiary must accept the license to be bound, but its right to a license originates in the promise made by the promisor (patentee) to the stipulator (ETSI)
- the promisor (patentee) cannot withdraw its commitment to grant a license
- pursuant to this irrevocable commitment to grant a license, the patentee waived its right to preclude the use of the patented technology

Beyond French contract law: community competition law (1)

- Article 101 TFEU (previously article 81 EC Treaty - cartels)
 - ▶ standards do not amount to anticompetitive cartels if third parties can access the technology on FRAND terms: availability of licenses is a condition ensure competition

European Commission communication of 27 October 1992
European Commission communication of 28 March 1995



- Article 102 TFEU (previously article 82 EC Treaty - abuse of dominant position)



- ▶ the patentee of declared essential patents enjoying a dominant position may abuse of this position if, under a threat of an injunction, it requests non-FRAND royalties

ETSI Guidelines for Antitrust Compliance

Beyond French contract law: community competition law (2)

- *Tribunal de grande instance of Paris, 26 January 2005, Luk v. Valeo*: a patent strategy may amount to an abuse of dominant position
- Court of appeal of Paris, 30 September 2008, *France Telecom v. Lectiel*: the holder of an IP right can prevent or restrict the use of this right **subject to** its obligation to comply with competition rules

Beyond French contract law: patent law

- Article L.613-3 of French Intellectual property code:
 - “The following shall be prohibited, **save consent by the owner of the patent**:
 - a) Making, offering, putting on the market or using a product which is the subject matter of the patent, or importing or stocking a product for such purposes; [...] »
- if undertaking to grant a license on essential patent amounts to a “consent”:
 - ▶ no infringement such that no injunction available
 - ▶ only action to obtain royalties if no agreement thereon
 - ▶ but such contract based action would raise international jurisdiction and applicable law issues (i.e. towards a foreign patentee, would French courts have jurisdiction to assess royalties for the use of the patent out of France? Which law to apply to assess the royalties?)



Awaiting case law...

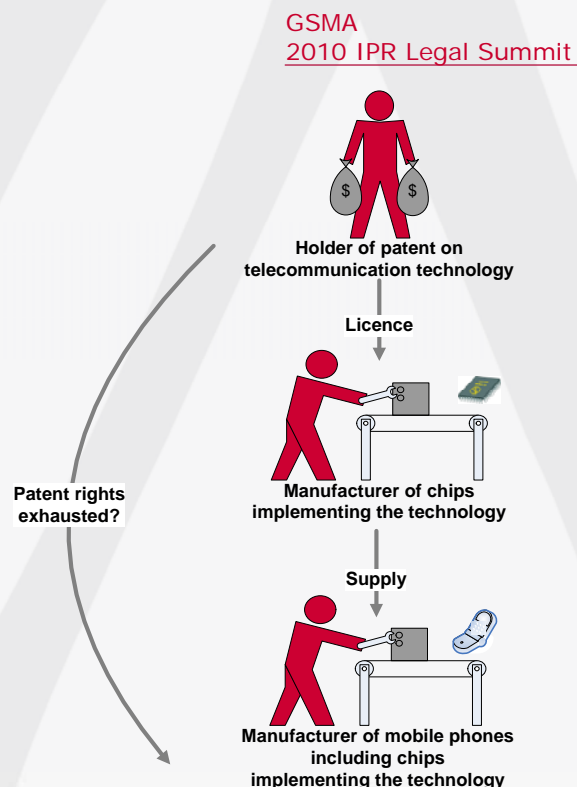
- third parties implementing the standard are advised to clearly (and unconditionally?) express their intent to obtain a license on FRAND terms
- whatever legal dressing a (F)RAND undertaking may be given, the patentee should not lose the right to sue if the user of the technology is clearly not willing to pay for such use

2. Patent exhaustion

- Article L.613-6 of French Intellectual property code:
 - ▶ *“The rights conferred by a patent shall not extend to acts concerning a product covered by that patent which are done on French territory after such product has been marketed in France or in the territory of a State party to the Agreement on the European Economic Area by the owner of the patent or with his express consent.”*

Factual situation

- Are patent rights exhausted in chain of contracts?



