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ACQUIESCENCE AND LACHES  
AS DEFENCES TO  
INFRINGEMENT CLAIMS  
IN SWEDISH PATENT LAW

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# Contents

<b>1</b>	<b>Introduction</b>	<b>5</b>
1.1	Background . . . . .	5
1.2	Purpose and research questions . . . . .	6
1.3	Method and sources . . . . .	7
1.4	Delimitations . . . . .	8
<b>2</b>	<b>Different approaches to deal with passive patentees</b>	<b>8</b>
<b>3</b>	<b>Equitable estoppel – detrimental reliance</b>	<b>10</b>
3.1	The origin of estoppel . . . . .	10
3.2	Courts of equity and courts of law . . . . .	10
<b>4</b>	<b>Estoppel by acquiescence – an equitable estoppel</b>	<b>12</b>
4.1	When there is a duty to speak . . . . .	12
4.2	A typical case of warning letter followed by silence . . . . .	13
4.3	Unnecessary economic damage . . . . .	14
4.4	Participating in a standard settings process . . . . .	15
<b>5</b>	<b>Laches – an equitable doctrine</b>	<b>17</b>
<b>6</b>	<b>Relative vs Absolute statutes of limitation</b>	<b>20</b>
6.1	Petrella v. MGM (2014) . . . . .	20
6.2	SCA v. First Quality (2017) . . . . .	21
6.3	Laches and estoppel by acquiescence, what now? . . . . .	23
<b>7</b>	<b>Verwirkung – good faith</b>	<b>24</b>
7.1	The origin of Verwirkung . . . . .	24
7.2	Haubenstretchautomat (2012) . . . . .	26
<b>8</b>	<b>DCFR – good faith <i>and</i> detrimental reliance</b>	<b>27</b>
<b>9</b>	<b>Acquiescence in Trademarks</b>	<b>29</b>
<b>10</b>	<b>When non-use of a right is an abuse of rights</b>	<b>30</b>
10.1	Switzerland . . . . .	30
10.2	Radiatoren (2008) . . . . .	31
10.3	French and Belgian law . . . . .	32

<b>11 AIPPI report on acquiescence</b>	<b>33</b>
<b>12 Passivitetsverkan in Norwegian and Swedish law</b>	<b>36</b>
12.1 Arnholm . . . . .	36
12.2 Knoph . . . . .	37
12.3 Cervin . . . . .	38
<b>13 Swedish law</b>	<b>40</b>
13.1 Thule v. Montblanc (2013) . . . . .	40
13.2 Support for acquiescence, laches and abuse of right in Swedish patent law . . . . .	42
13.3 DeLaval v. Lely (2011) . . . . .	45
13.4 How to apply acquiescence and laches in Swedish law . . . . .	46
<b>14 Conclusion</b>	<b>48</b>
<b>15 Translations</b>	<b>50</b>
<b>16 Table of cases</b>	<b>56</b>
<b>17 References</b>	<b>57</b>

## ABSTRACT

The aim of this essay is to give an account of the circumstances under which a passive patentee can lose the right to enforce a patent due to estoppel by acquiescence or laches and argue that there is a Swedish equivalent to these general principles of law.

The essay is policy oriented and describes examples of US, German and Swiss case law to give a background on estoppel by acquiescence, laches. It is argued that the Swedish doctrine on effects of passivity (*passivitetsverkan*) includes estoppel by acquiescence and laches.

A recent US Supreme court case gives an insight in that for predictable and continuous infringements, it does not matter if the statute of limitation has discovery accrual or not.

The US Supreme court case also brings to light a gap in both the US and the Swedish statute of limitation for patent damages. This gap enables a patentee to delay significantly before suing an infringer and still collect damages for the last 5 years (6 in the US).

Swedish case law concerning passive patentees is limited to a single case. In this case, the court assumed the gap to be closed because the discovery accrual statute of limitation was removed for patent infringement in 1967. The court assumed that the removal indicated an intent from the legislature to allow patentees to delay significantly.

This essay argues that this is the wrong conclusion. The discovery accrual statute of limitation was removed because it served no purpose. This can be deduced through an analysis of the legislative documents preparing patent law together with the knowledge learned from the US Supreme court case. Therefore there is still a gap.

Finally it is argued that this gap can be filled with the intent of the legislature which is clearly stated: a patentee who does not want to tolerate patent infringement, ought therefore to be prepared to in reasonable time bring the cause to legal trial. A Swedish court can therefore apply *passivitetsverkan* to adjust or bar a patentee's claims in accordance with the principle of estoppel by acquiescence or laches.

# 1 Introduction

## 1.1 Background

A patentee that remains passive while facing patent infringement risks losing the ability to enforce the patent. This potential loss of the patent can be the result of statutory law and non-statutory legal principles.

Typically patent law has a statute of limitation (period of prescription) shorter than the general statute of limitation. Also a statute of limitation can be *absolute* (counting from the date of accrual of the cause of action, ie when the infringement occurred) or *relative* (counting from the date when the patentee became aware of the infringement) or both.

A statutory limitation is not affected by why the patentee was passive, which makes the law easy for a court to apply. For a single occurrence infringement the statutory limitation encourages the patentee to bring the matter to court before the claims are too stale to be litigated fairly and to reduce legal uncertainty in the public interest.

On the other hand, if the infringements are predictable and continuous, then these statutory limitations as they are written today, do not cover all situations, as will be discussed in this essay. Sometimes non-statutory legal principles or a general clause on unconscionability, good faith or abuse of rights, must be applied to give a fair and just decision.

One such legal principle used in common law jurisdictions, is the effect on a passive patentee who tolerates the infringement and the infringer knowingly or un-knowingly relies on this tolerance. If the passive patentee wakes up from his stupor, such tolerance, called *acquiescence*, can be used, depending on the jurisdiction, as a defence to bar enforcement entirely or prevent damages or prevent injunctions. Acquiescence can also be referred to as *reliance based estoppel where the representation is silence* or simply *estoppel by acquiescence*. In the US, the term *equitable estoppel* is used, since estoppel by acquiescence is included therein.

Another closely related legal principle in common law jurisdictions is *laches*, which means an undue prejudicial delay where the plaintiff needs not be tolerant, only slow. To be prejudicial, the delay must have caused the defendant harm or put the defendant in a situation that enforcing the right now would cause the defendant harm. Alas, there is also laches with a touch of tolerance added, which is called simply acquiescence and is not an estoppel.

The words 'laches' and 'acquiescence' are not uniformly used. Sometimes laches is taken to mean undue delay on the part of the claimant in prosecuting his claim and no more; sometimes acquiescence is used to mean laches in that sense; and sometime laches is used to mean acquiescence in its proper sense, which involves a standing by so as to induce the other party to believe that the wrong is consented to.<sup>1</sup>

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<sup>1</sup> Cooke, Elizabeth (2000). *The Modern Law of Estoppel*. Oxford University Press p.66 citing Halsbury (4th edn. reissue, 1992), xvi, para. 925n.

To make a clear distinction between these three terms, this essay uses *estoppel by acquiescence*, *laches* and *equitable doctrine of acquiescence*.

For civil law jurisdictions: Germany has *Verwirkung* and Sweden and Norway have *passivitetsverkan*. They offer similar legal solutions as to estoppel by acquiescence and laches and will be discussed in this essay.

Non-statutory legal principles in civil law jurisdictions are often a matter of last resort, therefore it is not unexpected that actual examples of case law using these principles are much rarer in civil law than in common law. Thus smaller jurisdiction can have few or no cases where the principle is actually applied by a court. Still the principles can be considered valid through doctrine.

## 1.2 Purpose and research questions

The aim of this essay is to give an account of the circumstances under which a patentee can lose the right to enforce a patent due to estoppel by acquiescence or laches and argue that there is a Swedish equivalent to these general principles of law.

There is an ongoing internationalisation of Swedish intellectual property laws through European directives and international treaties. The directives and treaties require Swedish law to enforce intellectual property and to offer tools and remedies to the intellectual property owners.

However tools can be abused and according to Article 3.2 IPRED<sup>2</sup> the European member states are required to apply the measures, procedures and remedies for intellectual property in such a manner as to provide for safeguards against their abuse. Likewise in Article 8.2 TRIPS<sup>3</sup> the signatory states are required to apply appropriate measures, if needed, to prevent the abuse of intellectual property rights by rightsholders.

The doctrine by Nordell,<sup>4</sup> Karlgren,<sup>5</sup> Cervin,<sup>6</sup> Arnholm<sup>7</sup> and Knoph<sup>8</sup> that establishes passivitetsverkan (effects of passivity) do not discuss it as an abuse of rights, the exception being Knoph.

Swedish legal doctrine has been concerned with the abuse of preliminary injunctions<sup>9</sup> and other procedural remedies and the Swedish legislature has been concerned with the

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<sup>2</sup> DIRECTIVE 2004/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 29 April 2004 on the enforcement of intellectual property rights (IPRED) (2004).

<sup>3</sup> WIPO (1994). *Uruguay Round Agreement: TRIPS Trade-Related Aspects of Intellectual Property Rights*.

<sup>4</sup> Nordell, Per Jonas (2007). "Qui tacet consentire videtur. Om passivitet, preklusion och preskription i immaterialrätten". In: Festskrift till Marianne Levin - Norstedts Juridik, pp. 411–436.

<sup>5</sup> Karlgren, Hjalmar (1965). *Passivitet, en köprättslig och allmänt avtalsrättslig studie*. P.A. Nordstedt & Söners förlag.

<sup>6</sup> Cervin, Ulf (1960). *Om passivitet inom civilrätten*. Berlingska boktryckeriet.

<sup>7</sup> Arnholm, Carl Jacob (1932). *Passivitetsvirkninger- et bidrag till laeren om de rettsstiftende kjensgjerninger*. Johan Grundt Tanums forlag.

<sup>8</sup> Knoph, Ragnar (1939). *Rettslige standarder, særlig grunnlovens §97*. Oslo: Grøndahl & Søn.

<sup>9</sup> Sundblad, Martin (1999). *Missbruk av civilprocessuella säkerhetsåtgärder*. Examensarbete i processrätt Lunds Universitet.

potential privacy violations when implementing IPRED.<sup>10</sup>

This essay will attempt to answer the following three questions:

- (i) When is it an abuse of a patent right to silently wait?
- (ii) Are estoppel by acquiescence and laches included in passivitetsverkan?
- (iii) Does the Swedish statute of limitation prevent abuse?

### 1.3 Method and sources

If Sweden does not take into account the preventive measures, that exist in other jurisdictions, that are needed to balance patent rights visavi their potential abuse, then Sweden will be at a disadvantage when internationalisation progresses further.

There is simply not enough case law in Sweden to give examples of how patent rights can be abused. The method applied when writing this essay is therefore policy oriented and begins by describing the preventive measures available in other jurisdictions. There is a comparative and legal dogmatic element to the essay where the lessons learned from these jurisdictions are applied to Swedish law.

Foreign law regarding the effect of passivity on patent rights is of course not binding for Swedish courts. But there is a continuous push for harmonisation in intellectual property law. As a result, foreign legal arguments and viewpoints are often allowed to influence Swedish law. This is the basis for the selection of legal sources on which the comparative method is used.

The well-developed US law system is an important source for patent case law and as a result of the sheer volume of cases there is a large corpus of examples of abuse of patent rights as well as of attempts by legislature and courts to prevent them. Thus the US seems like a reasonable starting point. In Europe, England, also common law-based legal system, shares many of the US preventive measures against abuse of rights, and will therefore not be separately discussed in this essay. Germany is another jurisdiction with a large corpus of case law regarding patent infringement. It also has a well established abuse-preventive measure, Verwirkung, and will therefore be discussed. Switzerland will also be discussed since it also applies Verwirkung in patent cases. France and Belgium will be discussed as examples of jurisdictions where silent passive patentees are currently not considered to be abusing their patent rights.

The sources for the essay are the already mentioned Swedish doctrine on effects of passivity and the recent US Supreme Court decision *SCA v. First Quality*<sup>11</sup> together with Vaquer's article "Verwirkung versus Laches: A Tale of Two Legal Transplants".<sup>12</sup> To be able to understand and explain the contents of these sources several other sources were

<sup>10</sup> Regeringens proposition 2008/09:67 (2008). Civilrättsliga sanktioner på immaterialrättens område – genomförande av direktiv 2004/48/EG.

<sup>11</sup> *SCA Hygiene Products AB v. First Quality Baby Products LLC* 580 US \_\_\_\_ (2017).

<sup>12</sup> Vaquer, Antoni (2006). "Verwirkung versus Laches: A Tale of Two Legal Transplants". In: *The Tulane European & Civil Law Forum*.

consulted. In the end, an example of Swedish case law and the legislative documents commenting on the creation of Swedish patent law were consulted.

## 1.4 Delimitations

This essay, being policy oriented, focuses on the most recent cases where estoppel by acquiescence, laches or Verwirkung have been applied. History and terminology is introduced and explained to further the understanding of the recent cases, not to give a full legal history.

## 2 Different approaches to deal with passive patentees

A permanently passive patentee is not directly a problem since the patent right expires after approximately 20 years. Alas, if it is not used nor litigated, then infirmities in the patent are not being exposed. Yet, such an uncontested patent can still deter someone else who is not aware of the infirmity from entering the market. The problem becomes more acute if there are many patents covering a particular product or process.

For the purpose of this essay, however, the problem to be discussed are patentees that at first are passive and then try to enforce the patent while it is still valid or while claims for back damages can still be made, even though the patent has expired.

The enforcement will then be within the limits of law as such, but it can still be an abuse of rights. An old case from Norway illustrates this with physical property instead of intellectual property.<sup>13</sup> When A built a house on his property he forgot to notify his neighbour P as required by law. Unfortunately A also accidentally built his house in such a way that it for a length of 24 meters intruded between 7 and 15 cm in on the neighbours property. The total area of intrusion was thus approximately 3 m<sup>2</sup>.

P was aware of the error even before the brick work had even begun, but took no action. Only when A's house was completed, did P give A the choice between tearing down the house or pay him 5000 crowns in "compensation". "He had in the meantime built on his own property close to A's new house, so the blackmail attempt was as obvious as it could be."<sup>14</sup> P won in Byretten but lost in Høiesterett. The court argued that P should have advised A about the error while it was still possible to correct them. Not doing so, significantly shifted the blame to him, barring him from collecting damages or have the house teared down, despite the original error made by A, not notifying P according to law. The court argued that P should not even have received double compensation for the lost square meters of his property according to law. Such compensation was given anyway, but only because A had not objected to this in the proceedings.

According to Knoph there are two ways to deal with non-use of rights. 1) There is a general theory of abuse of rights and the non-use of a right simply falls into a sub-

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<sup>13</sup> Rt. 1902 s. 641 see Arnholm (1932), p. 80 and Knoph (1939), p. 193

<sup>14</sup> Arnholm (1932), p. 80.



category of such abuse. 2) There is no general theory and the legal solutions to handle non-use are added incrementally to what is viewed as a specific legal problems often limited to specific areas of law. France and Switzerland belong to the first group whereas England and Germany belong to the second group.<sup>15</sup>

Knoph writes that it is both a theoretical and a practical advantage to include non-use of a right within the general principles of abuse of rights. However, it has the disadvantage that non-use is drowned in all the other possible reasons for abuse of rights. Thus Knoph argues that this is the reason why legal jurisdictions relying primarily on abuse of right, do not give us the most valuable insights into the problem of non-use of rights.<sup>16</sup>

In the example above P knew that his property would be intruded upon in the near future (the infringement was predictable and continuous) but he did nothing. The court resolved the problem of an obvious abuse of right by relying on P's duty to mitigate damages based on general principles of tort law. This is indeed true for those jurisdictions that assume there is such a duty to mitigate damages. Not all jurisdictions have this duty. In France, for example, the injured party has no duty to mitigate damage.

The duty to mitigate damages is therefore one particular solution and is relevant when there are damages that can be mitigated. But it will not necessarily handle the situation when the patentee claims the infringer's profit or reasonable royalties<sup>17</sup> or simply an injunction. An potential injunction can always be translated into money, since the patentee can request a settlement where the infringer pays an amount less than the cost to stop infringing. The duty to mitigate damages therefore has a limited applicability when dealing with passive patentees.

