

# Effects on Licensing from FRAND Legal Developments in the EU

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# The FRAND Dilemma and Patent Licensing

## Where are we?

- **The Netherlands Courts**
- **European Commission's approach to SEP injunctions:**  
*Motorola decision*
- **European Commission's Safe Harbor for SEP injunctions:**  
*Samsung Commitment*
- **European Court of Justice (“CJEU”), judgment of 16 July 2015,**  
**case no. C-170/13 – *Huawei v. ZTE***

# **FRAND Uncertainty in the Courts:**

## **- case law since Huawei vs ZTE (Jul 2015)**

- **Mannheim, 23.9.15, St. Lawrence vs. Dt. Telekom and HTC**
  - **Karlsruhe (appeal), St. Lawrence vs. Dt. Telekom and HTC II**
- **Düsseldorf, 3.11.2015: Sisvel vs. Haier**
  - **Düsseldorf (Appeal Court), 13.1.2016: Sisvel vs. Haier II**
- **Paris, 7.12.2015: Vringo vs. ZTE Corporation**
- **Mannheim, 29.1.2016 One-Red vs ASUS and Acer**
- **Düsseldorf, 31.3.2016: St. Lawrence vs. Vodafone**

# The Netherlands Courts:

## Background

- 2010 : In Philips vs. SK-Kassetten, Court of The Hague held:
  - Responsibility of infringer to obtain licence before entering the market
  - In absence of licence, holder of SEP is entitled to injunctive relief
  - Special circumstances may prevent an injunction being granted.
    - Patentee's behaviour can be good faith, or misuse of rights
    - i.e., negotiation history is important

## Samsung vs Apple

- 2011 & 2012: In Samsung vs Apple, Samsung makes preliminary and permanent injunction requests:
  - Enforcement requests for injunction occurred while parties were still negotiating.
  - Claims rejected because Samsung's license offer was so high that they were found to be unwilling to conclude a FRAND licence (i.e., misuse of right).

## Conclusion

- Injunctions based on conduct of the parties



# EU Commission's approach to SEP injunctions:

## Motorola decision (Apr. 29, 2014)



### Background

- April 2011: Motorola seeks SEP injunction in Germany
- 2011-2012: Apple makes several license offers

### EU Decision

- Apr. 2014: EU Commission states seeking and enforcing injunctions is generally not an abuse of a dominant position, unless in exceptional circumstances.
- Motorola Mobility vs Apple was an exceptional circumstance:
  - *Prima facie* an abuse of dominance for a SEP owner to seek or enforce an injunction if it gave a FRAND commitment in a SSO process for that SEP
  - Unless SEP owner can prove that the implementer is unwilling to license on FRAND terms
    - Implementer is not an unwilling licensee if it submits FRAND proposal for judicial review
  - Not good: Motorola's ability to terminate license if Apple challenges SEP validity
  - Not good: Motorola's inclusion of iPhone X in list of infringing products

# EU Commission's approach to SEP injunctions:

## Motorola decision (con't)



### EU Decision

- SEP holder that makes FRAND commitment can seek injunctive relief where:
  - (a) the potential **licensee is unwilling** to enter into a license agreement on FRAND terms and conditions, with the result that the SEP holder will not be appropriately remunerated for the use of its SEPs.
  - (b) the potential licensee is in **financial distress** and unable to pay its debts;
  - (c) the potential licensee's **assets are located in jurisdictions that do not provide for adequate means of enforcement** of damages; or

# European Commission's Safe Harbor for SEP injunctions: Samsung Commitment (Apr. 29, 2014)



## Background

- Samsung was seeking injunctions against Apple in several EU member states.
- EU Commission's preliminary view: actions were abusive because Samsung gave FRAND commitment for licensing SEPs, and Apple showed it was a willing licensee.
- Samsung offered a 'safe harbor' structure of negotiation before seeking injunctions

## EU Decision to Accept Samsung Commitment

- Legally binding commitment for 5 years:
  - Not to seek injunctions in EEA based on mobile SEPs if licensee agrees to specified licensing framework
- Initial 12-month negotiation period
- If no agreement, then FRAND determination by a third party
  - Court if either side chooses
  - Arbitration if both agree
- Allows for making and maintaining arguments regarding validity, essentiality and infringement in FRAND setting, without altering the burden of proof
- Allows for similar challenges outside FRAND setting



