

The Hague Court of Appeal gives guidance on standard essential patent licensing and FRAND

The Hague Court of Appeal has recently issued two important decisions on the licensing of standard essential patents on Fair, Reasonable and Non-Discriminatory terms. Notably and in contrast to German courts, according to the Hague Court of Appeal, the *Huawei/ZTE* decision of the European Court of Justice does not imply that a patentee needs to substantiate why its offer is “FRAND”, for example, by disclosing licence agreements concluded with other licensees. Instead, it is up to the implementer to prove that a licence offer that is made by the patentee is not FRAND. Also, a counteroffer being made by an implementer after legal proceedings have already been initiated may not be enough to escape an injunction. The judgments demonstrate that the Dutch courts are well equipped to deal with international disputes concerning SEPs and FRAND.

Background – what is standardisation and FRAND?

Standardisation is a phenomenon mostly seen in the fast-developing telecommunications sector. In order to promote the interoperability of devices – such as smartphones, laptops, tablets, but also cars – they should ideally use the same standards for certain technologies and functionalities. Examples are the WiFi, 3G (UMTS), 4G (LTE), 5G and USB standards. If one or more patents claim technology involved with the standard – known as a standard essential patent or SEP – the holder of that patent may have a dominant position on the market and may breach competition law rules (article 102 TFEU, abuse of a dominant position). SEP holders are therefore required to commit themselves to licensing their patents to other market players. These licences need to be Fair, Reasonable and Non-Discriminatory (FRAND).

In its 2015 *Huawei/ZTE* decision, the European Court of Justice (ECJ) provided guidance on when the act of a SEP holder seeking injunctive relief against the alleged infringer might be considered abusive behaviour. The ECJ outlined a procedural framework on how the patentee and the licensee are to act in concluding a FRAND licence, provided that the patentee has a dominant position. However, since 2015, many questions have remained unanswered and a body of national case law has developed throughout Europe. The recent decisions of the Hague Court of Appeal are the first in the Netherlands made by an appellate court since *Huawei/ZTE*. They provide guidance as to what constitutes FRAND and non-FRAND behaviour by patentees and implementers of SEPs. Both cases were initiated by Royal Philips.

Philips/Asus

In *Philips/Asus*, Philips asserted a SEP included in the 3G (UMTS) and 4G (LTE) standards. Asus relied on a FRAND defence arguing, among other things, that Philips had breached its FRAND obligations because it had not substantiated why the

royalty rate proposed in its licensing offer was FRAND.

As a starting point, the court of appeal noted that the *Huawei/ZTE* decision should not be considered as a stringent set of rules, but rather as providing guidelines for conducting good faith negotiations, taking into account the specific circumstances of a case.

The court dismissed Asus’ defence because Asus had not demonstrated itself to be a “willing licensee”. Asus had demonstrated no initiative in negotiations, had repeatedly asked for technical substantiation from Philips, but had repeatedly failed to have technical personnel present at negotiations (as a result, no relevant discussions could be conducted), and it had not responded to Philips’ licensing offers. The court characterised this as a “hold out” strategy of Asus. Philips, on the other hand, had notified Asus of its infringement of the relevant SEPs well before – two years – initiating legal proceedings, had repeatedly taken the initiative to enter into negotiations with Asus, and had provided Asus with claims charts and a standard licence agreement, including the royalty rate and the way of calculation thereof, a few months before initiating legal proceedings. The court ruled that the mere entertaining of negotiations by Asus was insufficient to become a willing licensee.

According to the court, the *Huawei/ZTE* decision does not imply that the patentee needs to substantiate why its offer is FRAND. In light of Asus not having shown to be a willing licensee, the court did not consider whether Philips’ initial offer was FRAND, relevant.

Lastly, the court considered that the counteroffer Asus eventually made could not bar Philips’ standing for injunctive relief, as Philips had already initiated legal proceedings by then. At best, such a counteroffer implied that the patentee should negotiate in good faith about such a counteroffer in parallel to the proceedings already initiated.

Philips/Wiko

Two months after the Asus ruling, the Hague Court of Appeal handed down its decision in *Philips/Wiko*, which also revolved around SEPs in the 3G (UMTS) and 4G (LTE) standards. Like Asus, Wiko also relied on a FRAND defence.

In its decision, the court of appeal confirmed again that *Huawei/ZTE* should not be considered as a stringent set of rules, but rather as providing guidelines for conducting good faith negotiations, taking into account the specific circumstances of a case. The court then went on to consider that after a patentee notifies an implementer of a SEP infringement, it only needs to make a licensing proposal if the implementer shows a willingness to conclude a licence agreement on FRAND terms. According to the court, *Huawei/ZTE* does not mean that the patentee needs to substantiate why its offer is FRAND, for example, by disclosing licence agreements concluded with other licensees (which are generally confidential). Because Wiko had only made a counteroffer after Philips had initiated legal proceedings, the counteroffer could not bar Philips’ standing for injunctive relief. The court repeated its reasoning in *Philips/Asus* – that such a counteroffer only implies that the patentee should negotiate in good faith about a counteroffer in parallel to the already initiated

proceedings.

Furthermore, according to the court, Wiko had failed to satisfy its burden of proof that Philips' licensing offer was not FRAND (for its 97 patent families, Philips had offered a rate of USD 0.75 per product or USD 1 per product for non-compliance with the remaining licensing terms). The court dismissed Wiko's argument that Philips had concluded licence agreements with terms that differed from what was offered to other parties and from what was offered to Wiko. According to the court, this in itself does not make the offer discriminatory barring additional facts. But Wiko failed to bring any forward. Regarding the licensing terms that Wiko agreed to with other parties, the court ruled that Wiko's counteroffer was not FRAND (Wiko had offered a rate of EUR 0.027 per product and a "non-compliance" rate of EUR 0.043 per product) . Wiko's FRAND defence was dismissed.

Implications

The decisions of the Hague Court of Appeal emphasise the responsibility of implementers of SEPs to be a "willing licensee". If implementers fail to show a willingness to conclude a licence agreement on FRAND terms, patentees may enforce their rights in legal proceedings. A counteroffer being made after legal proceedings have already been initiated may not be enough to escape an injunction. In contrast to German courts, the Hague Court of Appeal did not consider *Huawei/ZTE* to be a stringent set of rules with which the patentee needs to comply, but rather guidelines for conducting good faith negotiations, taking into account the specific circumstances of a case. Also in contrast to German courts, according to the Hague Court of Appeal, *Huawei/ZTE* does not imply that the patentee needs to substantiate why its offer is FRAND, for example, by disclosing licence agreements concluded with other licensees. Instead, it is up to the implementer to prove that a licence offer that is made by the patentee is not FRAND. The judgments underline that the Dutch courts are well equipped to deal with international disputes concerning SEPs.