Another approach is to argue abuse based on P's change in position, first tolerance then in-tolerance. Changing your mind is typically permitted (even though a late no to a dinner might be frowned upon). However one may not contradict himself to the detriment of another, a principle from Roman law, *venire contra factum proprium*. Yet another approach is to argue that the plaintiff behaved contrary to good faith, in Roman law this was the defence *exceptio doli generalis*. These approaches are also applicable when the plaintiff's behaviour is not quite an abuse of right, more of a misuse of right or procedural laziness.

Our quest to understand the defences against acquiescing patentees will therefore begin in England, where will investigate *venire contra factum proprium* realised as estoppel, after which we will then travel to the USA. Germany is our next stop where *exceptio doli* in combination with *venire contra factum proprium* is realised as *Verwirkung*. Switzerland then adds a theory of abuse of right in addition to good faith and estoppel followed by France and Belgium that relies only on abuse of right. We end our travel in Sweden with *passivitetsverkan*.

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<sup>15</sup> Knoph (1939), p. 214.

<sup>16</sup> Ibid., p. 214.

<sup>17</sup> Hellberg, Jonas (2014). *Skadestånd vid patentintrång*. Jure Förlag AB, p. 367.

### 3 Equitable estoppel – detrimental reliance

#### 3.1 The origin of estoppel

Estoppel originates from the French word *estoupe* (a survivor of the Norman French used in the courts in earlier centuries in England),<sup>18</sup> which meant a man's own act or acceptance stops or closes his mouth to allege or plead the truth.

Over the centuries, estoppel has diverged into many different variants, which are far too many to recite here. Depending on the variant they are used differently and give different results.<sup>19</sup>

Even so, estoppel is based on a simple principle, you cannot contradict yourself to the detriment of others, sometimes you will be held to your earlier statement or behaviour. Estoppel does not forfeit a right, but prevents someone from successfully arguing it.

Lord Denning wrote in 1981:

Estoppel ... is a principle of justice and of equity. It comes to this: when a man, by his words or conduct, has led another to believe in a particular state of affairs, he will not be allowed to go back on it when it would be unjust or inequitable for him to do so.<sup>20</sup>

Nowadays *unconscionable* is often used instead of *unjust or inequitable*.<sup>21</sup>

#### 3.2 Courts of equity and courts of law

The words equity and equitable however, have several meanings, one is justice and fairness in general, but it can also refer to the body of rules administered by courts of equity.

In common law jurisdictions, two court systems existed in parallel, the courts of law, making decisions based on previous court decisions and the courts of equity where the decisions originally were made based on the conscience of the Chancellor who received his authority from the King. The equity courts could only prescribe remedies such as writs, injunctions, and specific performance, whereas law courts could award damages.

Common law and equity courts were merged in 1870 in England and in 1938 for federal courts in the USA. Even though the rules are still kept separate, common law and equity can now be applied by a single common law court.<sup>22</sup>

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<sup>18</sup> Cooke (2000), p. 6.

<sup>19</sup> Ibid., p. 3-4.

<sup>20</sup> Ibid., p. 2.

<sup>21</sup> Ibid., p. 2.

<sup>22</sup> Though there are a few states in the USA that still have separate courts for law and equity: Delaware, Mississippi, New Jersey, South Carolina, and Tennessee.

Estoppel originated in the courts of equity and is said to have been introduced into courts of common law in the year 1762.<sup>23</sup> Variants of estoppel have then moved back and forth between common law and equity. For example estoppel by silence was originally regarded as common law concept in English law, but is now considered equitable, "no doubt because of the strength of the equitable tradition known as 'acquiescence'"<sup>24</sup>

Traditionally in English and Australian law, the distinction made between common law estoppel and equitable estoppel is that "only a statement of fact—not of law, and not a promise—can give rise to common law estoppel"<sup>25</sup> Alas, in US law<sup>26</sup> definition of equitable estoppel includes instead: "[...]an estoppel lies only for a misrepresentation of fact[...]"<sup>27</sup> Thus what is called equitable estoppel in the US is called common law estoppel in Australia.

Cooke writes that the distinction between statement of fact, and statement of law or promise, is gradually disappearing for estoppel arguments and proposes to divide estoppel into formal estoppels and reliance based estoppels.<sup>28</sup> Thus both common law estoppel and equitable estoppel, irrespective if they are the US, English or Australian variants,<sup>29</sup> belong to reliance based estoppels. Whereas for formal estoppels<sup>30</sup>, there is no need to prove reliance.

If it is accepted that the historical distinction between common law and equitable estoppels no longer reflects the way decisions are made, then we can say that in all cases of estoppel a decision is taken about unconscionability (or 'inequity'), that is, whether or not it is wrong for the maker of a representation to go back on it; that in deciding this the court looks at whether or not there has been detrimental reliance on the representation, and is free to consider other factors.<sup>31</sup>

The following definition of US equitable estoppel covers the same requirements as Cooke's guidelines on the application of her new framework for reliance based estoppel.<sup>32</sup> Cooke's guidelines are much more detailed, but that level of detail is not necessary here. Thus equitable estoppel comprises three basic elements:

1. conduct, acts, language or silence constituting a representation or concealment,

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<sup>23</sup> Cooke (2000), p. 20.

<sup>24</sup> Ibid., p. 57.

<sup>25</sup> Ibid., p. 58.

<sup>26</sup> US law is fractured into multiple independent states which their own legal system bound together by the federal law and their common law tradition. Equitable estoppel is valid in all states, even Louisiana, which keeps a civil law system where equitable estoppel is applied in case law and also encoded in La. Civ. Code art. 1967. In addition, patent law and jurisprudence in the U.S. is developed at the federal level, which in theory enhances uniformity.

<sup>27</sup> Gergen, Mark P. (2008). "Towards Understanding Equitable Estoppel". In: *Structure and Justification in Private Law*. Essays for Peter Birks - Hart Publishing, pp. 319–337, p. 319.

<sup>28</sup> Cooke (2000), p. 58–64.

<sup>29</sup> Gergen (2008), p. 319.

<sup>30</sup> Formal estoppels as defined by Cooke are closely connected with property law and the particularities of tenure and estates.

<sup>31</sup> Cooke (2000), p. 84–85.

<sup>32</sup> Ibid., p. 63–64.

2. that is relied upon by the other party,
3. to the other party's detriment.

An additional element may include a requisite state of mind of one or both parties. Courts have discretion to deny the defence and, correspondingly, to apply it despite the failure of one or more elements.<sup>33</sup>

Hereinafter, the term *equitable estoppel* means *reliance based estoppel* and is based on the definition above.

The effect of a successful application of a equitable estoppel, is to prevent the representor from denying, or going back on what he said or did (or what his silence implied), because this would be a detriment to the defendant previously relying on the representation. This in turn, has different effects depending on what was said and what right was claimed. For patent infringement cases equitable estoppel prevents the patentee from arguing that he is still entitled to a remedy for infringement. Equitable estoppel will thus block the entire recovery, neither damages nor injunctions can be claimed.

## 4 Estoppel by acquiescence — an equitable estoppel

### 4.1 When there is a duty to speak

Silence can be as powerful as speech or action, for the purpose of conveying a message which the defendant then relies upon. For the sake of legal certainty however, courts are reluctant in attributing legal consequences to silence or passivity.

When estoppel is argued based on an active representation followed by an inconsistent action, then this immediately offers facts to be evaluated as evidence. When estoppel is argued based on silence, supposed to be a representation, then we need more evidence. Why was the plaintiff not allowed to be silent? After all, he did eventually take action.

“Where estoppel arises from silence, whether under the label of estoppel by silence or of acquiescence, special considerations arise. It is often said that to establish an estoppel in such a case one must prove that the other party had a duty to speak.”<sup>34</sup> Thus for equitable estoppel in general, there is no need to prove a duty to speak, but when the representation is silence or inaction, then a duty to speak must often be proved. From US case law we have another example:

Estoppel may arise from silence as well as words. It may arise where there is a duty to speak and the party on whom the duty rests has an opportunity to speak and, knowing the circumstances, keeps silent. It is the duty of a person having a right, and seeing another about to commit an act infringing upon it, to assert his right. He cannot by his silence induce or encourage the commission of the act and then be heard to complain.<sup>35</sup>

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<sup>33</sup> Anenson, T. Leigh (2007). “From Theory to Practice: Analyzing Equitable Estoppel Under a Pluralistic Model of Law”. In: *Lewis & Clark Law Review*, p. 640.

<sup>34</sup> Cooke (2000), p. 64.

<sup>35</sup> *Bondy v. Samules*, 165 N.E. 181, 186 Ill. (1929).

A pre-existing business relation that implies some sort of loyalty will create a duty to speak, sometimes there is a duty to speak to avoid causing unnecessary economic damage, and sometimes there is a duty to society to speak.

## 4.2 A typical case of warning letter followed by silence

A typical case of estoppel by acquiescence in patent law is that patentee P sends a warning letter to alleged infringer A giving notice on patent infringement. A responds promptly and gives an accurate argument to why he believes that no infringement is taking place and/or that the patent is invalid and/or the patents are already properly licensed for him by another party.

P then stays silent for 10 years after which P sues A.

After the passage of a substantial period of time, A clearly has reason to assume that P accepted A's arguments and that no further legal action will be taken against him. A then relies on this assumption and proceeds to invest in processes and business that potentially infringe.

In *Aukerman vs Chaides* (1992) the contested patents assigned to Aukerman related to slip-forming an asymmetrical concrete highway barrier where the highway surfaces were of different elevations. The patents concerned both a method and a device. Aukerman had licensed the patents to Gomaco in a settlement of litigation and Gomaco had agreed to notify Aukerman of all those who purchased Gomaco's adjustable slip-forms.<sup>36</sup>

Aukerman was notified of Chaides and advised Chaides (April 24 1979) that they intended to enforce its patents, even though Chaides was one of the smaller contractors. Aukerman offered to waive liability for past and current infringements as long as Chaides took a license no later than June 1 1979.

Chaides responded later the same month with a handwritten note on Aukerman's last letter, stating that the responsibility for the patents were Gomaco's and if Aukerman wished to sue for "\$200-\$300" a year, they should do so.

Aukerman then stayed silent for 8.5 years and it was not until Aukerman was advised by one of its licensees, that Chaides business now was a substantial competitor, that Aukerman again requested a new license from Chaides. Chaides gave no response and one year later, Aukerman sued for patent infringement, 9.5 years after the first warning.

The [District] court then held that Aukerman's silence for nearly ten years after making an initial protest was sufficiently misleading to constitute bad faith and that Aukerman should have notified Chaides of the effect of the otherwise ambiguous June 1, 1979 deadline. The court went on to determine that Chaides had detrimentally relied on Aukerman's silence in deciding to forego bankruptcy and to bid low on highway contracts.<sup>37</sup>

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<sup>36</sup> A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020, 1028 (1992), para. 2.

<sup>37</sup> Ibid., para. 6.

The Appeals court (“Federal Circuit”) did agree with the District court on that Chaides did *not* have to prove that Aukerman intentionally misled by silence.<sup>38</sup> The proper question was if Aukerman’s course of conduct reasonably gave rise to an inference in Chaides that Aukerman was not going to enforce the patents. The Federal court stated that Chaides did give an argument to why they should not pay Aukerman, eg it was Gomaco’s problem, and the length of the delay favours drawing such an inference.<sup>39</sup>

The Federal Circuit also stated that Aukerman’s excuse that other litigation caused the delay, is irrelevant since Chaides was never informed of the reason for the delay.<sup>40</sup>

But, it was possible to argue that Aukerman had only “waived” an infringement claim of \$300 per year and this was for the court to decide.<sup>41</sup> Also to get a summary judgement on equitable estoppel in which non-infringement was claimed, the burden of proof lies on the defendant Chaides, but it was incorrectly placed on Aukerman.<sup>42</sup>

For these reasons, the Federal court remanded the question on equitable estoppel back to the District court, because it had ruled incorrectly on summary judgement.

### 4.3 Unnecessary economic damage

A typical case of unnecessary economic damage is when a patentee stays silent and waits for someone else, who unknowingly infringes on the patent, to create a commercial success. Only then does the patentee sue.<sup>43</sup> In contrast, the duty to mitigate damages is for the injured to limit the damage to himself.

If the infringer suddenly have to pay reasonable royalties or give up his profit, then he for sure considers this to be a damage to his own business, since he could not anticipate the costs in advance. Within economics, this is an information asymmetry that can cause a market failure and consequently an inefficient market with higher prices.

Also, if the infringer did not know about the patent and therefore had not made use of the disclosed information in the patent, then the implicit contract between the patentee and society is not upheld. In other words a monopoly on a technology is awarded for contributing how the technology works to society. If the technology is recreated without the assistance of the patent, then there is less reason to protect the monopoly. It is therefore reasonable to ask the patentee to speak up early when this happens if he wants to maintain his monopoly. This is true, even if there has been no pre-existing contact or relation between the patentee and the infringer. This was articulated in *Stryker v. Zimmer*. The court held that a patentee’s claim was barred by equitable estoppel (acquiescence) after a nearly three-year delay in asserting its infringement claim.

A patentee who, with knowledge of the alleged infringing activity, does nothing over a period of years other than mislead a purported infringer and those who

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<sup>38</sup> Aukerman v. Chaides (1992), para. 123.

<sup>39</sup> Ibid., para. 124.

<sup>40</sup> Ibid., para. 124.

<sup>41</sup> Ibid., para. 125.

<sup>42</sup> Ibid., para. 128.

<sup>43</sup> Hellberg (2014), p. 367.

have gone before to believe that there was and is no problem, lying in wait until [...] it has become “commercially and economically worthwhile” to do something, has engaged in affirmatively misleading silence of the worst order and should not be insulated merely because, for whatever reason, it did not articulate a threat or assert a right but, rather, chose to mislead from day one.<sup>44</sup>

In another case, *Stambler v. Diebold*, the plaintiff acquiesced to ten years of industry-wide infringement, the court granted summary judgement under equitable estoppel (acquiescence).

Plaintiff had a duty to speak out and his silence was affirmatively misleading. Plaintiff could not remain silent while an entire industry implemented the proposed standard and then when the standards were adopted assert that his patent covered what manufacturers believe to be an open and available standard. Furthermore, plaintiff’s silence could reasonably be interpreted as an indication that plaintiff had abandoned its patent claims.<sup>45</sup>

#### 4.4 Participating in a standard settings process

There is an obvious duty to society to speak up when you participate in a standard setting process. In an infamous case, Rambus participated in a standard setting process for DRAMs. In such a process the participants share their pending and granted patent applications with each other, to create a pool of patents that are considered SEPs (Standard Essential Patents). When the standard is put to use, the manufacturers only need to license the pool, and the money will then be distributed to the patentees within this pool.

Rambus did participate in the standard process, but kept silent about a few patents that were standard essential. Much later Rambus tried to enforce these patents on-top of the pool licenses that were required. Both the EU commission<sup>46</sup> and the US Federal Trade Commission considered this to be a breach of competition rules. This has been described as a snake-in-the-grass attack using patents.<sup>47</sup>

The EU commission based their argument on Article 102 in the TFEU and claimed that Rambus abused their dominant position by their “allegedly” deceptive conduct. Also Rambus had also probably breached the patent policy agreement with the standards setting body JEDEC that all patent rights should be disclosed to the other members. Though an actual breach of the precise rules of a standard-setting body was not required to find an abuse due to silence.<sup>48</sup>

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<sup>44</sup> Stryker Corp. v. Zimmer Inc., 741 F. Supp. 509, 513 D.N.J. (1990).

<sup>45</sup> *Stambler v. Diebold, Inc.*, 11 U.S.P.Q. 2d 1709, 1988 WL 95479 (E.D.N.Y.1988), aff’d, 878 F.2d 1445 Fed.Cir. (1988).

