

Effects on Licensing from FRAND Legal Developments in the EU

John Sideris, Esq.

Philips Intellectual Property & Standards

October 06, 2016

DISCLAIMER

This presentation is for informational purposes, reflects the present understanding of only the author and not of Philips or any of its affiliates, and is not meant to convey legal opinions or advice of any kind. The author disclaims any liability for any errors or omissions in the presentation. This presentation does not establish any form of attorney-client relationship with the author or his employer.

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



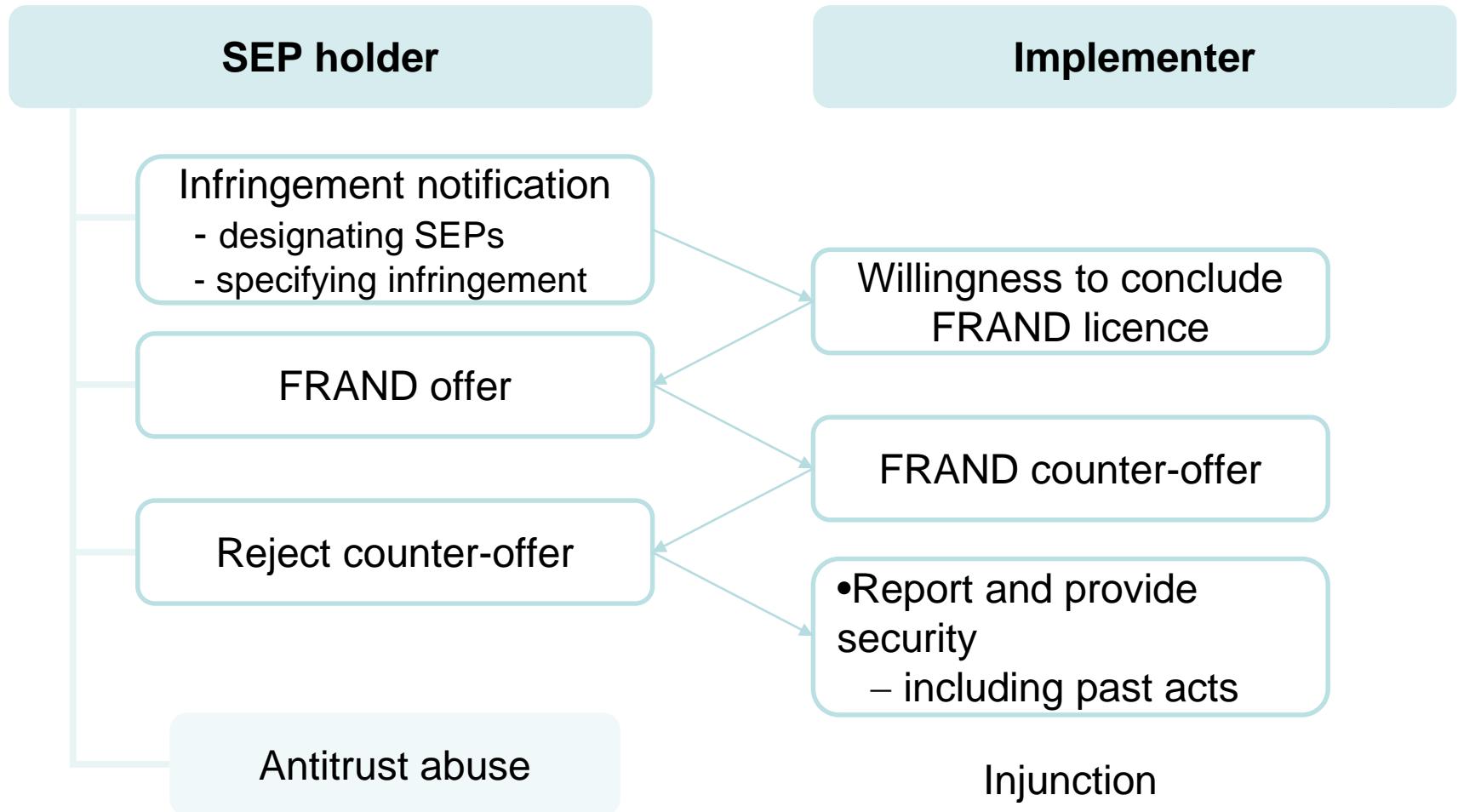
Background

- 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

- FRANDiness 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
- FRANDiness of SEP owner's offer actually positively determined
- Patent owner can choose whom to sue (value chain) – infringers can choose 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