French case law

- Exhaustion of patent rights in chains of contracts still not decided before French courts
- But existing decisions:
 - ▶ seldom hold that the right holder consented to the marketing of the products within the EEA
 - ▶ no consent if the licensee does not comply with the terms of the license agreement restricting the sale of the products (Cass. Com. 26 March 2008, *Gerzane v. Hugo Boss*)
 - ▶ assess restrictively the existence of an implied consent if no restriction in the contract
 - ▶ an implied consent "*should stem from external circumstances or elements, which may be concomitants with or subsequent to the marketing outside the EEA, but clearly evidence a waiver of the right holder to oppose such marketing within the EEA*" (TGI Paris, 16 October 2009, *Royer Sport v. Le Temps de la Mode*)

3.1. Injunctions in France

- Injunctions automatically granted by French courts if finding of infringement
 - ▶ patent is an object of property: any unlawful user shall be evicted
 - ▶ no balance of interests as in *eBay v. MercExchange* (US Supreme Court, 2006)
 - ▶ attempt in the field of real estate failed (*tribunal de grande instance* of Paris, 6 May 2003, reversed by court of appeal of Paris, 28 January 2004)
 - ▶ actions brought by so-called "trolls" are not abusive (court of appeal of Paris, 9 February 2009, *IP Resource v. Poly Implant Prothèse*)



Challenging the grant of an injunction in (F)RAND cases

- challenging infringement
 - ▶ consent arising from (F)RAND undertaking excludes infringement
- challenging availability of an injunction on the basis of competition law
 - ▶ if standardization agreements allow the grant of injunctions under essential patents, these agreements are anticompetitive
 - ▶ Court of appeal of Paris, 30 Sept. 2008, *Lectiel v. France Telecom*: France Telecom can prohibit competitors from infringing its rights under a database **subject to** offer to supply the corresponding data in accordance with competition rules (i.e. ask for transparent, objective and non-discriminatory prices)
- counterclaim for a compulsory licence (for lack of exploitation) inadmissible because essential patents exploited by various licensees

3.2. Damages - principles

- the patentee chooses the basis for the compensation between two alternatives (*Enforcement directive 2004/48 implemented in France by a statute of 29 October 2007*):
 - ▶ compensation of the negative economic impact of the infringement
 - ▶ lump sum



Damages - principles

- compensation of the negative economic impact of the infringement:
 - ▶ actual damage
 - ▶ **lost profit** if patentee works its patent and had the industrial and commercial capacity to sell additional products / process
 - ▶ **lost royalty** if patentee did not work its patent or could not sell additional product / process
 - ▶ combination of both
 - ▶ other loss suffered, like price erosion, depreciation of money or moral prejudice
 - ▶ increase of damages by taking into consideration the infringer's profit?

Damages - principles

- lump sum
 - ▶ granted only upon request of the claimant
 - ▶ must be, at least, equivalent to the royalties which would have been paid by the infringer if it had been granted a license

Damages in a FRAND context

- damages to be assessed in terms of lost royalties
 - ▶ French judges and experts are used to deal with the assessment of lost royalties
 - ▶ rate determined by applying criteria similar to the factors set forth in *Georgia-Pacific Corp v. United States Plywood Corp* (SDNY 1970)



Recent decision regarding assessment of the portion of the profit credited to the invention (as distinguished from non patented elements) favourable to the patentee:

Tribunal de grande instance of Paris, 9 October 2009, *Legrand v. Alternative Elec* : damages must be assessed with regard to the entire value of the product rather than being limited to the value and profit brought by the feature of the product covered by the patent

Damages in a FRAND context

- ▶ rule according which royalty rate is increased by an average of 50% to reflect the fact that the infringer is not a licensee in a position to negotiate would likely **not** apply
 - ▶ the defendant may have expressed its intent to take a license: no reason to treat him differently than other licensees
- ▶ calculation would take into consideration royalty stacking

Damages in a FRAND context

- French courts only have jurisdiction to grant damages for the acts (manufacture, offer, sale, etc.) performed in France
- except if defendant located in France (ECJ, 7 March 1995, *Fiona Shevill et al. v. Presse Alliance SA*, Aff. C-68/93)

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Thank you