<sup>46</sup> European Commission (2009). Decision of 9.12.2009 relating to a proceeding under Article 102 of the Treaty on the Functioning of the European Union and Article 54 of the EEA Agreement. Case COMP/38.636 – RAMBUS.

<sup>47</sup> Merges, Robert P. and Kuhn, Jeffrey M. (2009). “An Estoppel Doctrine for Patented Standards”. In: *California Law Review* 97.1.

<sup>48</sup> European Commission (2009), para. 39.

This argument was based on the EU commission stating that there is an “underlying duty of good faith in the context of standard-setting”<sup>49</sup> and referred to their earlier communication from 1992:<sup>50</sup>

[T]he Commission stated that an intellectual property right holder would act in bad faith if it was aware that its intellectual property read on a standard in development and did not disclose its intellectual property rights until after the adoption of the standard. This would force its competitors to accept higher licencing fees than those which could have been negotiated at an earlier stage before the adoption of the standard.<sup>51</sup> The Communication also stated that in order to ensure that a standard-setting process yields its benefits, intellectual property right holders should be required to identify and report any intellectual property rights reading on a standard in development.<sup>52</sup>

Thus also a non-dominant actor participating in a standard setting process has a duty to speak. The Commission even went further and argued that even a non-participating rightsholder could be put on notice by a standard-making body and if the rightsholder did not speak up before the standard was adopted, this would be considered bad faith.<sup>53</sup> Sometimes not even a notice would be required: “Bad faith could easily be demonstrated where a presumption of knowledge on the part of the rightholder can be established.”<sup>54</sup>

The European commission did not move the case to court since Rambus offered to settle. In the US the FTC was eventually denied the right to impose royalty sanctions on Rambus via antitrust penalties. Merges and Kuhn argues that antitrust legislation may be inappropriate to regulate such strategic assertions of patent rights against standards, since antitrust is a blunt weapon only available against companies in a dominant position.<sup>55</sup>

It can be said that Rambus never intended to tolerate the infringement, the Commission wrote: “Rambus may have deliberately used its participation in JEDEC to revise and tailor its pending patent applications in an effort to gain control over JEDEC standard-compliant synchronous DRAM chips.”<sup>56</sup> In this case it seems like it would actually have been possible to prove an intent to mislead. But as the courts in Aukerman stated, the proper question is not the internal thoughts and intentions of the misleading party, but instead if the party relying on the silence reasonably could infer that no patents were going to be enforced.

Thus the duty to speak exists not only for already performed infringements but also for future infringements. This is obvious in the Rambus case, since the standard was not yet set in stone and there probably was no real infringement when Rambus should have

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<sup>49</sup> European Commission (2009), para. 28.

<sup>50</sup> Ibid., para. 32.

<sup>51</sup> European Commission (1992). Communication “Intellectual Property Rights and standardisation”, COM(1992) 445, para. 4.4.1.

<sup>52</sup> Ibid., para. 4.4.3 and 6.2.6.

<sup>53</sup> Ibid., para. 4.4.1.

<sup>54</sup> Ibid., para. 4.4.2.

<sup>55</sup> Merges and Kuhn (2009), p. 3.

<sup>56</sup> European Commission (2009), para. 40.



spoken. (There might have been legally allowed experimentation inside the competing companies though.)

This also holds true for the standard case of warning letter followed by silence, followed by legal action. The known infringement is a lesser problem since it is during the long silence, when future infringements are performed, where costs and damages accumulate.

## 5 Laches — an equitable doctrine

Laches also originates in old French (*lachesse*)<sup>57</sup> and is an equitable defence whereby a plaintiff can be prevented from seeking an equitable remedy because of a delay.<sup>58</sup> Contrasting to equitable estoppel (and estoppel by acquiescence in particular), it supposedly only bars equitable remedies, for patent infringement this is typically injunctions, not damages.

Two elements underlie the defence of laches:

- (a) the patentee's delay in bringing suit was unreasonable and inexcusable, and
- (b) the alleged infringer suffered material prejudice attributable to the delay.<sup>59</sup>

Prejudice is found when, over time, a change in circumstances inequitably disadvantages or burdens the infringer. Also implicit from the rules of equity, the infringer must be in good faith, from the maxim "He who comes to equity must come with clean hands."<sup>60</sup>

"The focus of the defence is on delay; but to the extent that the defendant's change of position in reliance upon the delay is also relevant, laches overlaps with reliance-based estoppel."<sup>61</sup> Another way to phrase this overlap is: "So it has been said that laches sounds in estoppel."<sup>62</sup> Sometimes English courts have even regarded the words: laches, acquiescence, and estoppel as equivalent.<sup>63</sup>

Detrimental reliance will also over time, cause a change in circumstances that inequitably disadvantages or burdens the infringer. The applicability of laches is thus broader than equitable estoppel, since the change in circumstances must not be due only to reliance. On the other hand laches must include unreasonable delay, which is not necessary in equitable estoppel.

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<sup>57</sup> Vaquer (2006), p. 55.

<sup>58</sup> Cooke (2000), p. 66.

<sup>59</sup> Aukerman v. Chaides (1992), para. 12.

<sup>60</sup> Cooke (2000), p. 112 citing Willis & Son v. Willis

<sup>61</sup> Ibid., p. 66.

<sup>62</sup> L, D (1931). "Displacement of the Doctrine of Laches by Statutes of Limitations. Crystallization of the Equitable Rule". In: *University of Pennsylvania Law Review and American Law Register*, Vol. 79, No. 3 (Jan., 1931), pp. 341-347, p. 342.

<sup>63</sup> Cooke (2000) p. 66 citing Habib Bank Ltd. v. Habib Bank A.G. Zurich as the best-known example.

I must also mention the equitable doctrine of acquiescence referred to as “the equitable tradition known as ‘acquiescence’” in Cooke’s remark earlier in this essay.<sup>64</sup> It is very similar to laches, only adding a representation, but no reliance. The equitable doctrine of acquiescence is not used in US patent cases (where laches and equitable estoppel (estoppel by acquiescence) are used), but it is used in US trademark cases. A defendant asserting that a plaintiff acquiesced to defendant’s use of its trademark must show that:

- (1) the senior user actively represented that it would not assert a right or a claim;
- (2) the delay between the active representation and assertion of the right or claim was not excusable; and
- (3) the delay caused the defendant undue prejudice.<sup>65</sup>

Knoph wrote that laches are to be considered the mildest form of passivity of the rightsholder, whereas the equitable doctrine of acquiescence requires a sort of active assenting of the infringement. For the equitable doctrine of acquiescence, the rightsholder must have a duty to act, such that when the rightsholder finally wakes up from his coma, then the enforcement of the right has a sting of disloyalty. Finally estoppel by acquiescence adds the infringer’s reliance on the passive rightsholder.<sup>66</sup>

For the purpose of this essay, the equitable tradition of acquiescence is only relevant in trademark cases and only mentioned to complement the readers awareness of the multitude of meanings of the word acquiescence.

Laches is easier to prove than estoppel by acquiescence. For estoppel by acquiescence: you have to prove that there was a duty to speak, for laches: there is no need to prove a duty to speak, inexcusable delay and material prejudice to the defendant are sufficient.

Laches	Inexcusable delay in legal action causing prejudice to the defendant.
Equitable doctrine of acquiescence	Active representation that no assertion of a right or a claim would happen and inexcusable delay in legal action causing prejudice to the defendant.
Estoppel by acquiescence	The plaintiff had a duty to speak, and his silence created a detrimental reliance in the defendant.

It should by now be clear (or at least less muddled) that *equitable* in “equitable estoppel” means *just and fair* and that equitable estoppel is active both in law and equity and that *estoppel by acquiescence* is an equitable estoppel. Whereas *equitable* in “laches is an equitable doctrine” and “the equitable doctrine of acquiescence” means that those two doctrines belong to the body of rules used only in equity courts.

Laches was a tool for the courts of equity to determine when a claim was too stale to honour, given the lack of statutes of limitation in equity. But what happened to laches

<sup>64</sup> See supra. p. 11

<sup>65</sup> Seller Agency Council, Inc. v. Kennedy Center for Real Estate Educ., Inc., 621 F.3d 981, 988 9th Cir. (2010).

<sup>66</sup> Knoph (1939), p. 216.

when the courts of law and equity merged and statutes of limitations were added by the legislature?

A tension between laches and statutes of limitations has existed for a long time. It was said that laches could be applied whenever a court of equity dealt with pure equitable rights, except when not specifically provided otherwise by statute. Statutes of limitation could apply to either legal remedies or equitable remedies or both.<sup>67</sup>

Thus if a statute of limitation only prescribes the effect on legal damages, can equitable relief be claimed after the period of time dictated by the statute, and if so, can laches then be used to bar this equitable relief? US courts in the early 20th century, considered it to be a way of circumventing legislation. By simply dropping the damages claim and relying only on injunctions, the plaintiff could avoid a statute of limitation that did not expressly mention equity. Other courts said that it was the legislator's intent not to regulate equity, if it was not expressly mentioned in the statute of limitations.<sup>68</sup>

Similarly, could laches be applied when the claim was made within the time period prescribed by a statute of limitation or did the statute of limitation prescribe a time period that was officially sanctioned as permitted by the legislature? Within a merged court of law and equity, could laches also bar a claim for damages?

The answers to these questions of course varied depending on the particular jurisdiction, the statutes of law and comments made by the drafters of the statutes. In the US, case law evolved to the point where laches was applied in law courts to block patent infringement damages based on law, but not patent infringement injunctions based on equity!

This was the case in *Aukerman v. Chaides*, where the District court ruled that in addition to equitable estoppel<sup>69</sup>, Aukerman was also denied damages because of laches.

In *Aukerman* the District court used the statutes of limitation as an presumption of laches, eg. an indication of intent from the legislators to shift the burden of evidence.

The Federal court agreed in principle, but again stated that such a presumption is eliminated if the plaintiff offered evidence to why the delay was excusable or reasonable. Such evidence must again be decided upon by the court, thus it was wrong to grant a summary judgement on laches as well.<sup>70</sup>

The court also stated that laches did not bar injunctions nor post-filing damages!<sup>71</sup> Such "non-equitable" use of laches did not go unnoticed and Bray wrote that: "The old distinction between legal and equitable remedies is rooted in English political history, and by the seventeenth century the distinction was caught up in struggles over royal discretionary power. But the fact that the distinction came about through historical accident does not tell us whether it should be kept or discarded."<sup>72</sup>

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<sup>67</sup> L (1931), p. 344.

<sup>68</sup> Ibid., p. 344.

<sup>69</sup> See supra. p. 13

<sup>70</sup> *Aukerman v. Chaides* (1992), para. 85-92.

<sup>71</sup> Ibid., para. 103-104.

<sup>72</sup> Bray, Samuel L. (2014). "A Little Bit of Laches Goes a Long Way: Notes on *Petrella v. Metro-Goldwyn-Mayer, Inc.*" In: 67 *Vanderbilt Law Review En Banc* 1; *UCLA School of Law Research Paper* 14-01, p. 4.

This conflict has continued up to this day and the first step in resolving the conflict laches vs statutes of limitation in copyright cases came in the supreme court decision *Petrella vs. MGM* (2014).<sup>73</sup>

## 6 Relative vs Absolute statutes of limitation

### 6.1 *Petrella v. MGM* (2014)

The script to the film *Raging Bull* based on boxing champion Jake Lamotta's life, was co-authored in 1963 by Lamotta and Frank Petrella. The rights to the screenplay were acquired by a subsidiary of MGM in 1976. The copyright for the film was renewed by MGM in 1980. However during the first copyright period, Frank Petrella died and the renewal rights reverted to his daughter.

Paula Petrella, renewed the copyright in 1991 and became its sole owner. Seven years later she advised MGM that the film *Raging Bull* violated her copyright and 2009 she sued for copyright infringement and claimed damages from 2006 as well as injunctive relief. MGM moved for summary judgement invoking laches based on Petrella's 18 years of delay.

The District court stated that MGM had shown "expectations-based prejudice" because significant investments in exploiting the film had been made, also MGM would encounter "evidentiary prejudice" because Frank Petrella had died and Lamotta aged 88, had sustained a loss of memory.<sup>74</sup>

The District court and the Ninth circuit agreed and barred Petrella's claims.<sup>75</sup> The supreme court, however, reversed this decision in 2014 and remanded the case back, after which it was settled.

The Supreme court begins by explaining that a claim ordinarily accrues when a plaintiff has a complete and present cause of action. Given the statute of limitation for copyright infringement:

17 U.S. Code § 507 - Limitations on actions

(b) Civil Actions. —

No civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued.

The limitations period generally begins to run at the time when the plaintiff can file suit and obtain relief, a copyright claim thus accrues when an infringement occurs.<sup>76</sup>

However, a time limit on when to file suit is sometimes considered unfair, if it runs when the copyright holder was not (or could not be) aware of the infringement. Thus

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<sup>73</sup> *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962, 1970 (2014).

<sup>74</sup> *Ibid.*, p. 9.

<sup>75</sup> *Ibid.*, p. 2.

<sup>76</sup> *Ibid.*, p. 4.

in copyright cases the limitations period starts when the plaintiff discovers, or with due diligence should have discovered, the infringement. “The overwhelming majority of courts use discovery accrual in copyright cases.”<sup>77</sup> Thus §507 is a *relative* statute of limitation.

Also it is well known and agreed upon in US law, that each infringement starts a new limitation period. Thus if the infringer has continuously engaged in a series of discrete infringing acts, then the copyright holder can sue and be timely for the last three years.<sup>78</sup>

An infringement can only be discovered if it has actually happened, thus future infringements, that can be predicted by the copyright holder, are ignored by the statute of limitation.

The supreme court after discussing the history of laches in relation to the development of statutes of limitations concluded that laches are a gap-filling doctrine when no statute of limitation exists. It would be improper if a court was allowed to apply laches to override a statute of limitation.<sup>79</sup>

In other words, the prejudice that can be attributed to a delay within the statute of limitation has to be accepted because this is the legislature’s intent.

The Supreme court also stated that it was improper to apply laches to bar damages based on law since laches is an equitable doctrine.<sup>80</sup>

On the other hand the Supreme court concluded that: “Estoppel does not undermine the statute of limitations, for it rests on misleading, whether engaged in early on, or later in time.”<sup>81</sup>

## 6.2 SCA v. First Quality (2017)

In 1992 SCA filed a patent application for an improved construction of diapers. The patent was granted in 2002 and in 2003 SCA advised First Quality that their adult incontinence products infringed. First Quality promptly responded a month later that the patent was invalid because it had a patent of its own that antedated SCA’s patent.

In 2004 SCA sought reexamination of its patent to verify whether it should stand in light of First Quality’s patent. SCA did not inform First Quality of this procedure nor did SCA inform First Quality that it intended to file suit if the reexamination was a success. The USPTO confirmed SCA’s patent in 2007. Three years later, in 2010, SCA then sued First Quality for patent infringement.<sup>82</sup>

The District Court granted summary judgement to First Quality on the grounds of equitable estoppel and laches. While SCA’s appeal was pending, the Supreme Court ruled

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<sup>77</sup> The Supreme Court in *Petrella v. MGM* (2014), p. 5 cites William Patry, Copyright §20:19, p. 20–28 (2013)

<sup>78</sup> *Ibid.*, p. 6.

<sup>79</sup> *Ibid.*, p. 14–15.

<sup>80</sup> *Ibid.*, p. 12.

<sup>81</sup> *Ibid.*, syl. p. 3 and op. p. 19.

<sup>82</sup> *SCA v. First Quality* (2017), p. 2.

on Petrella. The Federal court, nevertheless ruled on summary judgement that SCA's claim was barred by laches. It however ruled that there were genuine disputes of material fact relating to equitable estoppel, which therefore could not be used for summary judgement. Soon after the Federal Circuit reheard the case en banc, in light of Petrella and reaffirmed the original panel's laches holding.

In the Supreme Court First Quality argued that this case differed from Petrella because the statutory limit regulating back damages before the time of the suit is not a "true" statutory limit because it "turns only on when the infringer is sued, regardless of when the patentee learned of the infringement."<sup>83</sup> Since it was not a true statute of limitations, a bar using laches within this time period would not be legislation overriding.

