



A different perspective on Samsung v. Apple:

Guidance on enforcing FRAND pledged patents in the Netherlands

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On Friday 14 October 2011, a Dutch court handed down an important decision in the ongoing, worldwide patent dispute between Apple and Samsung. The preliminary relief judge of the District Court of The Hague denied Samsung's claim for a preliminary (patent) injunction against Apple, accepting Apple's 'FRAND defence'. Although several sources have suggested otherwise, this ruling does *not* imply that it is no longer possible to obtain an injunction based on 'FRAND pledged' standard essential patents in the Netherlands. On the contrary, the decision provides guidance as to the approach that a patent holder should take in order to ensure that it can successfully enforce its FRAND pledged patents in (preliminary relief) court proceedings. The Court only found that Samsung had not complied with this approach.

Summary of Apple's arguments

Samsung initiated the preliminary injunction proceedings requesting an injunction relating to all Apple products using UMTS technology (such as the iPhone and iPads with 3G functionality). Its claims were based on four patents (EP 1 096 516, EP 1 114 528, EP 1 478 136 and EP 1 188 269) which – according to Samsung – are essential to the UMTS standard.

In the proceedings both parties agreed that the court would first, and in a separate decision, decide on Apple's defence that Samsung could not invoke these patents against Apple.

According to Apple:

1. Samsung did not have a sufficiently 'urgent interest' in obtaining preliminary relief.
2. Samsung had exhausted its patent rights.
3. By making a FRAND declaration, Samsung had automatically concluded a licence agreement with Apple.
4. Samsung had forfeited its right to enforce its patents by (i) making a FRAND declaration; and (ii) being guilty of a "*patent hold-up*" or a "*patent ambush*".
5. Enforcing the patents would constitute an abuse of patent rights, because Samsung had not made Apple a FRAND offer.

The first four elements of Apple's defence were all rejected by the court. The Court's assessment of these arguments contains some interesting and uplifting points for holders of standard essential patents.

@ 1: Samsung did have a sufficiently urgent interest in obtaining preliminary relief

The Court conceded that Apple has been selling products using UMTS in the Netherlands since 2008 without any legal objections by Samsung until now. Nevertheless, it considered that Samsung could (now) rightly claim 'urgency' in view of the (mere) fact that these proceedings were part of a recent international series of patent suits between the parties. The Court added that Samsung's interest in an injunction already followed from the extra leverage Samsung would get in the negotiations if it were to obtain the injunction.

The above reasoning confirms that in practice the 'urgency' requirement will normally not be a big hurdle for patent holders seeking an interim injunction in the Netherlands.

@ 2: No exhaustion of patent rights

Apple claimed that its (non-EU based) suppliers of UMTS chipsets have licences under the patents at issue, allegedly resulting in the exhaustion of Samsung's patents rights. The Court rejected these claims because Apple failed to sufficiently substantiate (i) the existence of some of the licences claimed and (ii) that these licences encompassed a permission (by Samsung) to bring the chipsets on the market in the EEA.

This part of the decision illustrates that it is often difficult for the defendant to satisfy the burden of proof for an exhaustion defence, in particular in the telecom sector and more particularly in preliminary injunction proceedings in that sector. It is burdensome to obtain all relevant licence documentation from the necessary third parties (suppliers etc.), and these licence agreements are often complex and rarely conclusive on scope.

@ 3: A FRAND declaration does not automatically establish a licence agreement

At the outset, the parties agreed that the legal characterisation of the FRAND declaration pursuant to the ETSI regulations should be assessed under French law. The Court followed this assumption, and thus assessed Samsung's FRAND commitments based on French law.

*This marks an interesting difference with the opinion of the Mannheim District Court in Germany, which – in *IPCOM v Nokia* in February of this year – ruled that French law is not to be applied when considering the effect of ETSI undertakings to grant licences. The Mannheim Court appears to have developed a view that licences in relation to German patents are an *in rem* object of property, and therefore German law applies (see also [this article](#) by Ari Laakkonen).*

Apple argued, supported by expert opinions, that under French law a FRAND declaration must be regarded as an offer to enter into a licence agreement and that the mere *application* of the standard would constitute an acceptance of this offer, thus resulting in a licence agreement. The Court rejected this argument. It considered the specific wording of the FRAND declaration to be relevant in this respect. It held that the declaration does not purport to be an offer to enter into a licence agreement that can be unconditionally accepted by the party wanting to apply the standard, as the declaration clearly states that a licence will be granted on terms and conditions which have to be (subsequently) agreed upon. Furthermore, the Court had serious doubts as to whether – pursuant to French law – (i) a licence agreement can be established without consensus on the price, and (ii) the licence agreement claimed could be considered to be "in writing", which is a constitutive requirement for licence agreements under French law.

The Court thus expressed a restrictive interpretation on the nature and scope of FRAND declarations (i.e. it is not an offer which is 'eligible' for acceptance).

@ 4: Samsung did not forfeit its right to enforce the FRAND pledged patents

(i) Making a FRAND declaration does not imply forfeiture of enforcement rights

The Court did not share Apple's view that making a FRAND declaration amounts to forfeiting one's rights to sue for infringement under the FRAND pledged patents. The Court emphasised that patent enforcement rights can be forfeited in special circumstances which would give rise to a legitimate expectation that the patents concerned will not (or no longer) be invoked. According to the Court, a FRAND declaration as such does not give rise to such expectation. It ruled that a FRAND declaration only gives rise to the expectation that one will be offered a FRAND licence by the patent holder, not that one may infringe with impunity.

