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FRAND goes global

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FRAND litigation is international in nature; it is rarely restricted to the United States. Both rights holders and accused infringers must therefore think about FRAND issues globally, including the disparate ways in which FRAND issues are adjudicated in different global jurisdictions.

The Supreme Court of the United Kingdom, for example, held in 2020 that if an SEP holder sues an accused infringer in the United Kingdom, a court in that country can force the defendant to choose between taking a global FRAND licence to the asserted patents or face an injunction barring infringing devices from being sold in the United Kingdom (see *Unwired Planet v Huawei* (2020) UKSC 37, 26 August 2020). Courts in China are willing to set global FRAND rates in deciding infringement lawsuits, even where the SEP holder objects (see Guangdong High Court, Working Guidelines on the Trial of Standard Essential Patent Dispute Cases (Trial), Article 166 (2018); *Guangdong OPPO Mobile Telecommunications Corp Ltd v Sharp Corp* (Guangdong Higher People's Court, 2020)).

Regardless, the US market is large, and its courts are willing to retain jurisdiction over cases despite simultaneous related litigation in other countries. Moreover, courts in the United States can set global FRAND rates, at least when the parties to a US litigation consent to rate setting (see, eg, *Microsoft Corp v Motorola Inc*, (9th Cir 2015); *In re Innovatio IP Ventures LLC Patent Litig*, MDL No 2303, 2013 WL 5593609 (ND Ill, 3 October 2013)). SEP/FRAND litigation, therefore, is often filed in the United States in addition to, or instead of, in other jurisdictions. For cases filed in the United States, a number of factors peculiar to US litigation should be kept in mind.

Jury's role in US SEP litigation

One key distinction between the United States and other jurisdictions where FRAND rates may be set is the Seventh Amendment to the US Constitution. The Seventh Amendment provides that "in Suits at common law... the right of trial by jury shall be preserved". Courts in the United States have consistently interpreted the Seventh Amendment to require juries, not judges, to decide certain factual issues. Juries in US courts are composed of members of the general public, who often possess no legal or technical background or expertise.

In 2020, the US Court of Appeals for the Federal Circuit, the intermediate appellate court in Washington DC with exclusive jurisdiction over patent appeals, held that courts must allow juries to decide the factual issue of whether a particular SEP is essential to a standard (see *Godo Kaisha IP Bridge 1 v TCL Commc'n Tech Holdings Ltd*, 967 F.3d 1380, 1383-1385 (Fed Cir 2020)). The Federal Circuit previously had held that, once it is determined that the accused product implements a particular standard, infringement may be assessed by comparing an SEP to that standard instead of the accused product itself (*Fujitsu Ltd v Netgear Inc*, 620 F.3d 1321, 1327 (Fed Cir 2010)). In *Godo Kaisha*, the court further explained that, although a judge may decide the meaning of the asserted patent claims, "the question of essentiality must be resolved by the trier of fact in the context of an infringement trial" (967 F.3d at 1385). In other words, the holder of an SEP asserted in US litigation must prove to a jury, and not just a judge, that the asserted claims are essential to a standard implemented by the accused products.

The Federal Circuit has further held that trial courts must allow juries to set the royalty rate for a FRAND licence, if the royalty incorporates compensation for past infringement (see *TCL Commc'n Tech Holdings Ltd v Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360, 1373-1374 (Fed Cir 2019)). That is because such compensation, even when required under a contract, amounts to "damages for patent infringement", which under the Seventh Amendment must be determined by a jury (*id* at 1373). A jury determination may be avoided, however, if the parties agree instead to rate setting by the court.

When setting FRAND rates, juries are presented with a range of factors. Among other things, the Federal Circuit has held that trial courts must instruct juries to consider the SEP's importance to the technical standard, the importance of the patent portfolio to the accused products and the terms of comparable licences (see *Ericsson Inc v D-Link Sys Inc*, 773 F.3d 1201, 1230-1233 (Fed Cir 2014)). The first two of these factors address the principle of 'apportionment' (ie, the concept that "the patent holder should only be compensated for the approximate incremental benefit derived from his invention") (*id* at 1233). The importance of apportionment "is particularly true for SEPs, "because a feature patented in an SEP may be incorporated into a product simply "because its use is necessary to comply with the standard" and not "because it is the best or the only option" (*id*). "The royalty for SEPs should reflect the approximate value of [their] technological contribution, not the value of its widespread adoption due to standardization" (*id*).