The statutory limit for back damages in question is:

35 U.S. Code § 286 - Time limitation on damages,

Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.

The Supreme Court called this a "debatable taxonomy" because:

1) the Supreme Court itself had in several places in Petrella described §507 as a rule that allows plaintiffs to gain retrospective relief. For example, the Copyright act's statute of limitation was described as "a three-year look-back limitations period."<sup>84</sup> Thus the Supreme Court considered a forward looking rule (§507) to be functionally equivalent to a backward looking rule (§286) when the infringements are all known.

2) the discovery rule used in §507 for copyright, is not a universal element of statutes.<sup>85</sup> In most cases the statute runs from accrual without the need for the rightholder to know about the cause for action. Thus, in accordance with the terminology of this essay, without the discovery rule, §286 is an *absolute* statute of limitation.

The remainder of the arguments in the Supreme Court centered around the wording in statute §282. Did the phrase: "The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: (1) Noninfringement, absence of liability for infringement or unenforceability." include support for laches or not? By examining the case law and other history before and after 1938 (the merger of federal law and equity courts), before and after 1952 (the introduction of the statute of limitations §286) and from 1952 up to the current day, the court concluded that there was no support for laches in §282.

The Supreme Court therefore concluded that laches cannot be used as a defence against damages where the infringement occurred within the limitation period prescribed by the statute of limitation. The case was then remanded for further proceedings.

The Supreme Court received several amicus briefs discussing the underlying problem of silently waiting patentees. The majority wrote however:

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<sup>83</sup> SCA v. First Quality (2017), p. 7.

<sup>84</sup> *ibid.*, p. 6 citing Petrella v. MGM (2014), slip op. p. 4

<sup>85</sup> SCA v. First Quality (2017), p. 7.

We note, however, as we did in *Petrella*, that the doctrine of equitable estoppel provides protection against some of the problems that *First Quality* highlights, namely, unscrupulous patentees inducing potential targets of infringement suits to invest in the production of arguably infringing products.<sup>86</sup>

Judge Bryer dissented and argued that the opposite conclusion should be drawn from the history of US law. He also gave strongly worded support for the amicus curiae who wrote about the problem of silently waiting patentees. The statute of limitation does not prevent a patentee from waiting 1, 5, 10 or even 20 years. When the suit is finally launched, it is always possible to collect damages for the last 6 years.

This fact creates a gap. Why? Because a patentee might wait for a decade or more while the infringer (who perhaps does not know or believe he is an infringer) invests heavily in the development of the infringing product (of which the patentee's invention could be only a small component), while evidence that the infringer might use to, say, show the patent is invalid disappears with time. Then, if the product is a success, the patentee can bring his lawsuit, hoping to collect a significant recovery.<sup>87</sup>

Judge Bryer did hope, as did the majority, that equitable estoppel would alleviate at least some of these problems.<sup>88</sup>

### 6.3 Laches and estoppel by acquiescence, what now?

Previously both laches and equitable estoppel were regularly applied (like in *Aukerman*, *Petrella* and *SCA*) because laches can be claimed while there is also detrimental reliance. Thus the application of laches and equitable estoppel often overlaps. With the loss of laches for damages in copyright and patent cases, the focus will now inevitably turn to equitable estoppel and thus in particular, its subset estoppel by acquiescence.<sup>89</sup> In fact *Fort et. al.* argues that many of the earlier cases based on laches could have been based on estoppel by acquiescence only.

What then is laches, when it does not overlap with estoppel by acquiescence? Laches require silent inexcusable delay and prejudice and to not overlap, there must not be misleading nor detrimental reliance.

When there is significant economic prejudice due to a delay of patent suit ( "Economic prejudice may arise where a defendant and possibly others will suffer the loss of monetary investments or incur damages which likely would have been prevented by earlier suit."<sup>90</sup>) then there is a duty to speak. Delaying legal action when the infringer does not know about the infringing patent violates the premise of the patent system.<sup>91</sup>

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<sup>86</sup> *SCA v. First Quality* (2017), p. 16.

<sup>87</sup> *Ibid.*, diss. p. 2.

<sup>88</sup> *Ibid.*, diss. p. 11.

<sup>89</sup> Fort, Ann G., Kohse, Robert R.L., and Finnegan, Steffan (2017). *Equitable Estoppel May Be The New Laches Defense*. Accessed 8th May 2017. URL: <https://www.law360.com/articles/911956/equitable-estoppel-may-be-the-new-laches-defense>.

<sup>90</sup> *Aukerman v. Chaides* (1992), para. 57.

<sup>91</sup> See *supra*. p. 14

Thus a pure non-estoppel-by-acquiescence laches defence (which is no longer available) seems limited to plaintiffs with no intent to mislead and did not actually mislead, had the target set on the court but took an inexcusable time to get there and during this time did not cause any significant economic prejudice (for example the defendant's spending or profit was stable over time, and therefore there was no duty to speak). Because, had there been a significant economic prejudice, then it is possible to argue detrimental reliance and we are again outside of the pure non-estoppel-by-acquiescence laches doctrine.

Thus the now lost non-estoppel-by-acquiescence laches in the US took care of the situation when the prejudice was mostly evidentiary, e.g. the key witness is dead, companies have shut down etc. The Supreme Court's decision in *SCA vs First Quality* very much hinged on the history of laches in US law. For jurisdictions outside of the US, laches could well be valid as a defence.

*Petrella* and *SCA* teaches us two important facts:

1) Since each separate infringement starts a new limitation period and the infringements are predictable and continuous, relative and absolute statutes of limitation are functionally equivalent! First, it does not matter if the time is counted from the infringement to the legal action, or time is counted from the legal action back to the infringement. Second, if all infringements are known, then relative and absolute prescription are of course identical since the only difference between relative and absolute is the knowledge of the infringement. If there is both a relative and absolute prescription and they have different time limits, then the resulting effective time limit is the shortest time limit of the two.

As an example of when there actually is a difference between relative and absolute prescription, let us assume that a patentee discovers a previously unknown continuous infringement, and the patentee cannot predict that the infringement will continue (or knows that it will not continue, or the infringement has already stopped), then the patentee must act within the relative time limit not to lose the ability to sue for damages back to the full absolute time limit.

2) For predictable and continuous infringements, the statutes of limitations (as they are written today) contain a gap, they do not limit the time a patentee can silently wait before suing. This gap must be filled with some non-statutory legal principle or a general clause on unconscionability, good faith or abuse of rights.

## **7 Verwirkung — good faith**

### **7.1 The origin of Verwirkung**

We have seen that equitable estoppel begins with detrimental reliance and is sometimes concluded, with a reference to bad faith.<sup>92</sup> In Germany the argument instead begins with

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<sup>92</sup> *Aukerman v. Chaides* (1992), para. 6.



a reference to good faith in the law of obligations BGB § 242: “An obligor has a duty to perform according to the requirements of good faith, taking customary practice into consideration.”

BGB § 242 does not use the word *Verwirkung*, it is a legal concept that has evolved over time. The word *Verwirkung* was used in legal theory to denote many different reasons for loss of rights, for example the forfeiture of the payment to a broker due to the broker acting in bad faith. The general principle of forfeiture of a right (intellectual property and other) was refined into its current form in the early 20:th century. Already in the 1930:s *Verwirkung* was used primarily for this purpose.<sup>93</sup>

Through its location within BGB and its phrasing, § 242 only controls obligations. However through case law and doctrine its scope has been expanded to become a general principle of law. Not only the debtor, but also the creditor has a duty to act according to good faith while exercising rights and obligations.<sup>94</sup>

“[...] [The] rule of ‘True und Glauben’ BGB § 242 has for a long time been available to be invoked against the wording of particular statutes. The legislation has, as it is phrased, eine korrektorisches Funktion.”<sup>95</sup>

*Verwirkung*, like estoppel, is a procedural bar. However *Verwirkung* directly creates an inadmissibility of the exercise of a right (the right is barred),<sup>96</sup> whereas equitable estoppel indirectly gets the same effect (the right to argue is barred). Vaquer writes:

Under German law, the requirements for *Verwirkung* of a right are:

a. The running of time. Like prescription, *Verwirkung* requires lapse of a period of time. But *Verwirkung* does not contemplate fixed periods of time, unlike prescription.

Recognition of *Verwirkung* depends on all the surrounding circumstances of the case: the more the plaintiff’s behaviour offends good faith, the less the time needed for successful invocation of *Verwirkung*, and conversely. Mere lapse of time does not lead to *Verwirkung*[.] [...]

b. The plaintiff’s inactivity. During the period of time at issue, the plaintiff must not exercise her right, nor must the defendant voluntarily fulfil his obligation. The inactivity must be attributable to the plaintiff, although fault is not required.

c. Justified reliance on the non-exercise of the claim. The period of time that has elapsed, coupled with a plaintiff’s inactivity, must have induced the defendant’s reasonable belief that the plaintiff does not intend to enforce the right in the future. In other words, *Verwirkung* protects the defendant’s legitimate reliance. [...] Consequently, the tardy exercise of the right causes some detriment to the defendant’s position, for he could not have expected in good faith that the right would be asserted.<sup>97</sup>

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<sup>93</sup> Knoph (1939), p. 217.

<sup>94</sup> Cervin (1960), p. 80.

<sup>95</sup> Statens Offentliga Utredningar nr 83 (1974). Generalklausul i förmögenhetsrätten, p. 142.

<sup>96</sup> Vaquer (2006), p. 61.

<sup>97</sup> Ibid., p. 61-62.

Thus Verwirkung, like estoppel by acquiescence, is based on detrimental reliance and the duty to speak arises if the plaintiff's silent behaviour would offend good faith. In comparison, equitable estoppel does not require running of time since any representation (behaviour) that can create a detrimental reliance is a potential reason for estoppel. Passivity and silence, on the other hand, implies doing nothing over time, thus time is part of estoppel by acquiescence, but the time can be relatively short. Whereas laches require unreasonable time to pass. Verwirkung therefore has elements of both estoppel by acquiescence and laches.

The required time can be shortened if the parties have an objective expectation that infringements will be prosecuted quickly, for example if the parties regularly litigate with each other.<sup>98</sup>

A common use for Verwirkung, before statutes of limitation were introduced, was for trademark acquiescence. A trademark holder who acquiesced to someone else's use of his trademark, had his right to injunction forfeited under Verwirkung. In fact a rich and detailed case law grew from the German Verwirkung to handle trademarks.<sup>99</sup>

Interestingly, in US law, the equitable doctrine of acquiescence and laches are still applied in trademark cases. Other statutes of limitation for tort are used to create a presumption of laches within trademark law.<sup>100</sup>

## 7.2 Haubenstretchautomat (2012)

A hood stretching machine (haubenstretchautomat) is a packaging machine that shapes a hood of a plastic film and stretches it over a pallet of smaller packages. When the stretched hood is released by the machine it creates a tightly fitting and structurally supporting transparent shell. The wrapped pallet content is now protected from shifting, water damage and pests during transport.

Other solutions are for example shrink wrapping where the film is heat treated to shrink, which is slower and the heated film can stick to the pallet contents. There is also stretch wrapping where a film is stretch horizontally and rotated around the pallet, which is less transparent and less structurally stable.

On March 17 1993 company P sent a notice of infringement to company A on the basis that A infringed claim 1 (the method claim) and claim 12 (the device claim) of P's patent. P then sued A in 1997, but the suit was based on the method claim only.<sup>101</sup>

In 2002 the Landgericht dismissed the suit since it was not shown that the vertical shrinking achieved the claimed amount. After appeal, the Oberlandsgericht reversed the decision in 2010 and agreed with the plaintiff.<sup>102</sup>

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<sup>98</sup> Kühnen, Thomas (2013). *Patent Litigation Proceedings in Germany: A Handbook for Practitioners*. Trans. by Peterreins, Frank D. 6th ed. Heymanns Verlag GmbH, p. 394 para. 1572.

<sup>99</sup> Cervin (1960), p. 83.

<sup>100</sup> Fitbug Ltd. v. Fitbit, Inc. 78 F.Supp.3d 1180, 1187 E.D. Cal. (2015), p. 6-7.

<sup>101</sup> Haubenstretchautomat I-2 U 58/10 OLG Düsseldorf (2012), para. 136.

<sup>102</sup> Ibid., para. 24.

However in 2009 company P, as part of the appeal proceedings, had re-introduced the device claim into litigation.<sup>103</sup> Thus prior to the decision in 2010, the Oberlandsgericht separated the original case from the case of the re-introduced device claim. The new suit re-used the expert report from the main proceedings in Oberlandsgericht and could use the arguments word for word to match the device claim as well.

Company A rejected these claims because they had 1) already lost on claim 1 and the matter had been settled and 2) the device claim was forfeited and statute barred.

The Oberlandsgericht court ruled that the re-introduction of the device claim was allowed (a separate independent claim in a patent effectively serves as separate patent, albeit within the same document) and that the devices produced by company P did infringe.

However after balancing the fact that Verwirkung should be restrictively applied, against the facts in the case, the court came to the conclusion that a delay of 12 years from the initial suit and 16 years from the initial warning gave rise to forfeiture. Due to the long delay the circumstances surrounding the delay were of less importance than the actual delay.<sup>104</sup>

In particular the court stated that the longer a creditor fails to act (and tolerates the infringement), even though he can be expected to enforce his right, the more the debtor's reliance on the non-enforcement of the right is worthy of protection. However even if the conditions are met for Verwirkung, all circumstances must be considered in case the infringer should meet the demands of the rightholder nonetheless.

The court also made it clear that the laches vs statute of limitation dilemma, is not a problem for Verwirkung. It does so by explicitly stating that Verwirkung is possible even if the claims have been partially barred by a statute of limitation. The non-barred (due to prescription) claims are still barred (due to Verwirkung).<sup>105</sup>

This application of Verwirkung resembles estoppel by acquiescence more than laches. Since all the facts of the contested patent (that there are multiple independent claims that could infringe) were available to both the plaintiff and the defendant from the start, the non-enforcement of claim 12 in the suit, explicitly created a reliance that it would not be enforced later. The long delay however, strengthens the argument significantly.

## 8 DCFR — good faith *and* detrimental reliance

Good faith and detrimental reliance are two approaches to deal with the problem of acquiescing rightholders. These two principles, that serve as the legal reasoning in two different law traditions, have now been introduced together in DCFR, to assist the effort to create a common frame of reference for European trade.

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<sup>103</sup> Haubenstretchautomat (2012), para. 25.

<sup>104</sup> Ibid., para. 130.

<sup>105</sup> Ibid., para. 128.

I. – 1:103: Good faith and fair dealing

(1) The expression “good faith and fair dealing” refers to a standard of conduct characterised by honesty, openness and consideration for the interests of the other party to the transaction or relationship in question.

(2) It is, in particular, contrary to good faith and fair dealing for a party to act inconsistently with that party’s prior statements or conduct when the other party has reasonably relied on them to that other party’s detriment.<sup>106</sup>

Initially detrimental reliance was thought to flow from “good faith and fair dealing”, however the second paragraph was added to more explicitly state that acting inconsistently to another’s detriment was against good faith.<sup>107</sup>

In DCFR a right can be lost due to detrimental reliance: “It is a general principle that a person who has induced another person to incur a change of position on the faith of an act should not be allowed to exercise rights inconsistent with the resulting state of affairs.”<sup>108</sup>

And in the withdrawn proposal for a Common European Sales Law, a right can be lost due to acts against good faith: “Breach of this duty [to act in accordance with good faith] may preclude the party in breach from exercising or relying on a right, remedy or defence which that party would otherwise have, or may make the party liable for any loss thereby caused to the other party.”<sup>109</sup>

Even though DCFR and the CESL (if introduced) would not have affected patent law, it is a clear statement of support of rights loss due to detrimental reliance. This indicates that estoppel by acquiescence is indeed a general legal principle of European law and General Advocate Warner stated in 1980 that the effect of detrimental reliance is a general principle that exists in all member states.<sup>110</sup>

[T]his Court, in developing the general principles of Community law, draws on what has been termed “the legal heritage” of all the Member States. It seems to me that, if one considers, for instance, the Danish law as to “stiltende afkald”, the English law as to estoppel, the German law as to “Rechtsverwirkung”, the Italian law as to “legittimo affidamento” and the Scots law as to personal bar, as well as the French law as to “renonciation implicite”, there emerges a general principle ( ... ) that one who, having legal relations with another, by his conduct misleads that other as to a material fact ( ... ) cannot thereafter base on that fact a claim against him if he (that other) has acted in a relevant way in reliance on what he was led by that conduct to believe. What matters here, of course, is the existence of the principle, not the scope or mode of its application in the law of any particular Member State.<sup>111</sup>

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<sup>106</sup> Draft Common Frame Reference (2009), I. – 1:103 paragraph (2).