# CJEU Decision of Düsseldorf Court's referral of Huawei vs ZTE



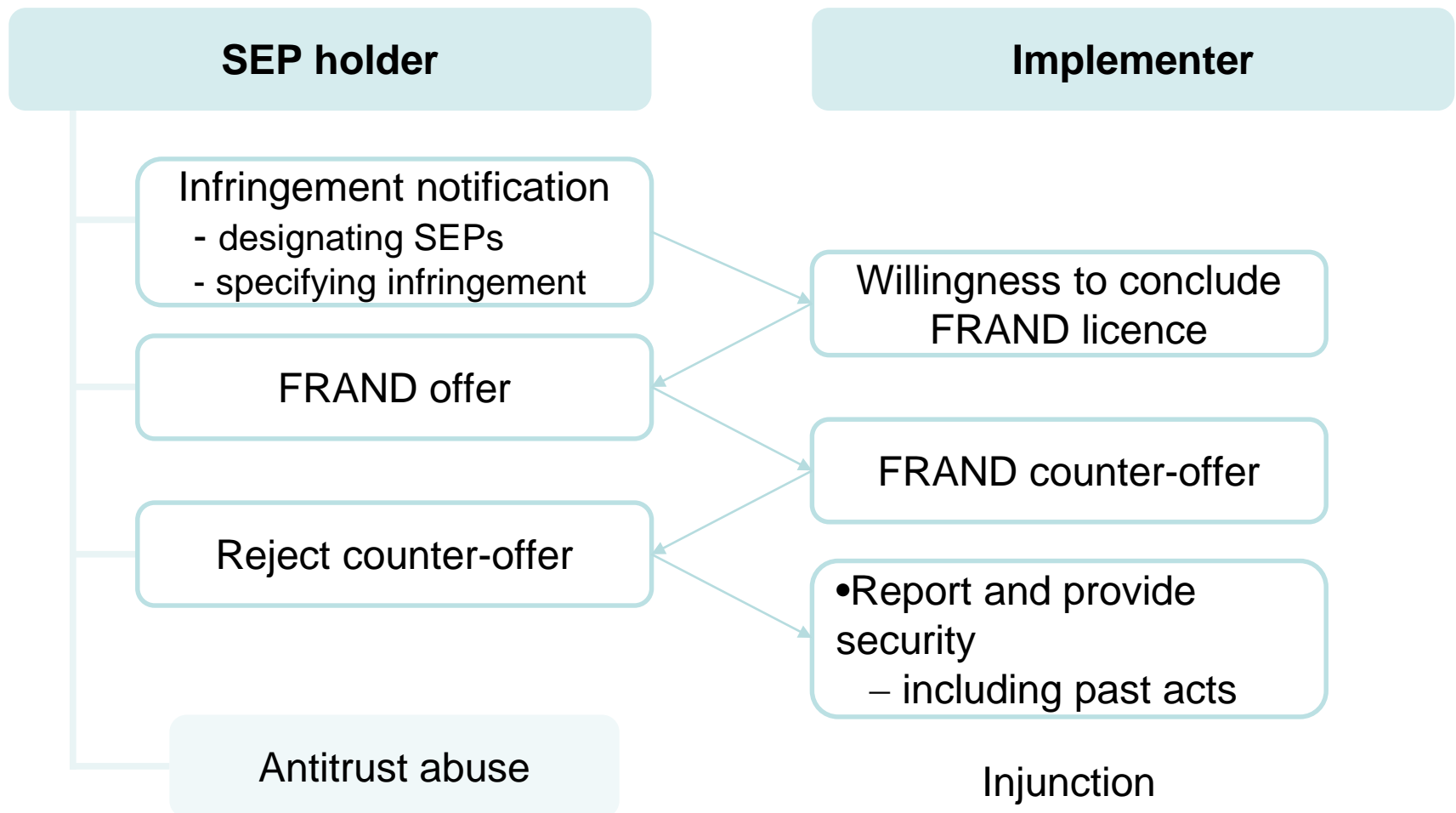
## Background

- In 2013, Düsseldorf court made a referral to the CJEU asking for guidance in view of the Orange Book decision and EU press release.
- Court asked CJEU to decide fundamental questions re remedies of FRAND-pledged SEP holder prevailing in patent infringement actions.

