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NL – Sisvel v. Xiaomi – PI based on SEP denied

Rien Broekstra (Brinkhof) · Monday, March 30th, 2020

On 17 March 2020, The Hague Court of Appeal dismissed a preliminary injunction (PI) based on alleged infringement of a Standard Essential Patent (SEP) held by a Non-Practicing Entity (NPE) based on a balancing of interests – without assessment of validity and infringement of the patent in suit, and without assessment of FRAND-related obligations.

In case of a non-practicing SEP holder, the damage addressed by a PI is not loss of market exclusivity, but rather delayed payment of easily calculable license fees. The SEP holder's interest in a PI therefore does not outweigh the implementer's interest to prevent an injunction, in view of, inter alia, the irreparable harm associated with the injunction.

Facts of the case

Plaintiff Sisvel is a company that manages its own as well as third party intellectual property rights. In that capacity, it manages two patent portfolios of SEPs declared essential to GSM, UMTS and LTE. In 2013, Sisvel provided a FRAND-declaration according to ETSI's IPR policy, in which it committed itself to grant licenses under, inter alia, these patents under FRAND terms. Defendant Xiaomi is the world's fourth-largest manufacturer of mobile phones.

In November 2018, a Dutch phone wholesaler announced a partnership with Xiaomi. In March 2019, a number of news outlets reported that Xiaomi announced its market entry in the Netherlands. In May 2019, Sisvel started preliminary injunction proceedings against Xiaomi based on two SEPs from its portfolios, arguing that Xiaomi necessarily infringes these patents by implementing the LTE standard and the EGPRS/EDGE extension of the GSM standard. Sisvel demanded an injunction covering the Netherlands, and alternatively an injunction as long as Xiaomi does not accept Sisvel's offer to determine the terms for a worldwide FRAND license in arbitration. Before initiating the PI proceedings, Sisvel had already started parallel merits proceedings in the UK against Xiaomi to determine a (global) FRAND license.

The District Court dismissed the PI applications (see [the report on this blog](#)). In this appeal, only one of the originally asserted patents ("EP 536") was in suit. Pending the appeal, Xiaomi had placed security in an amount sufficient to cover its projected sales in the Netherlands over the period until expiration of EP 536 in September 2020, according to the license fee Sisvel requested for its portfolio.

The Court's assessment

The Court of Appeal rules that the PI claim must be denied based on a balancing of interests. On the side of Sisvel, the following aspects weigh into this balancing exercise:

- the damage that Sisvel intends to prevent with the PI is limited: the relevant infringement is limited to the Dutch territory, and concerns only one patent which will expire soon;
- Sisvel is an NPE. The damage to be prevented with a PI is therefore not loss of market exclusivity, but rather loss of license income. The court considers that this damage is relatively suitable to be calculated after the fact;
- Xiaomi placed sufficient security. There is thus no insolvency risk;

On the side of Xiaomi:

- an injunction would have considerable consequences (a complete stop of sales of mobile phones, closure of stores, no fulfillment of agreed deliveries to customers – which will damage the relationships with these parties);
- In case an injunction would be granted, Xiaomi could only address these considerable consequences by accepting Sisvel's license offer. This offer covers not only the use of EP 536 in the Netherlands, but entails a license for more than 1000 patents worldwide, for which Sisvel asks a considerable fee;
- If Xiaomi would choose to accept Sisvel's offer to avoid an injunction, Xiaomi will be irrevocably bound to its terms – also if the injunction would turn out to be unjustified. If it would choose not to accept the license, the damages resulting from the injunction would be very difficult to calculate, in view of the number of competitors and Xiaomi's rather fresh efforts to build its market share and difficult or impossible to repair.;
- An injunction under EP 536 would de-facto mean an injunction for the entire phone, including all technology and design not protected by EP 536

The Court considers that, in view of the irreparable damage associated with an injunction, it should be prudent in granting a preliminary injunction. PI proceedings allow only for a preliminary ruling based on limited debate and limited evidence. The court finds the case to be relatively complex (validity and non-infringement of a relatively complex patent, as well as an extensively disputed FRAND-defense), and recognizes that even if it would preliminarily find the patent valid and infringed and the FRAND defense unsuccessful, a merits court may very well come to a different conclusion. Therefore, the Court of Appeal rules that the balance of interest weighs in favor of Xiaomi, even if it would preliminarily assume that EP 536 is valid and infringed and Xiaomi's FRAND defense would be unsuccessful.

Sisvel unsuccessfully argued that in view of Article 9 of the Enforcement Directive a preliminary injunction must be granted. The Court finds that Article 9 is subject to the fundamental principles of EU law, including the principle of proportionality. In view of its finding on the balance of interests, the Court finds that granting an injunction would be disproportional.

Sisvel's alternative claims – an injunction conditional on Xiaomi not accepting Sisvel's offer to determine worldwide FRAND terms in arbitration – is denied; apart from the balance of interest discussed above, allowing such a claim would deprive Xiaomi of its fundamental right to access to a national court.

A few highlights

The Court of Appeal clearly agrees with the District Court that PI proceedings are not the

appropriate route to enforce a SEP. Not only because of the nature of the damage associated with SEP infringement (missed license fees vs. loss of market exclusivity), but also because the additional layer of complexity that a FRAND defense entails is not very compatible with the limited room for debate in PI proceedings. The latter is noteworthy because the Dutch courts rarely find a patent case too complex for PI proceedings.

Noteworthy is also the court's attached weight to plaintiff's NPE status. Dutch courts usually do not consider the NPE status of a plaintiff a relevant factor in the balance of interest. Of course the context of FRAND-encumbered SEP's in these proceedings is rather specific, but the CoA's reasoning may also apply at least to some extent outside of that context, e.g. to NPE's asserting non-essential patents in PI (also in other fields of technology).

Finally, the Court's explicit reference to the Enforcement Directive and fundamental principles of EU law is to be noted. While the balancing of interests inherent to the Dutch PI assessment necessarily brings proportionality in the picture, the Court's explicit recognition that the Enforcement Directive is subject to the fundamental principle of proportionality could be relevant to the developing discussions on "automatic injunctions" – also outside the realm of preliminary relief.

The Dutch (redacted) version of the CoA judgment is [available here](#), and an English machine translation is [available here](#).

Disclaimer: the author's firm represented Xiaomi in this case.

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