<sup>107</sup> Ibid., principle 25,26.

<sup>108</sup> Ibid., See Comment B in I. - 1:103 referring to III. – 1:103 paragraph (3).

<sup>109</sup> European Commission? (2011). *Proposal for a Common European Sales Law (withdrawn)*, I. - Article 2.2.

<sup>110</sup> Vaquer (2006), p. 70.

<sup>111</sup> Warner, Jean-Pierre (1980). *Opinion of Mr Advocate General Warner on Joined ECJ Cases 63 and 64/79*, p. 3002.

## 9 Acquiescence in Trademarks

National trademark law has conferred the effect of acquiescence on trademark rights for quite some time. Acquiescence was also harmonized in Article 9(1) in the Trademark Directive 89/104 and later used in Article 54 in the Community Trademark Regulation 40/94.

But it was not always so. Before national trademark law introduced statutes of limitations for acquiescence, *Verwirkung* was for example used in Germany to get the same effect<sup>112</sup> and laches are still used for trademarks in the US.

The ECJ declared the word 'acquiescence' within Article 9(1) of Directive 89/104 to constitute a concept of European Union Law, the meaning and scope of which must be identical in all Member States.<sup>113</sup>

To analyse the word *acquiescence* and avoid using a circular argument using *tolerance* the Advocate General noted the Danish and Swedish translation use of the word *passive* to give the following definition:

As observed by the Advocate General in point 70 of her Opinion, referring in particular to the Danish and Swedish language versions of Article 9 of Directive 89/104, the characteristic of a person who acquiesces is that he is passive and declines to take measures open to him to remedy a situation of which he is aware and which is not necessarily as he wishes. To put that another way, the concept of 'acquiescence' implies that the person who acquiesces remains inactive when faced with a situation which he would be in a position to oppose or not.<sup>114</sup>

The effect of acquiescence is that both the earlier and the new trademark owner are barred from claiming invalidity and/or infringement.<sup>115</sup>

Article 9(1) neatly sidesteps Judge Bryer's gap, because the trademark Directive states:

1. Where, in a Member State, the proprietor of an earlier trade mark as referred to in Article 5(2) or Article 5(3)(a) has acquiesced, for a period of five successive years, in the use of a later trade mark registered in that Member State while being aware of such use, that proprietor shall no longer be entitled on the basis of the earlier trade mark to apply for a declaration that the later trade mark is invalid in respect of the goods or services for which the later trade mark has been used, unless registration of the later trade mark was applied for in bad faith.

An acquiescing trademark owner will allow a new trademark owner to build up a detrimental reliance on the non-enforcement of the older trademark. Detrimental reliance, however, is not mentioned in the actual rule. Thus 9(1) is easier to apply than estoppel by acquiescence since no duty to speak must be proven, it is also easier to apply than laches, since no prejudice to the new trademark owner must be proven.

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<sup>112</sup> See *supra*. p. 26

<sup>113</sup> *Budějovický Budvar, národní podnik v. Anheuser-Busch, Inc.* C-482/79 ECJ (2011), para. 37.

<sup>114</sup> *Ibid.*, para. 44.

<sup>115</sup> Article 9.1 and 9.3

On the other hand detrimental reliance and prejudice is in a way, implicit in the concept of trademark acquiescence. If someone uses a trademark and spends money on maintaining it or growing it, then he will rely on the non-enforcement of the earlier trademark. Likewise the money spent will be lost if the earlier trademark is enforced, which causes prejudice to the defendant.

The procedural bar is thus created for any future invalidation action, ie the five years must not end with legal action.<sup>116</sup> Why then, was such a statute of limitation for trademarks added, but not for patents?

1) Contrary to patents and copyright, a Trademark has no time limit, it will exist as long as someone exercises it. Thus there is more need for rules that govern the life-cycle of trademarks.

2) Trademarks are built on recognition and connecting the recognised mark with a brand and product. Acquiescence clearly allows the purpose of a trademark to be lost quickly. A trademark must therefore be enforced more vigilantly than a patent.

3) There are many more potential trademark conflicts than patent conflicts.

In conclusion, with a large body of case law on trademark conflicts (that in Germany grew out of *Verwirkung*<sup>117</sup>) the need for a correctly working statute of limitation was obvious and an a gap would not be allowed to pass.

But trademarks are by no means unique in this aspect. With enough case law that indicate the need for acquiescence in patent infringement, a similar statute of limitation would be enacted. Or as in common law the general principle of acquiescence (equitable estoppel) would be automatically enforced by the courts. In small jurisdictions that rarely see an abuse of patent rights, neither a statute of limitation without a gap nor a general principle of law exists.

## 10 When non-use of a right is an abuse of rights

### 10.1 Switzerland

*Verwirkung* also exist in Switzerland.<sup>118</sup> However it is not only based on good faith, but also on the legal principle of abuse of rights in the law of obligations ZGB Article 2B: “1 Every person must act in good faith in the exercise of his or her rights and in the performance of his or her obligations. 2 The manifest abuse of a right is not protected by law.”

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<sup>116</sup> In Swedish law the procedural bar is created in 1:14 (registered) or 1:15 (established through use) *Varumärkeslagen*. However there is a separate statute of limitation in 8:6 *Varumärkeslagen* where damages are limited to five years before the trademark suit was commenced. 8:6 must be dependent on 1:14,15 because if the older trademark owner is no longer permitted to act against a younger trademark, clearly he cannot act against “damages” incurred by the younger trademark either.

<sup>117</sup> See *supra*, p. 26

<sup>118</sup> Schweizer, Mark (2009). “*Verwirkung* Patentrechtlicher Ansprüche”. In: *Sic!*, pp. 325–340.

When the argument is based on good faith, Verwirkung falls into the category of *venire contra factum proprium*. The Federal Supreme Court and doctrine also requires that the infringer has made arrangements in good faith based on the reliance on the non-enforcement of the patent. Thus there is a requirement on a detrimental reliance, since the infringer would be prejudiced if the reliance was in vain.<sup>119</sup>

The Federal Supreme court also recognises Verwirkung even when it cannot be attributed to a contradictory behaviour nor to an inexcusable delay. Verwirkung is then instead based on the prohibition of the abuse of interests. However, this is very difficult to argue since only manifest abuse is prohibited.<sup>120</sup> No published judgement has yet based Verwirkung on an abuse of rights.<sup>121</sup>

Verwirkung in Switzerland also includes equitable estoppel since delay is not strictly necessary. Other actions by the patentee, that do not quite suffice to be waivers, but still give the impression that the patentee is not interested in enforcing the right, can give rise to Verwirkung.<sup>122</sup> Participation in a standard setting process is an example of such a behaviour.<sup>123</sup>

The legal consequence of Verwirkung in Switzerland is the loss of the enforceability of the patent right to a particular person. Verwirkung shall be tested separately for all partial rights (injunctions and financial compensation claims).<sup>124</sup>

## 10.2 Radiatoren (2008)

In the case *Radiatoren* (radiators) from 2008, the patentee had filed the patent application in 1985 and the granted patent expired in 2005. In 2006, the patentee filed suit in the *Obergericht Thurgau* and claimed damages and the profits made between 1986 and 2005.<sup>125</sup>

The court noted that the plaintiff had been aware (or should have been aware) of the infringement at least since 1994. When at that time the plaintiff had advised the defendant of the potential infringement. The defendant had then promptly supplied the plaintiff with examples of the allegedly infringing products in an effort to determine if there was an infringement.

The appeals court *Bundesgericht* maintained that the lower court correctly set out the preconditions for Verwirkung. Since the plaintiff was silent on the topic of infringement for the next 10 years, the defendant was entitled to assume that that the plaintiff had withdrawn his allegations of patent infringement, especially since the defendant had worked with the plaintiff to improve their products.

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<sup>119</sup> Schweizer (2009), p. 326.

<sup>120</sup> Ibid., p. 326.

<sup>121</sup> Ibid., p. 339.

<sup>122</sup> Ibid., p. 326.

<sup>123</sup> Ibid., p. 327.

<sup>124</sup> Ibid., p. 339.

<sup>125</sup> Ibid., p. 337.

The court also concluded that the infringer must have made arrangements in good faith that could not be easily reversed. Such arrangements were assumed to be regularly required for the normal production and sales of goods. In fact if the infringement had been tolerated for a long time, there was a presumption for such prejudice.<sup>126</sup>

This application of Verwirkung again resembles estoppel by acquiescence more than laches. Since all the facts of the contested patent were available to both the plaintiff and the defendant from the start, the non-enforcement of the patent together with the cooperation between the parties, explicitly created a reliance that it would not be enforced later. In Radiatoren, the long delay created a presumption that the reliance would cause a detrimental effect if broken.

### 10.3 French and Belgian law

France and Belgium have a well developed legal framework for *l'abus de droit*, however rightholders traditionally benefit from the most absolute freedom of conduct, thus it is not considered an abuse of right to acquiesce and then later follow up with legal action.

In a case study from 2016<sup>127</sup> examining 79 cases of abuse of patent rights, all cases were based on the activity of the patentee: knowledge (it is an abuse of right to sue while knowing that the patent is invalid or the defendant is not infringing), unfair competition practices, denigration campaign, disorganisation of the market or internal disorganisation of a competitor, threats and pressure and disproportionate damages. Other misconduct were: procedural misconduct, misconduct related to seizure measures, misconduct related to injunctions, misconduct before administrative bodies.

The dominant actions leading courts to declare that a patentee developed an “abusive scheme” were: knowledge, intention to harm, and objective unfair competition practices.<sup>128</sup>

Thus, even though the general principle of “nul ne peut se contredire au detriment d'autrui” (one may not contradict himself to the detriment of another) is recognised by the Cour de Cassation, the effect of estoppel by acquiescence is by itself not enough for *l'abus de droit*. Laches even less so. This attitude is compatible with the position in French law, that there is no duty to mitigate damages.

In fact even explicit contradiction is sometimes allowed, for example, a plaintiff now arguing infringement that had earlier argued invalidity for the same patent, when it did not itself own the patent<sup>129</sup>, was not abusing the patent system.<sup>130</sup> Though this verdict has been criticised.

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<sup>126</sup> Schweizer (2009), p. 338.

<sup>127</sup> Léonard, Amandine (2016). “Abuse of Rights’ in Belgian and French Patent Law — A Case Law Analysis”. In: 7 *JIPITEC* 30 para 1.

<sup>128</sup> Ibid., para. 65.

<sup>129</sup> Though there are possible explanations for this behaviour, for example when trying to invalidate it, they discovered that it was in fact valid and valuable.

<sup>130</sup> Léonard (2016), para. 27.



Abuse of right is a stronger concept than that a right cannot be enforced due to a procedural bar. This becomes evident in that damages can be awarded to the victim of the abuse of rights.<sup>131</sup> Whereas if estoppel and/or laches bar a suit, then this does not give rise to damages for the defendant raising the estoppel and/or laches defence. If the plaintiff is abusing his rights in common law, there are of course other remedies available, that do include damages and other sanctions.<sup>132</sup>

Acquiescence can of course be used with the intent to harm, as in the Rambus case.<sup>133</sup> In Norwegian law, Arnholm and Knoph, from the early 20th century, gives examples of patent infringement where they argue that being silent can have the intent to harm and be an abuse of right. Knoph even adds that such an abuse of right due to acquiescence could be a reason for damages to the victim of the abuse of right.<sup>134</sup>

*(i) When is it an abuse of a patent right to silently wait?*

We have now seen several examples of where (in my opinion) there was an attempt to abuse a patent right (Rambus, Stryker, Stambler, Haubenstretchautomat, Radiatoren). The patentee has therefore rightly been prevented from enforcing the right, but not on the grounds of an abuse of right directly, instead it was based on estoppel by acquiescence (with an addition of laches to implement Verwirkung).

Knoph would not have been surprised, that jurisdictions that only allow arguments based on a general theory of abuse of right do not currently offer the ability to conclude that non-use are an abuse of right.

We have also seen other examples where (in my opinion) there was perhaps procedural delay or misuse, that caused prejudice to the defendant, but not a manifest abuse (Aukerman, Petrella, SCA). In the US, such delay can no longer be mitigated using laches, but laches can still be valid outside of the US. Even though these cases do not strictly abuse rights, these patentees (excluding Petrella that concerns a copyright claim) should in my opinion also be prevented from enforcing their right due to the prejudice they caused to the defendant.

## 11 AIPPI report on acquiescence

In 2006, AIPPI performed a legal study of “Acquiescence (tolerance) to infringement of Intellectual Property Rights” in different countries where 45 national study groups responded. Their responses including a summary report are freely available.<sup>135</sup>

The questionnaire used the phrase “conferring an effect of tolerance” but also the phrase “acquisition of rights by tolerance”. Equitable estoppel, laches and Verwirkung create

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<sup>131</sup> Léonard (2016), para. 72.

<sup>132</sup> In US law, rule 11 is argued in case of frivolous patent lawsuits. It is however, not often granted.

<sup>133</sup> See supra. p. 15

<sup>134</sup> See infra p. 36

<sup>135</sup> AIPPI Study Committee (2006). *Acquiescence (tolerance) to infringement of Intellectual Property Rights*. Accessed 17th May 2017. URL: <http://aippi.org/committee/acquiescence-tolerance-to-infringement-of-intellectual-property-rights-2/>.

procedural bars to enforce a right against a particular infringer, but the actual patent remains. Also they do not create a legal right for the infringer. But of course, when someone loses the right to enforce a patent, clearly someone else implicitly gains a right to use it. However by seemingly focusing on the acquisition of rights by tolerance, the questionnaire caused confusion in some answers. Since Article 9(1) in the Trademark Directive 89/104 is implemented by all European countries, all European groups responded to trademarks. If a group only responded to trademarks and did not mention any other intellectual property right, this is marked as N/A.

The following table lists whether acquiescence confer an effect on patent rights in the 17 European countries that responded to the questionnaire.

Country	Effect?	Comment/Quotes
Belgium	No	Belgium has <i>rechtsverwerking</i> , but it was denounced as a stand-alone legal principle by the Cour de Cassation in 1990. However it remains active as a support for arguing abuse of rights.
Denmark	Yes	“However, regarding the enforcement of patents, designs and copyrights the general legal principle of tolerance applies taking into consideration the nature of the intellectual property rights. According to the general legal principle of tolerance, tolerance may have the effect that a claim for damages is refused or at least reduced, it may influence the Court to allow the infringer a phase-out-period, but it will generally not have the effect that the infringement is allowed to continue.”
Estonia	Yes	“All intellectual property rights can be damaged by the effect of tolerance of an infringement.”
Finland	Yes	“The Patents Act, and Copyright Act do not contain provisions to this effect, but certain restrictions have been introduced with regard to the infringer’s liability for damages in cases where the patent proprietor has not taken appropriate action, and the use of the infringing product or method has lasted for a long period of time.”
France	No	
Greece	N/A	There seems to be a statute of limitation but it is unclear if it starts from each separate infringement or from the first in a series.
Hungary	No	
Italy	N/A	Only responds to trademarks.