## CJEU Decision:

- The patent owner must alert infringer in writing, specifying the patents and explaining why they are infringed.
- Patent owner must present a written offer for a license on FRAND terms that contains all the terms that are normally included in a license in the relevant sector, in particular the way the royalties are being calculated.
- The infringer must respond in a diligent and serious manner. If he does not accept the offer, he must promptly submit a reasonable counter offer.
- If the infringer's conduct is purely tactical, patent owner can seek an injunction. Timeframe for negotiations is in accordance with industry's practice relevant field.

# CJEU Decision re Huawei vs ZTE - process flow



# St. Lawrence vs. Dt. Telekom and HTC LG Mannheim, 23.9.15 & Karlsruhe appeal

## Background

- St. Lawrence sued Dt. Telekom as retailer of infringing HTC phones
- Warning letter received only after filing (but before service) of the lawsuit
- Dt. Telekom did not react – instead HTC made a license offer

## Court's conclusions

- HTC's license offer not considered by the court
- Patent owner can decide whom to license
- Patent owner not obliged to accept third party's offer
- Injunction granted!

## Appeal

- HTC's offer, in case FRAND, considered valid defense for Dt. Telecom – “FRAND exhaustion”
- Patent owner cannot decide whom to license
- Patent owner is obliged to accept third party's offer
- Enforcement of injunction stayed!



# Sisvel vs. Haier

## LG Düsseldorf, 3.11.2015 & Düsseldorf appeal

### Background

- Typical SEP-litigation
- No technical explanations provided prior to filing SoC
- No counter-offer nor security made by defendant

### Court's conclusions

- FRANDness of Sisvel's offer left open
- No counter offer = unwilling licensee
- Injunction granted!

### Appeal

- Preliminary enforcement of injunction stayed!
- first offer of patent owner must be FRAND
- if not FRAND: no obligation of infringer to make counter-offer
- Result: court must decide whether first offer FRAND or not



# Vringo vs. ZTE Corporation

## Paris, 7.12.2015



### Background

- ZTE refused Vringo's offer for a global license under a portfolio of SEPs, expressing willingness to take a license for SEPs that were proved to be valid and infringed
- ZTE requested that the court appoint an expert to determine the FRAND rate owed for the license in France for the two patents asserted by Vringo
- Vringo's global campaign of infringement actions against ZTE included proceedings in Australia, Brazil, Germany, India, Malaysia, the Netherlands, Romania, Spain, the UK and the US

### Court's conclusions

- Succinctly determined findings of invalidity for the first patent and of non-essentiality for the second patent
- With *Core Wireless vs. LG Electronics (2014)* findings of invalidity and non-essentiality of 5 patents, French court's 100% ratio of invalidity or non-essentiality is beyond normal findings of courts – especially for proud list of SEPs carefully established by the patent holders
- Consequently, no guidance from France courts to date

# One-Red vs ASUS and Acer

## LG Mannheim, 29.1.2016

### Background

- Patent pool for DVD/Blu-Ray sued two implementers after failed negotiations

### Court's conclusions

- FRAND-issue not to be judged on formalistic criteria
- Court does not have to decide positively, whether terms of first offer are FRAND, if no counter offer made (as in Higher Court Düsseldorf). Instead:
- assess whether parties act FRANDly during negotiations (no formalistic view)
- Assess if offer is "evidently not-FRAND"
- Worldwide portfolio offer is sufficient/necessary
- Detail of technical information: (Only) skilled person must be able to understand technical explanations for proud list sufficient
- See if any delaying tactics
- Infringer must react diligently,
- No excuse that infringing parts are supplied by third party

# St. Lawrence vs. Vodafone

## LG Düsseldorf, 31.3.2016

### Background

- St. Lawrence sued Vodafone as retailer of infringing phones

### Court's conclusions

- Very liberal regarding time of warning letter
- FRANDness of SEP owner's offer actually positively determined
- Patent owner can chose whom to sue (value chain) – infringers can chose who takes FRAND license
- Seems to apply strict time indications for future cases (but not during transitional period)
- Decision of OLG Düsseldorf on request to suspend enforcement expected soon