(ii) The alleged patent hold-up or patent ambush does not preclude enforcement of the patents

Apple also argued that Samsung had forfeited its rights because it had disclosed the patents at issue after the standard was "frozen". It referred to *Philips v LG* (District Court of The Hague 25 April 2007, 9 May 2007 and 11 June 2007) in which Philips was denied an injunction under a JPEG standard essential patent because Philips had failed to disclose the patent even though it had participated in the standard setting working groups and thus was aware of its relevance to the standard. The Court, however, pointed out that the most important difference with *Philips v LG* was that Philips in that case had not made a general FRAND declaration. In contrast, Samsung had already made a general FRAND declaration back in 1998, at the start of the UMTS project. The Court therefore found Apple's "patent ambush" argument to be irrelevant, as it would have made no difference for Apple whether the patents would have been disclosed back then (and would then have been covered by the FRAND declaration) or now (covered by the same declaration). Furthermore, the Court found that Apple had not sufficiently substantiated its claim that an earlier disclosure would have led the ETSI to exclude the patented technology from the standard. Finally, the court considered it relevant that Samsung had shown that it was by no means alone in disclosing essential patents (too) late.

This part of the decision shows that issuing a FRAND declaration does in no way deprive the patentee of its rights to invoke its patent. Quite the contrary. An early general FRAND declaration may in fact be helpful in overcoming patent ambush arguments based on late disclosure of essential patents.

@ 5: Because of "special circumstances", enforcing the FRAND pledged patents would in this case amount to abuse of rights

Apple's final argument was that enforcement of the patents at issue would amount to abuse of rights by Samsung. Apple claimed that Samsung was under an obligation to first make Apple a FRAND offer, which it had failed to do. Samsung replied that such an obligation did not exist. It argued that its FRAND declaration should be interpreted only as an "invitation" for the party wanting to apply the standard to make the patent holder an offer for a FRAND licence. The Court rejected that argument and sided with Apple by ruling that a FRAND declaration indeed implied an obligation for the patent holder to make a FRAND offer, upon first request by the party wanting to apply the standard.

The Court subsequently addressed a complex of various circumstances that led it to ultimately reject Samsung's claim for an injunction. According to the Court:

- Samsung had requested an excessively high royalty amount (the amount was deemed "very out of line" with FRAND commitments),
- Samsung had not provided any indication that it was open to discuss substantially lower royalty amounts;
- Apple on the other hand made a substantiated offer, on the contents – and more in particular, on the proposed royalty amount – of which Samsung had not provided any substantive response, other than that the scope of the licence was too limited (Samsung claimed that it should have been for the full standard essential portfolio of Samsung, and for a larger territory than the Netherlands).

The Court held that it was therefore not convinced that (i) Samsung was 'in reality' willing to enter into a licence agreement on FRAND terms, and (ii) that Apple would *not* be willing to take a FRAND license.

As an aside and caveat, we note that the Court has probably addressed these circumstances in greater detail (such as the amount of the royalty requested by Samsung), and may have considered other circumstances as well in arriving at its conclusion. It is however impossible to tell, as a large part of the decision was not published because of confidentiality reasons. Courts may impose such confidentiality restrictions upon the request of either party.

Samsung's attempt to draw a comparison with *Philips v SK Kassetten* (Court of The Hague, 17 March 2010), in which a FRAND defence was quickly dismissed, was unsuccessful. The Court pointed out that in that case, the defendant (SK) had not even requested a licence and, moreover, it did not appear that Philips had made any unreasonable demands for a licence.

Interestingly, the Court then explicitly referred to a paragraph in the Philips v SK Kassetten decision which stated that a FRAND defence could in theory be successful, but only "under special circumstance". Apparently, the Court considered the abovementioned aspects of Samsung's 'attitude' in the licence negotiations to constitute such "special circumstances".

The Court concluded that in view of these circumstances the enforcement of the patents at issue would amount to an abuse of rights, and therefore it denied Samsung's claim for an injunction.

Conclusion

It is clear from the above that - contrary to the suggestion of several other legal sources during the past week - the *Samsung v Apple* decision does not herald the end of standard essential patent litigation in the Netherlands.

First and foremost, while noting that this is a first instance decision in preliminary relief proceedings, it confirms that neither the ETSI regulations nor a (general) FRAND declaration itself precludes the patent holder from enforcing FRAND pledged patents. The main take-aways in this respect are that, according to the Court:

- A FRAND declaration does not automatically establish a licence agreement;
- An early general FRAND declaration may in fact be helpful in overcoming patent ambush arguments based on late disclosure of essential patents.

Furthermore, the decision at its core teaches us under what special circumstances the enforcement of FRAND pledged patents would amount to an abuse of rights. In other words, if holders of FRAND pledged patents stay within the boundaries set by the court in this decision as to their 'attitude' in prior licence negotiations, they may (still) be able to successfully enforce their FRAND pledged patents. In short, this means that they should:

- Make a licence offer after having been requested to do so, which arguably does not (even) have to *be* FRAND, but should show a *willingness to enter into* a FRAND licence agreement;
- Not reject counter licence offers unsubstantiated, but motivate any rejections thoroughly, in any event specifically addressing the royalty level, and not merely the territorial scope and the patents covered.

Another important notion in this respect is that since the FRAND defence is a 'misuse of rights' type of defence, and the burden of proof is on the party claiming the misuse, we believe that the test will thus not be for the patentee to demonstrate that it was willing to enter into a FRAND licence agreement, but rather for the defendant to demonstrate that the patentee, contrary to the defendant, is *unwilling* to enter into a FRAND licence agreement.

In closing, all is not lost for Samsung itself either. The Court explicitly suggested that Samsung first make a FRAND offer, and indicated that if the ensuing negotiations then failed, Samsung would still be entitled to claim an injunction. Something tells us that this is not the last time that these parties will meet before this court and in respect of these patents.

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