Latvia	No	
Luxembourg	No	
Netherlands	Yes	Netherlands has <i>rechtsverwerking</i> . “All intellectual property rights could be struck by the effect of forfeiture of rights by tolerance of infringement, as this concept has been based on a general legal principle.”
Norway	Yes	“A doctrine on the effects of acquiescence/tolerance of intellectual property rights infringements was established in older legal theory, and it is thought to apply in the case of trademarks, copyright and patents under special circumstances.”
Portugal	N/A	Only responds to trademarks.
Slovenia	No	Has a relative statute of limitation of three years for patents.
Spain	N/A	Only responds to trademarks. However the report notes that: “There are other legal institutions, such as the general prohibition of <i>venire contra proprium</i> , which may produce similar effects, but are not entirely equivalent.” Vaquer writes <sup>136</sup> that <i>Verwirkung</i> was transplanted from Germany to Spain and that there are a number of cases on “ <i>illoyale Verspätung</i> ”.
Sweden	N/A	Only responds to trademarks and the acquisition rights in patent law, of which there is none.
Switzerland	Yes	“Acquiescence has the effect that the rights owner cannot enforce his rights any more against the infringer (plea of acquiescence).”
United Kingdom	Yes	“Except for three statutory provisions for registered trade marks, the right of acquiescence has been established in various cases over a <sup>137</sup> long time period, as is usual in a common law country.”

<sup>137</sup> The UK report means estoppel by acquiescence, but uses the single word acquiescence, the phrase equitable doctrine of acquiescence and the phrase equitable principle of acquiescence, to refer to it.

## 12 Passivitetsverkan in Norwegian and Swedish law

### 12.1 Arnholm

Arnholm's book published in 1932,<sup>138</sup> described *all* the effects of passivity that he had observed in Norwegian law, a much larger scope than estoppel by acquiescence and laches. Arnholm discusses passivity as a reason for creation and termination of obligations as part of contract law (chapter 2 and 3) and monetary settlement of contracts (chapter 4), passivity when a delegate oversteps his authority (chapter 5), passivity as a cause for loss of right in physical property<sup>139</sup>, passivity in relation to intellectual property (chapter 7.1), inheritance, right to an inherited family name and fatherhood (remainder of chapter 7), the division of power between king and parliament and passivity in relation to customary law (chapter 8).

It is therefore not surprising that Arnholm decided that it was not possible to create a single rule governing the effect of passivity that encompassed all the use cases above.<sup>140</sup> Instead he chose to argue that there was a tendency that a right (despite being properly created and not expired) could be lost if the rightsholder did not take care of it. In conclusion, a *right preserving act* was necessary more often than one might think.<sup>141</sup>

Chapter 7.1 on intellectual property begins with a description compatible with estoppel by acquiescence, ie Arnholm considers detrimental reliance to be worthy of protection and accepts that a passive and silent patentee will create a valid representation. The duty to speak arises from unnecessary economic damage inflicted on the defendant.

[F]or the entire area of law referred to as “intellectual property law” or “intellectual production law”, one can see the same tendency that made an appearance in questions regarding intrusions in physical property rights, that the rightsholder risks losing his right unless he reacts in time. And the reason is the same: One inflicts a much larger loss on the other party if the complaint arrives when he has already adjusted himself in reliance on everything being in order.<sup>142</sup>

Arnholm then proceeds to give an example of estoppel by acquiescence that he considers an abuse of right: “P who keenly follows A, who develops his idea for a patent which A believes is new. P knows that A is spending a large amount of money on experiments; but only after a year will P give him a vital piece of information, that P could have just as well given him directly, that P's potential patent would infringe on A's existing patent. Should a court give relief to A?” Arnholm writes that “The answer would surely be a *unreserved no*”.<sup>143</sup>

For tort claims, Arnholm criticises the use of duty to mitigate damages to argue for effects of passivity, for sure the passivity of the injured can increase the damages, but “this

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<sup>138</sup> Arnholm (1932).

<sup>139</sup> This chapter contains Rt. 1902 s. 641 described *supra*. p. 8

<sup>140</sup> Nordell (2007), p. 414.

<sup>141</sup> Arnholm (1932), p. 114.

<sup>142</sup> *Ibid.*, p. 92.

<sup>143</sup> *Ibid.*, p. 93-94.

does not belong here”. What is interesting is if the claim for damages was raised within a reasonable time because it is not always the case that damages will be claimed. It is therefore important that the injurer can rest easy when the injured has been passive for a longer time.<sup>144</sup> Again this shows support for detrimental reliance as the protection worthy element of effects of passivity. This is further emphasised with examples from trademark law (unnecessary economic damage to the trademark infringer who has invested time and money) and copyright law (where it would be unreasonable if the rightsholder could unimpededly claim his right when he has been aware of an infringement).<sup>145</sup>

## 12.2 Knoph

In 1939 Knoph’s book on legal principles<sup>146</sup> was published posthumously and one chapter concerns the problem of non-use of right, in particular intellectual property.<sup>147</sup> Knoph begins by reducing the scope of Arnholm’s passivity analysis to non-use of obligations.<sup>148</sup>

Knoph states that with the help of Arnholm’s work on effects of passivity, it is now possible to refrain from using arguments based on silent acceptance and silent waiver and similar constructs. These constructs are hypothetical arguments and give no real solution to the underlying problem. Their use even prevents a more constructive analysis of the underlying legal problems.<sup>149</sup>

If silent waiver is used to create an effect of passivity, then the problem is that the (recently awoken) patentee, clearly is no longer waiving the patent right! The hypothetical solution then turns into a question on whether it would be unconscionable for the patentee to go back on his waiver.<sup>150</sup> Which is not much different from the question whether he should be allowed to enforce the patent in the first place.

Knoph eventually stated his principle of passivity:

The rightsholder must accept that the right is lost or weakened, since a good and careful man with a developed social responsibility would neither neglect to enforce the right in a timely manner, nor find it justifiable to require it enforced in a strict and unabridged way within the changed situation that time and circumstances have created.<sup>151</sup>

This principle does not explicitly mention detrimental reliance, but does mention prejudice to the defendant over time and behaviour in good faith. The principle is therefore quite similar to laches.

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<sup>144</sup> Arnholm (1932), p. 29.

<sup>145</sup> Ibid., p. 92-93.

<sup>146</sup> Knoph (1939).

<sup>147</sup> Ikke-bruk av rett, saerlig av åndsrettigheter. pp. 192-277

<sup>148</sup> Knoph (1939), p. 195.

<sup>149</sup> Ibid., p. 203.

<sup>150</sup> Cooke (2000), p. 66.

<sup>151</sup> Knoph (1939), p. 240.

Even so, Knoph considers detrimental reliance to further strengthen the argument for effects of passivity: “If the mind has adjusted to the new situation, and it has been created a *reliance on its continuous existence* in the future, then it is doubly objectionable that the rightsholder allows the situation to continue without intervention.”<sup>152</sup> Thus Knoph’s principle of passivity can be said to include both laches and estoppel by acquiescence.

It is therefore no surprise that Knoph agrees with Arnholm’s argument on abuse of a patent right, and adds that P should even pay damages! A’s loss of his investments is a damage caused by P’s acquiescence.<sup>153</sup>

Knoph points out that it is unlikely that a patent right will already be lost at the time when the patentee first becomes aware of the infringement. Such a pure effect of passivity, would require either that the passivity could for sure be interpreted as consent or a very long time had passed.<sup>154</sup> This is consistent with the ECJ’s statement that you only acquiesced if you knew (or should have known) and could act against the infringement.<sup>155</sup> Knoph writes that it is more acceptable to allow a loss of a trademark right due to passivity when the rightsholder was ignorant, because new interests are created quickly in trademarks but much less so in copyright and patents.

### 12.3 Cervin

Cervin then builds on Arnholm and Knoph, and argues that a good starting point for the discussion of effects of passivity are the rules for when a buyer becomes aware (or reasonably should have become aware) of a fault, and then has a particular time frame within which to bring a contract complaint (*reklamationsreglerna och reklamationsfrist*).<sup>156</sup>

In my opinion, this depends on the purpose of discussing effects of passivity. Yes, it is a good starting point, if the purpose is to explain all possible effects of passivity as applied by existing law that is now often codified with statutes. But in my opinion, it is not a good starting point if the purpose is to explain abuse of right, misuse of right or procedural laziness when guarding (or rather not guarding) one’s non-expired rights. Cervin admits that Knoph disagrees with his position.<sup>157</sup>

It would be a rather odd to say that a buyer who tries to complain after a time limit (either a fixed or a reasonable time limit) is abusing or misusing his right. The question is not: if he is timely in regard to a currently valid right, the correct question for a buyer’s complaint is: has the right expired already. Of course, the fundamental ideas of laches and estoppel by acquiescence do apply for the arguments to why a buyer has a limited time to complain, ie it would cause the seller prejudice if the buyer waits to

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<sup>152</sup> Knoph (1939), p. 242.

<sup>153</sup> Ibid., p. 267.

<sup>154</sup> Ibid., p. 267.

<sup>155</sup> See *supra*. p. 29

<sup>156</sup> Cervin (1960), p. 24.

<sup>157</sup> Ibid., p. 24 footnote 46.

long and the seller should be able to rely on an assumption that there is no problem if the buyer stays silent.

Let us study Cervin's proposed model for how to determine the preconditions for effects of passivity:<sup>158</sup>

- 1) There is an inconsistency between a real (observable) situation, and a legal situation.
- 2) One should then consider what this inconsistency mean: objective considerations includes *a passing of time and change of circumstances*, subjective considerations includes the *knowledge* [in the patentee] and *good faith* [in the infringer].

When the real and the legal situation are inconsistent and the patentee has *knowledge* of the of the infringement and the infringer is in *good faith*, then the *passing of time and change in circumstances* gives rise to effects of passivity.<sup>159</sup>

It is therefore reasonable to assume that laches can be considered to be included in Cervin's model. Also when Cervin refers to common law, he concludes that laches consists of passing of time and change of circumstances and good faith in the defendant.<sup>160</sup> Unfortunately Cervin does not reflect upon estoppel at all, whereas Knoph did.

It is therefore not clear how much importance Cervin places on detrimental reliance. Still Cervin gives an example of detrimental reliance. An infringer who is initially in bad faith, can after time has passed, be considered in good faith because he as reason to assume that the right will not be enforced, because the rightsholder has not enforced the right.<sup>161</sup>

However he refers to the shift of interest, where the interest of maintaining status quo shifts from the rightsholder to the infringer due to passivity and the passing of time. Sometimes this shift of interest is created by the detrimental reliance in the infringer and Cervin gives an example where a tenant clearly relies on the fact that he will not pay rent.<sup>162</sup> However Cervin can find little support for the shift of interest in Swedish case law, except for cases in *condictio-indebiti* and trademarks.<sup>163</sup>

Cervin's model is somewhat limited for the purpose of this essay, since it is his intent to cover the entire aspect of effects of passivity, almost as broadly as Arnholm. Also, it does not seem like he is interested in arguing why and when the model should be applied to situations outside of the cases he has found and studied. Cervin writes: "With this starting point it is completely clear that an investigation cannot state in which areas of law effects of passivity should be applied."<sup>164</sup>

I must also mention Karlgren who discusses how contracts can be formed due to the

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<sup>158</sup> Nordell (2007), p. 414.

<sup>159</sup> Cervin (1960), p. 166.

<sup>160</sup> Ibid., p. 89.

<sup>161</sup> Ibid., p. 132.

<sup>162</sup> Cervin, Ulf (1972). *Passivitetsspörsmålet i senare nordisk praxis och doktrin*. P.A. Nordstedt & söners förlag, p. 92.

<sup>163</sup> Ibid., p. 92.

<sup>164</sup> Ibid., p. 8.

effects of passivity.<sup>165</sup> Unfortunately he does not give a specific model or principle, and he believes that general clauses or principles on misleading, otherwise improper acts or acts contrary to good faith, give little guidance on how to deal with the problem of silent parties.<sup>166</sup> I have therefore not studied his selected case law to determine if there are cases of detrimental reliance or material prejudice.

*(ii) Are estoppel by acquiescence and laches included in passivitetsverkan?*

Estoppel by acquiescence and laches are clearly included in Knoph's principle on the effects of passivity for non-use of obligations and in particular intellectual property. Estoppel by acquiescence is clearly included in Arnholm's argument for effects of passivity in intellectual property. Laches is clearly included in Cervin's model for the effects of passivity. Does this mean that both acquiescence and laches are included in passivitetsverkan?

If we only consider Knoph, then yes. Knoph also specifically limits his analysis to the non-use of obligations for intellectual property which is consistent with the question asked in this essay.

We can therefore let Knoph take the lead and follow his definition on the effects of passivity for the purpose of patent infringement. Therefore effects of passivity does include estoppel by acquiescence and laches.

## 13 Swedish law

### 13.1 Thule v. Montblanc (2013)

In Thule vs Montblanc (2013) the contested patent assigned to Thule related to screw fasteners for luggage carrier assemblies to be mounted on car roofs. The primary inventive idea of the patent was to require two actions to attached the fastener. The first action was to screw the thread at the end of a bolt into the threaded aperture in the car roof. The second action was to turn a nut, that was mounted in the middle of the bolt. Only when the nut was turned, was a significant pressure built up between the carrier assembly and the car roof. Single action bolts did work, but it was more difficult to guarantee that enough bolt threads engaged with the threaded aperture before pressure built up. With a double action fastener, all possible threads engaged in the threaded aperture first, then pressure was applied using the nut. The patent was granted in 1994 and Thule sued Montblanc for patent infringement in 2010.

Thule and Montblanc are competitors and Montblanc introduced its own version of the double action fastener in 1996. The sales increased steadily from then 1997 to 2010 and Montblanc argued that Thule at least should have been aware of their sales since year 2000 due to the number of fasteners sold.<sup>167</sup>

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<sup>165</sup> Karlgren (1965).

<sup>166</sup> Ibid., p. 9.

<sup>167</sup> Thule v. Mont Blanc T16320-10/T20502-10 Stockholms Tingsrätt (2013), p. 44.



Thule on the other hand argued that they first discovered the infringement in 2004 when they noticed a loss of orders from one of their larger customers. Thule claimed that they did not act on the infringement because they assumed new orders would go to them because they were the patentee and because of their strong trademark and because of their good relation with the customer.<sup>168</sup> Thule then waited until march 2010 to advise Montblanc about the infringement and finally sued Montblanc in december 2010.

Montblanc argued that damages should be adjusted because of the passivity of the patentee. The court however concluded that apart from the absolute statutory limit on five years of back damages in 58 § Patentlagen, there were no other regulations forcing a patentee to act within a certain time after the infringement becomes known:

58 § Patentlagen

Civil action claiming compensation for patent infringement can only refer to damages during the last five years since the suit commenced. If the civil action is not commenced within this time period, then the right to compensation is lost.

This statute of limitation starts counting from the time when the economic damage is incurred. Often the damage is incurred at the same point in time as the infringement, but economic damage can occur before the infringement (for example through a sales contract of the soon to be produced infringing product) or after the infringement, if the sale happens after production.<sup>169</sup> For the present discussion, assume that the damage occurs at the same time as the infringement.

Nor did the court agree that the plaintiff had an obligation to minimise the damages according to the general principles of tort law.<sup>170</sup>

The court made the argument:

From the legislative history of the patent law it is apparent that it was investigated whether one should, in addition to the aforementioned absolute prescription of five years, *establish* a relative prescription of three years, from the date when the patentee became aware of the infringement. The absolute prescription of five years was considered to be so short that the interest in having a patentee within reasonable time bring a discovered patent infringement to legal trial, could still be considered as being satisfied (prop. 1966:40 s. 208)..<sup>171</sup>

In consideration of the specific rule for prescription in the patent law and the rationale behind this, Tingsrätten is of the opinion that there is no support for adding further requirements on a patentee to act within a certain time from the date when the patentee becomes aware of the infringement, with the effect that the patentee otherwise loses her right to demand damages against the infringer.<sup>172</sup>

By itself, this argument might look convincing, however I have emphasised the word *establish* in the quotation. It gives the impression that the government had considered to

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<sup>168</sup> Thule v. Mont Blanc (2013), p. 40.

<sup>169</sup> See *infra*. p. 45

<sup>170</sup> Thule v. Mont Blanc (2013), p. 53.

<sup>171</sup> *Ibid.*, p. 52.

