

Another FRAND Decision in Europe: Clarity or Confusion?

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In July 2015, the Court of Justice of the European Union (“ECJ”) issued *Huawei v. ZTE*, a seminal decision detailing how holders of Standard Essential Patents (“SEPs”) must license its SEPs on fair, reasonable, and nondiscriminatory (FRAND) terms.

Specifically, in *Huawei*, the ECJ articulated the circumstances under which a defendant implementing the SEP could argue that the SEP owner not granting a FRAND license and seeking an injunction for infringement constituted an abuse of market position in violation of the antitrust laws of the European Union—the so-called “FRAND defense.”

Since *Huawei*, national courts across the European Union have further interpreted, applied, and refined the *Huawei* framework. However, these opinions diverge at crucial points, highlighting the difficulties the European Union continues to face in establishing a consistent set of principles for assessing whether SEP holders have licensed their technology on FRAND terms.

Last month, an appeals court in the Netherlands issued an interim opinion foreshadowing a final opinion that ought to provide fundamental guidance for the licensing and enforcement of SEPs that are subject to a FRAND licensing commitment.

The *Huawei* SEP-FRAND Framework

Huawei requires a holder of an SEP to have taken several specific steps before seeking injunctive relief. The specific requirements are as follows:

1. The SEP holder must, before bringing an action for injunctive relief, give notice to the alleged infringer of the infringement by designating the SEP in question and specifying the way in which it has been infringed.
2. The alleged infringer must express its willingness to take a license on FRAND terms.
3. The SEP holder must provide a written license offer on FRAND terms, specifying in particular the royalty and how it is to be calculated.
4. The alleged infringer must respond diligently to the SEP holder’s offer in accordance with recognized commercial practices in the field and in good faith (and in particular without delay tactics) by accepting the SEP holder’s offer or making a counter-offer.
5. The alleged infringer must provide appropriate security and be able to render an account of its acts of use.

If an SEP holder seeks an injunction without first following these steps, a court may permit the alleged infringer to raise the “FRAND defense”—that is, argue that a license for the SEP was not offered on FRAND terms. An SEP not offered for license on FRAND could constitute an abuse of market position in violation of the European Union’s antitrust laws.

Early Philips Litigation

Beginning in 2016, the Dutch technology company Philips began to bring litigations in Germany and the Netherlands to protect an SEP it owned covering mobile cellular communication systems.

Under *Huawei*, following notice of infringement by the SEP holder, the entity implementing the SEP must express its willingness to take a patent license on FRAND terms. In *Philips v. Archos*, a German regional court refused to grant an injunction, finding that Philips did not satisfy the *Huawei* principles and, thus, Archos had a FRAND defense. See *Philips v. Archos*, Regional Court Mannheim, judgments of July 1, 2016 (7 O 209/15) and November 17, 2016 (7 O 19/16).

A district court in the Netherlands, however, concluded in parallel proceedings that Archos (the SEP-implementer) proved unwilling to license Philips’ SEP on FRAND terms as required by *Huawei*.

These decisions show that the interpretation and implementation of the *Huawei* principles may differ significantly among national courts in different European countries.

Latest Philips Litigation

More recently, in a related litigation between Philips and the French smartphone manufacturer Wiko SAS involving the same patented technology, a Dutch appeals court cleared the way for a full-fledged FRAND decision by declaring the Philips’ SEP was both valid and infringed by Wiko, but that Wiko may have a FRAND defense.

Philips initiated the litigation and moved the court for an injunction to prevent Wiko from using its patented technology. Wiko counterclaimed, arguing that Philips’ patent was invalid. Initially, the Hague District Court ruled in favor of Wiko’s invalidity counterclaim and concluded that the litigated patent was invalid due to a lack of novelty.

Philips appealed and, on appeal, submitted various supplementary information. The Court of Appeal reversed the district court and ruled that the litigated patent was valid. Because Wiko had not denied that it marketed phones that include Philips’ patent, the Court of Appeal had little trouble concluding that Wiko was infringing.

Moreover, the Court of Appeal also found the litigated patent to be standard essential. Accordingly, the Court ordered an additional hearing on the SEP and FRAND issues for May 28, 2019. After that hearing, the Court likely will decide whether Philips satisfied the *Huawei* factors for an injunction to issue or, if it did not, whether Philips abused its market position in violation of EU antitrust law.

Best Practices for SEPs and FRAND

Important questions continue to linger post-*Huawei* and the national court opinions implementing its terms. Nevertheless, the forthcoming opinion in *Philips v. Wiko SAS* likely will contribute greater clarity to when an SEP holder properly offers its technology on FRAND terms. White & Case will continue to monitor this area of the law.

White & Case also will continue to monitor legislative initiatives in the European Union. Considering the divergent opinions emanating from European national courts on SEP and FRAND issues, the European Commission seems eager to develop a more coherent and more predictable FRAND licensing framework. The Commission published “[Standard Essential Patents for a European digitalised economy](#).” It also released its communication, “[Setting out the EU approach to Standard Essential Patents](#),” in which it discusses measures to better evaluate SEPs and create more transparency and predictability.

These communications are, however, general in nature and lack clear guidance on the core questions of FRAND licensing. The discussion at the EU level is bound to continue over the coming years, just as FRAND case law in Europe is bound to evolve further.

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