<sup>172</sup> *Ibid.*, p. 53.

establish a relative statutory limit on the time from awareness of infringement to legal action, but decided against it. This is not the case, Sweden already had such a statutory law! It was introduced in 1944 and removed in 1967.<sup>173</sup> It read:

Civil action shall be initiated within three years from when the patentee has knowledge of the infringement and the person therefore responsible, and at the latest within five years from the actual infringement. If this is neglected then the right to compensation is lost.<sup>174</sup>

This was a statute of limitation containing both a relative prescription and an absolute prescription. Clearly the removal of the relative prescription creates even more support for the court's argument, or does it?

### **13.2 Support for acquiescence, laches and abuse of right in Swedish patent law**

When the relative statutory limit was introduced in 1944, the argument given by the legislature was this:

A shorter prescription time for a compensation action must be desirable, in particular considering that according to the proposal compensation can be awarded even due to infringement in good faith. If the compensation action is not commenced, until the infringement has already continued over a longer period of time, then the defendant is placed in a difficult situation. In particular it ought to be prevented, that a patentee purposefully delays the compensation action to demand a so much larger award.<sup>175</sup>

Aha! In 1942, the Swedish legislature did anticipate an abuse of patent rights by acquiescing and declared it very much undesirable! The legislature also anticipated laches since the infringer would be prejudiced (placed in a difficult situation) if allowed to infringe, continuously, for a longer period of time.

This argument was made even stronger 24 years later in the legal investigation on Scandinavian patent law, that served as the foundation for the new patent law in 1967:

When the plaintiff is aware of the infringement then it is in the public interest, that he does not inconvenience competitors by passively waiting until the damages have accumulated to a significant amount. Likewise, a threat of damages through a warning letter regarding patent infringement, ought not be kept unresolved for a long time, as through this other businesses might be persuaded to abstain from business, which in truth not infringe on the patent. patentees and other plaintiffs,

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<sup>173</sup> Kungl. Maj:ts proposition nr 40 (1966). till riksdagen med förslag till patentlag m.m.

<sup>174</sup> Kungl. Maj:ts proposition nr 176 (1944). till riksdagen med förslag till ändring i patentförordningen, p. 5.

<sup>175</sup> Statens Offentliga Utredningar nr 58 (1942). Patentutredningens betänkande med förslag till lag om förändring i vissa delar av förordningen den 16 maj 1884 angående patent, p. 39-40 and almost identically copied into Kungl. Maj:ts proposition nr 176 (1944), p. 58

who do not want to tolerate a certain business, ought therefore to be prepared to in reasonable time bring the cause to legal trial. This comment holds true independently of the intent of the infringer.<sup>176</sup>

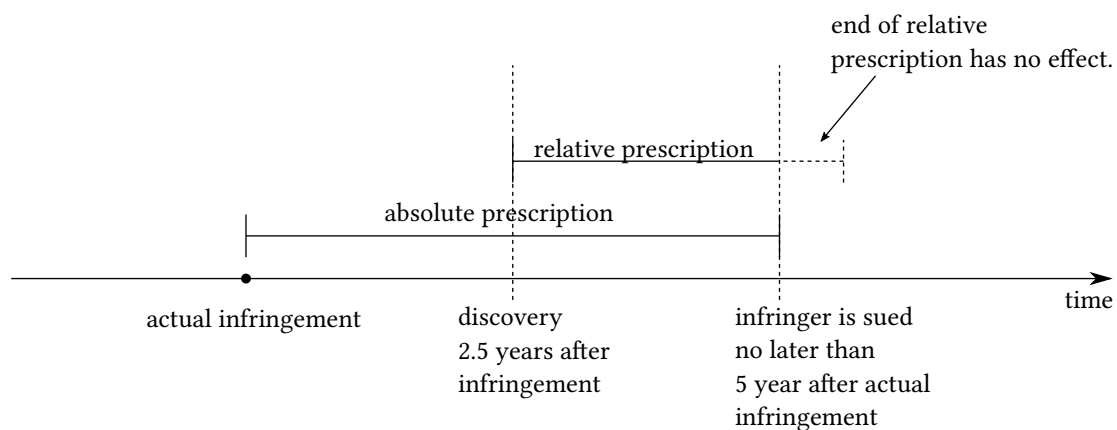
Again, why was the relative prescription then removed? It happened in two steps. In the first step, the investigation concludes that there is little need to have relative prescription in addition to absolute prescription.

The committees have considered whether one should, in addition to the absolute time of prescription, keep a relative prescription like it is implemented in current law. With an absolute time of prescription of the construction that is now proposed, it seems like there is little need for an additional relative time of prescription.<sup>177</sup>

On the next page, the investigation gave the following explanation:

If the relative time for prescription is set, as in the current Finnish and Swedish patent laws, to 3 years then it would not appear to give any significant advantage to the obligor in relation to the absolute five year rule. Provable knowledge about the damage ought usually to be presumed to occur after the actual damage. The relative time for prescription should therefore rarely be significantly shorter than the absolute.<sup>178</sup>

The investigation points out that the knowledge of the damage will occur after the damage has happened and therefore the absolute prescription time limit has already started running. Unless the damage is quickly discovered in less than 2 years, the absolute prescription time will therefore cut damages after five years and the remaining relative prescription time will be moot.



Since discovery cannot happen before the actual damage happens. The solution is to either instigate a rule that the knowledge of continuous infringement over a period of time will bar any future legal action over the patent, similar to the trademark acquiescence rule; or apply a general principle of law, such as equitable estoppel or laches. A

<sup>176</sup> Betenkning angående nordisk patentlovgivning / avgitt av samarbetende danske, finske, norske og svenske komitéer, Nordisk Utredningsserie 1963:6 (1963), p. 342.

<sup>177</sup> Ibid., p. 341.

<sup>178</sup> Ibid., p. 342.

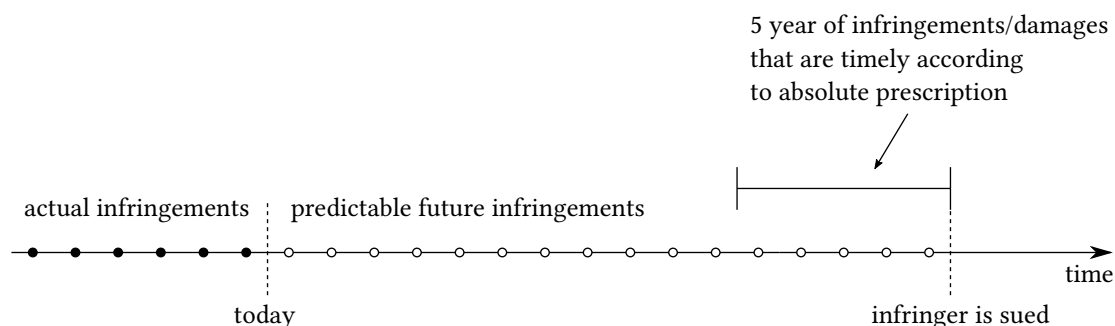
proper statute to bar predictable continuous infringements was not considered by the investigation because they assumed that “knowledge about the damage ought usually to be presumed to occur after the actual damage”.

In the second step, the investigation then proceeds to discuss<sup>179</sup> the different possible prescription time periods. The unmodified standard 10 year statute for any obligation. The 5 year absolute statute for back damages, the three year relative statute for suing in Swedish and Finnish law, and the 1 year relative statute for suing in Danish law.

The only time limit for a relative prescription that would make a significant difference in relation to the 5 year absolute prescription is the 1 year relative limit. However 1 year is far too short to deal with the complexities of patent infringement. In the end, the investigation concludes that 5 years is a reasonable time for both absolute and relative purposes and a single rule makes the law simpler.

Since infringement could happen in good faith, the legislature pointed out that the standard prescription time of 10 years is not strict enough, a shorter prescription time must be desirable. Thule made the argument that 58 § was *lex specialis* and any argument based on general prescription therefore was moot.<sup>180</sup> But since the legislature intended the prescription time to be shorter and stricter, then it would not be acceptable to remove a general principle of prescription if this would make the prescription less strict.

Let us now re-iterate the conclusion from *SCA v. First Quality*.<sup>181</sup> A single absolute prescription rule does not prevent the patentee from acquiescing when the infringements are predictable and continuous.



The patentee knows that the infringer produced a thousand infringing load fasteners every day for the last year, it will then come as no surprise the him, that the infringer will produce another thousand infringing items the next day! Thus the discovery happens instantly when the damage happens. For a patentee that has no urgent business reason to stop the infringement then there is no reason to intervene as long as the infringer increases the production and makes more and more money. *Thus completely contrary to legislative intent, such a patentee will only act when the infringer is about to infringe less or completely stop infringing!*

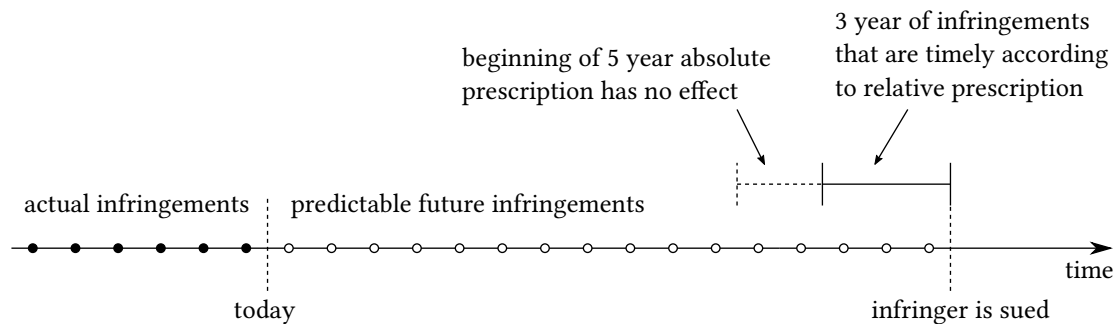
If both a relative and an absolute prescription rule would have been maintained in

<sup>179</sup> Betenkning angående nordisk patentlovgivning / avgitt av samarbetende danske, finske, norske og svenske komitéer, Nordisk Utredningsserie 1963:6 (1963), p. 341.

<sup>180</sup> Docket 16320-10 Aktilaga 126 p. 3

<sup>181</sup> See *supra*. p. 24

Swedish law, then this would not have made any difference, except making the resulting prescription time limit to be the shortest time limit of the two.



(iii) *Does the Swedish statute of limitation prevent abuse?*

The court in *Thule v. Montblanc*, was wrong to conclude that the removal of the relative statute had a meaning that meant permission for a patentee to acquiesce and otherwise delay. On the contrary, the relative prescription was removed because it had no meaning. The statute of limitation therefore neither condone abuse nor prevent abuse since the statute still contains Judge Bryer's gap.

The legislature's intent is clear, therefore we must fill the gap in the statute with a general principle of law or general clause on unconscionability or good faith.

### 13.3 DeLaval v. Lely (2011)

We must now reconsider the fact that 58 § counts from the time of the damage, which is not necessarily the time of the infringement. For the US statute of limitation (as well as the earlier Swedish statute) each infringement starts a new limitation period. But did we prematurely jump to the conclusion that the current Swedish statute of limitation start a new limitation period for each damage?

This particular question was dealt with in *DeLaval v. Lely*.<sup>182</sup> and the Supreme court concluded that indeed a new limitation period is started for each new damage. However infringements that do not cause further damage do *not* start a new limitation period.

In this case, the damage was calculated based on the sales contracts between Lely and its customers. When the sales contract was signed, the infringing products had not yet been produced nor sent to the customer. DeLaval argued that the subsequent infringements should start new limitation periods to avoid being barred. But since DeLaval did not give evidence to why the subsequent infringements caused more damage than the sales contract, the Supreme court concluded that a majority of infringements (despite being within the 5 year statutory limit) were barred because the sales contract was signed more than 5 years before the suit was filed.

The infringements that were subsumed into the first damage could not start new limitation periods. This hints at another possible way to close Judge Bryer's gap with a

<sup>182</sup> *DeLaval v. Lely*. NJA s. 270 (2011).

relative statute of limitation that subsumes further infringements by the same opposing party into the first infringement (or damage).

Unfortunately it is not a suitable way forward since a patentee will avoid arguing that the damage for a million infringing items came from the one single sale to a distributor. Instead the patentee will argue that every sale to each end customer, which is unique per item, caused the damage. Thus starting a new limitations period per item anyway.

The wording of the statute is therefore unfortunate because the statute of limitation depends on which kind of damage is asserted. Hellberg writes that there is a large uncertainty how to establish the point in time to start the limitations period for damage of goodwill and for claims to the infringer's profit.<sup>183</sup>

Hellberg also argues that it is a problem that a patentee does not have to file suit immediately. He gives an example where the patentee can wait up to 5 years before filing suit after an infringement/damage and when the patentee has no urgent business need to act (ie there is little actual damage to his business) but the infringer makes more and more profit, then it is more profitable for the patentee to delay.<sup>184</sup>

The reader of this essay now knows, that the situation can be even worse than what Hellberg describes. If the infringements are predictable and continuous, then the patentee can delay much longer than 5 years.

Hellberg therefore proposes a new statute of limitation that essentially is identical to the statute from 1944 with both a relative prescription of three years from the discovery of the infringement (not the damage) and an absolute prescription of five years from the actual infringement (not the damage).

But as the reader now also knows, such a relative prescription only makes a difference if the infringement is detected in less than 2 years. If not, then the absolute prescription will be the limit anyway. Such a relative prescription cannot close Judge Bryer's gap, ie prevent a patentee from delaying when the infringements are predictable and continuous.

### **13.4 How to apply acquiescence and laches in Swedish law**

Common law jurisdictions have estoppel by acquiescence and laches as an integral part of their law. For civil law jurisdictions, we have seen that Germany and Switzerland rely on a general clause, that require behaviour in good faith of the obligor and the obligee. BGB § 242 is a legal anchor to argue, but in reality the actual wording of BGB § 242 is irrelevant, its entire applicability has been constructed in case law and doctrine, much like estoppel by acquiescence and laches.

In the beginning of the 20th century, the Swedish legislature considered if such a general clause of good faith should be introduced in the law of contracts. The conclusion was however that such a statute ought not to be legislated, instead the decision making

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<sup>183</sup> Hellberg (2014), p. 321.

<sup>184</sup> Ibid., p. 328.

power was handed to the courts in each separate case.<sup>185</sup> Statutes were however enacted that could invalidate contracts created through the threat of violence, milder threats or betrayal, as well as (33 § Avtalslagen) on the invalidity of contracts that are entered in bad faith (ie a party realises that the other party lacks the knowledge, skill or mental health to understand the contract).

In 1975 a new general clause on the invalidity of unreasonable<sup>186</sup> contract terms was introduced in Swedish law. The clause (36 § Avtalslagen) is phrased towards contract terms, but it can be applied to terms in any legal act (36 § 3 st) within property law and it is not possible to contractually agree that it should not apply.<sup>187</sup> A term that is unreasonable can be set aside or adjusted. If the unreasonable term is essential to the entire legal act, then the legal act can be set aside in its entirety. 33 § was deemed to be subsumed by 36 § but was still allowed to remain in law.

The investigation preparing the general clause on unreasonable terms, was not instructed to decide if the application of other law could be adjusted using the general clause. However it did not rule out the possibility of such adjustments and referred to the rule of 'True und Glauben' BGB § 242 and commented that it has for a long time been available to be invoked against the wording of particular statutes.<sup>188</sup> On the other hand, Håstad writes that 36 § is the Swedish equivalent to BGB § 242, but it cannot be used to adjust other law and needs to be combined with other legal solutions to give the same range of effect as BGB § 242.<sup>189</sup>

If an infringer is forced to settle with a patentee, bowing to a seemingly valid but previously to him unknown patent, then clearly the terms of the settlement contract can be adjusted or set aside completely by 36 § Avtalslagen.<sup>190</sup> Assuming of course, that the court agrees that the terms were unreasonable given the patentee's passivity or acquiescence. It should now be clear that the Swedish statute of limitation for patent infringement does *not* give permission for a patentee to wait. In other words, the statute still contains Judge Bryer's gap. The gap must and can (since the current statute does not forbid it) be filled with the intent of the legislature. This intent is clearly stated, a patentee should not acquiesce or otherwise delay. A court should therefore be able to use passivitetsverkan to fill the gap to adjust a settlement contract using 36 § in accordance with the legislature's intent.

If the infringer is not willing to sign a settlement contract because the terms are unreasonable and the patentee then sues, must then the court enforce the unreasonable terms, simply because no settlement was yet agreed upon? In my opinion, it would seem proper for the court to use 36 § to adjust the enforced terms, that would have been regulated by a settlement contract (damages, royalties, profit and future use of the

<sup>185</sup> Statens Offentliga Utredningar nr 83 (1974), p. 42.

<sup>186</sup> The Swedish word used is *oskäligen* which has a meaning closer to *unreasonable* than *unconscionable*. The legislature also considered *obillig*=*unfair* and *otillbörlig*=*improper*.

<sup>187</sup> Statens Offentliga Utredningar nr 83 (1974), p. 16.

<sup>188</sup> *Ibid.*, p. 142.

<sup>189</sup> Håstad, Torgny (2002). "En europeisk civillag och den nordiska kontraktsrätten". In: *Förhandlingarna vid det 36 nordiska juristmötet i Helsingfors 15-17. augusti 2002. Del 1*. p. 342-343 footnote 3.

<sup>190</sup> Regeringens proposition 1975/76: 81 (1975). med förslag om ändring i lagen (1915:218) om avtal och andra rättshandlingar på förmågenhetensrättens område, m.m. p. 19.

patented invention) to take into account the unreasonability of the patentee's request based on passivitetsverkan.

The investigation on 36 §, did after all, consider that an abuse of a right could be a reason for adjusting or setting aside terms in legal acts. Even if there sometimes are difficult demarcation problems for what is an abuse or not, this should not rule out adjustment in clear cases.<sup>191</sup>

## 14 Conclusion

a) Sweden is required to safeguard against abuse of intellectual property rights, both through IPRED and TRIPS. (See section 1.2)

b) Common law defines acquiescence based on detrimental reliance that leads to a violation of good faith. (See section 3 and 4) German law defines Verwirkung based on good faith and includes detrimental reliance. (See section 7) The two approaches are merged in DCFR which declare that they can be used to forfeit a right. (See section 8)

Sweden is not bound by DCFR, but it indicates that acquiescence and Verwirkung are elements of a common European legal principle that can influence Swedish law through the continuous harmonisation in intellectual property law. (See section 1.3) This is further emphasised by the earlier statement by General Advocate Warner that the effect of detrimental reliance (acquiescence) is a general principle that exists in all member states. (See section 8)

c) Sweden has incorporated a statute of limitation implementing acquiescence for trademarks both through the Trademark directive and through national legislation before the directive was implemented. (See section 9) But a statute of limitations for trademark infringement is not strictly necessary, a general principle could be applied as well (like currently in the US). Its existence however, is an indication of a recurring need to deal with acquiescence.

d) There is a gap in the Swedish statute of limitations that permit an abuse of patent rights when the infringements are predictable and continuous. (See section 13.2)

e) The Swedish legal doctrine of passivitetsverkan includes acquiescence and laches. (See section 12)

f) Swedish legislature explicitly states that acquiescence and laches can be used for abuse of rights and that this should not be allowed. (See section 13.2)

g) Several other European countries can bar an acquiescing patentee from exercising his right. (See section 11)

Thus Swedish courts must (a) and ought to (b) apply passivitetsverkan to prevent passive patentees from exercising their rights when the passivity becomes estoppel by acquiescence or laches. Passivitetsverkan is known in Swedish doctrine (e) and Swedish law

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<sup>191</sup> Statens Offentliga Utredningar nr 83 (1974), p. 155.



already includes acquiescence in trademarks (c). If Swedish courts would not apply passivitetsverkan, then the gap (d) would cause the application of the law to go against legislative intent (f)

If Swedish courts would start applying passivitetsverkan, then Sweden would join a large group of European countries that already allow acquiescence to have effect on patent rights (g).

Even though cases of acquiescence and laches in patent infringement are rare, when they occur, they can concern considerable amounts of money and their abuse of the patent system goes against what is considered morally acceptable by society.

In some people, the word patent instill a feeling of technical perfection and ultimate power, it is therefore not surprising that patents are sometimes assumed to be an unsailable perfect legal right that can be used completely as the patentee wishes. This is not true.

In reality the patent prosecution process is a negotiation process between the applicant and the patent office where the resulting claims are an agreement of sorts with a scope bounded by the skill and stamina of the examiner. The negotiation process merely continues when the granted patent is actually used for business, in fact the negotiation process for business use can be started even before the patent is actually granted. Thus a patent is a tool for negotiations, not a tool of absolute power.

Patents are just *a* right, they can and should be dealt with as other rights, ie they can be lost due to behaviour against good faith.

## 15 Translations

### Bürgerliches Gesetzbuch (BGB) Book 2 Law of obligations

#### § 242 Leistung nach Treu und Glauben

Der Schuldner ist verpflichtet, die Leistung so zu bewirken, wie Treu und Glauben mit Rücksicht auf die Verkehrssitte es erfordern.

#### § 242 Performance in good faith

An obligor has a duty to perform according to the requirements of good faith, taking customary practice into consideration.

### Schweizerisches Zivilgesetzbuch (ZGB) Book 2 Law of obligations

#### Art. 2 B. Inhalt der Rechtsverhältnisse / I. Handeln nach Treu und Glauben

1 Jedermann hat in der Ausübung seiner Rechte und in der Erfüllung seiner Pflichten nach Treu und Glauben zu handeln.

2 Der offenbare Missbrauch eines Rechtes findet keinen Rechtsschutz.

#### Art. 2 B. Scope and limits of legal relationships / I. Acting in good faith

1 Every person must act in good faith in the exercise of his or her rights and in the performance of his or her obligations.

2 The manifest abuse of a right is not protected by law.

### Arnholm, Carl Jacob (1932). *Passivitetsvirkninger- et bidrag till laeren om de rettsstiftende kjensgjerninger*. Johan Grundt Tanums forlag, p. 92

Men for hele det område hvor man taler om “åndelig eiendomsrett” eller “årsproduksjonsrett”, kan man dessuten spore den samme tendens som gjorde sig gjeldende når det var spørsmål om inngrep i de materielle rettigheter, att rettighetshavaren risikerer rettstap hvis han ikke reagerer i tide. Og begrunnelsen er den samme: Man utsetter den annen part for meget større tap om påtalen først finner sted når han har innrettet sig i tillit til at alt var i orden.

But for the entire area of law referred to as “intellectual property law” or “intellectual production law”, one can see the same tendency that made an appearance in questions regarding intrusions in physical property rights, that the rightsholder risks losing his right unless he reacts in time. And the reason is the same: One inflicts a much larger loss on the other party if the complaint arrives when he has already adjusted himself in reliance on everything being in order.

Knoph, Ragnar (1939). *Rettslige standarder, særlig grunnlovens §97*. Oslo: Grøndahl & Søn, p. 240

Rettighetshavaren må finne sig i at retten tapes eller svekkes, dersom en god og aktsom mann med utviklet sosial ansvar kjensle ikke vilde undlatt å bruke retten i tide, eller ikke finne det forsvarlig å kreve den gjennomført i streng og uavkortet skikkelse under den forandrede situasjon som tiden og forholdene har lagt til rette.

The rightsholder must accept that the right is lost or weakened, since a good and careful man with a developed social responsibility would neither neglect to enforce the right in a timely manner, nor find it justifiable to require it enforced in a strict and unabridged way within the changed situation that time and circumstances have created.

ibid., p. 242

Har sinnene innstillet sig på den nye tilstand, og der er skapt *tillit til at den skal bestå* i fremtiden, er det dobbelt betenkelig at rettighetshavaren lar forholdet drive uten å gripe inn.

If the mind has adjusted to the new situation, and it has been created a *reliance on its continuous existence* in the future, then it is doubly objectionable that the rightsholder allows the situation to continue without intervention.

Proposition 1944:176 p. 5

Talan om ersättning skall väckas inom tre år från det patenthavaren fått vetskap om intrånget och den därför ansvarige samt senast inom fem år från det intrånget ägde rum. Försummas det, vare rätten till ersättning förlorad.

Civil action shall be initiated within three years from when the patentee has knowledge of the infringement and the person therefore responsible, and at the latest within five years from the actual infringement. If this is neglected then the right to compensation is lost.

Patentlagen 1967:837 58§ 3st

Talan om ersättning för patentintrång får endast avse skada under de fem senaste åren innan talan väcktes. Om talan inte förs inom den tiden, är rätten till ersättning förlorad. Lag (2009:111).

Civil action claiming compensation for patent infringement can only refer to damages during the last five years since the suit commenced. If the civil action is not commenced within this time period, then the right to compensation is lost.

En kortare preskriptionstid för ersättnings-talan får anses önskvärd här, ej minst med tanke på att enligt förslaget ersättning skall kunna utgå även vid intrång i god tro. Om ersättningstalan icke väckes, förrän intrånget redan fortgått under en längre tid, kan ju nämligen svaranden komma i en svår ställning. *Framför allt bör förhindras, att en patenthavare avsiktligt dröjer med att anställa talan för att kunna utkräva så mycket större skadestånd.*

A shorter prescription time for a compensation action must be desirable, in particular considering that according to the proposal compensation can be awarded even due to infringement in good faith. If the compensation action is not commenced, until the infringement has already continued over a longer period of time, then the defendant is placed in a difficult situation. *In particular it ought to be prevented, that a patentee purposefully delays the compensation action to demand a so much larger award.*

När målsäganden har kännedom om intrånget utgör det ett allmänt intresse, att han icke vållar konkurrenser olägenheter genom att passivt avvakta tills skadeståndskravet byggs upp till betydande belopp. Likaså bör icke ett skadeståndshot genom varning om patentskydd kunna hållas svävande en längre tid, härigenom näringsidkare kan förmås avhålla sig från verksamhet, som i själva verket går fri från patentet. Patenthavaren och andra målsägande, som icke vill tolerera viss verksamhet, bör få vara beredda att inom rimlig tid bringa saken under rättlig prövning. Denna synpunkt gäller oberoende av det subjektiva rekvisitet hos den som begått intrånget.

When the plaintiff is aware of the infringement then it is in the public interest, that he does not inconvenience competitors by passively waiting until the damages have accumulated to a significant amount. Likewise, a threat of damages through a warning letter regarding patent infringement, ought not be kept unresolved for a long time, as through this other businesses might be persuaded to abstain from business, which in truth not infringe on the patent. patentees and other plaintiffs, who do not want to tolerate a certain business, ought therefore to be prepared to in reasonable time bring the cause to legal trial. This comment holds true independently of the intent of the infringer.

I samband med patentintrång måste emellertid beaktas att intrånget mestadels icke är inskränkt till en enstaka handling, utan är av fortgående karaktär. [...] Preskriptionstiden bör därför räknas successivt från varje tidpunkt under vilket intrånget fortgår. [...]

Kommittéerna har övervägt om vid sidan av den absoluta preskriptionstiden också en relativ preskriptionstid borde bibehållas i en överensstämmelse med vad som gäller i nuvarande patentlagstiftning. Med en absolut preskriptionstid av den konstruktion som nu föreslås synes emellertid behovet av en vid sidan av löpande relativ preskriptionstid i praktiken bli ringa.

Regarding patent infringement it must be considered that the infringement mostly is not limited to a single event but is of a continuous character. [...] The time for prescription should therefore count successively from each point in time during which the infringement continues. [...]

The committees have considered whether one should, in addition to the absolute time of prescription, keep a relative prescription like it is implemented in current law. With an absolute time of prescription of the construction that is now proposed, it seems like there is little need for an additional relative time of prescription.

Sättes den relativa preskriptionstiden som i nuvarande finska och svenska patentlagar till 3 år synes den heller icke för den ersättningsskyldige erbjuda någon mer väsentligt fördel i förhållande till den absoluta femårsregeln. Bevislig kännedom om skadan torde vanligen få förutsättas inträffa senare än själva skadan. Den relativa preskriptionstiden skulle då mer sällan bli väsentligt kortare än den absoluta.

If the relative time for prescription is set, as in the current Finnish and Swedish patent laws, to 3 years then it would not appear to give any significant advantage to the obligor in relation to the absolute five year rule. Provable knowledge about the damage ought usually to be presumed to occur after the actual damage. The relative time for prescription should therefore rarely be significantly shorter than the absolute.

Det måste emellertid beaktas att intrånget mestadels inte är inskränkt till en enstaka handling utan är av fortgående karaktär. I sådana fall bör preskriptionstiden inte räknas från det skadegörande beteendets upphörande utan successivt från varje tidpunkt under vilken intrånget fortgår. Med hänsyn härtill föreslås i tredje stycket stadgande att talan om ersättning för patentintrång endast må avse skada under de senaste fem åren innan talan väcktes och att för skada, varom talan ej försts inom tid som nu sagts, rätten till ersättning är förlorad.

De finska och svenska kommittéerna har övervägt huruvida man vid sidan av den angivna absoluta preskriptionstiden av fem år bör, såsom enligt gällande finsk och svensk lag, uppställa en relativ preskriptionstid av tre år från det patenthavaren fått vetskap om intrånget. Regeln är motiverad av det allmänna intresset att patenthavare, som anser viss verksamhet utgöra patentintrång, inom rimlig tid bringar saken under rättslig prövning. Kommittéerna answer emellertid att den absoluta preskriptionstiden på fem år är så pass kort att detta intresse ändå kan anses tillgodosett.

It must be taken into account that the infringement mostly is not limited to a single action but is of a continuous character. In such cases the time for prescription should not be counted from the ending of the infringing behaviour but instead successively from each point in time during which infringement takes place. In consideration of this it is suggested that in the third paragraph that compensation action for infringement can only cover damages during the last five years before the compensation action was brought forward and that for damage, for which compensation action has not been brought forward in time, the right to compensation is lost.

The Finnish and Swedish committees have considered whether one on the side of the given absolute time of prescription of five years should, as in current Finnish and Swedish law, establish a relative time of prescription of three years from the time when the patentee becomes aware of the infringement. The rule is motivated by the public interest that patentees, who consider certain activities to be patent infringement, within reasonable time brings the cause to legal trial. The committees, however, considers the absolute prescription time of five years to be so short that this public interest still can be considered satisfied.

Thule v. Montblanc (2013)

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Av förarbetena till patentlagen framgår att det under utredningens gång övervägdes om man vid sidan av den nämnda absoluta preskriptionstiden om fem år borde *uppställa* en relativ preskriptionstid av tre år från det att patenthavaren fått vetskap om intrånget. Den absoluta preskriptionstiden på fem år ansågs dock vara så kort att intresset av att en patenthavare inom rimlig tid bringar ett upptäckt patentintrång under rättslig prövning ändå kunde anses tillgodosett.

From the legislative history of the patent law it is apparent that it was investigated whether one should, in addition to the aforementioned absolute prescription of five years, *establish* a relative prescription of three years, from the date when the patentee became aware of the infringement. The absolute prescription of five years was considered to be so short that the interest in having a patentee within reasonable time bring a discovered patent infringement to legal trial, could still be considered as being satisfied (prop. 1966:40 p. 208).

Thule v. Montblanc (2013)

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Med hänsyn till patentlagens särskilda preskriptionsregel och de syften som ligger bakom denna anser tingsrätten att det *inte finns något utrymme att ställa upp ytterligare krav på att en patenthavare ska agera inom viss tid från det att patenthavaren fått kännedom om ett intrång*, med verkan att patenthavaren annars förlorar sin rätt att kräva skadestånd gentemot intrångsgöraren.

In consideration of the specific rule for prescription in the patent law and the rationale behind this, Tingsrätten is of the opinion that *there is no support for adding further requirements on a patentee to act within a certain time from the date when the patentee becomes aware of the infringement*, with the effect that the patentee otherwise loses her right to demand damages against the infringer.

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