In addition, where the accused infringer "presents actual evidence of" patent hold-up or royalty stacking – terms that respectively refer to excessive royalty demands and to the situation where a standard implicates numerous patents – the jury may be instructed about these concepts as well (*id* at 1234). And when calculating the royalty base for a damages award, juries ordinarily must use as their starting point the "smallest saleable unit" that practices the asserted patent and will therefore have to make findings about that issue as well (*id* at 1226-1227.)

In short, trying an SEP/FRAND case to a jury can be a high-wire act. Through the testimony of fact and expert witnesses, a party's counsel must strive to explain a range of technical factors to members of the public typically lacking any prior experience in the technology at issue – and must convey those concepts in an understandable and memorable way that invites the jury to set a FRAND rate favourable to that party.

One way to avoid the complexity and unpredictability of jury determinations is for parties negotiating FRAND rates to submit the decision to independent arbitration. The Federal Arbitration Act (9 USC Section 2) requires US courts to defer to contractual commitments to arbitrate disputes; the US Supreme Court has called the act a “declaration of a liberal federal policy favoring arbitration agreements” (*Moses H Cone Memorial Hosp v Mercury Constr Corp*, 460 United States 1, 24 (1983)). Therefore, once SEP owners and accused infringers agree to arbitration, US courts and juries are unlikely to become involved. Arbitration of FRAND disputes also offers the potential benefits of confidentiality, speed and cost efficiency, but of course arbitral decisions cannot typically be appealed.

Breadth of US courts' jurisdiction

The nuances of US litigation become particularly relevant in light of US courts' willingness to step into SEP disputes. In particular, US courts may decide to take up the issue of US infringement even if other jurisdictions are already considering overlapping issues. Given the size of the US market, the practical effect of this practice is that parties may not be able to reach a complete global resolution of an SEP infringement dispute if either party opts to initiate an action in a US court.

One case from 2020, *Ericsson Inc v Samsung Elecs Co* (2:20-CV-00380-JRG, 2021 WL 89980 (ED Tex, 11 January 2021)), illustrates how US courts may choose to exercise their jurisdiction over an international patent infringement action. In that case, Ericsson and Samsung had entered into a global SEP cross-licence in 2014 that was due to expire at the end of 2020 (*id* at 1). Throughout 2020 the parties tried to negotiate the terms of a renewed licence but could not reach an agreement (*id*). As the end of the term approached without a resolution, on 7 December 2020, Samsung filed a civil complaint in China in the Wuhan Intermediate People's Court of Hubei Province, asking that court to determine the global FRAND rates for Ericsson's 4G and 5G SEPs (*id*). On 14 December 2020, Samsung asked the Wuhan court to issue an anti-suit injunction prohibiting Ericsson “from seeking relief relating to its 4G and 5G SEPs anywhere else in the world” (*id* at 2). On 25 December 2020, the Wuhan court granted the request and issued an anti-suit injunction against Ericsson (*id*).

Meanwhile, on 11 December 2020, before it was provided notice of the Wuhan action, Ericsson filed its own action in the US District Court for the Eastern District of Texas (*id* at 1). In the Texas action, Ericsson alleged “that Samsung breached its obligation to license its [SEPs] to Ericsson on [FRAND] terms” (*id*). After learning of the Wuhan action, Ericsson asked the Texas court to enjoin Samsung from interfering with the Texas action – in other words, to issue an ‘anti-anti-suit injunction’ (*id* at 4).

After acknowledging that it was addressing a novel issue of law, the Texas court granted Ericsson's request (*id*). It found that enforcing the Wuhan court's anti-suit injunction against Ericsson would “frustrate” the Texas court's “obligation” to exercise its lawful jurisdiction (*id*). It also held that enforcing the injunction would “impose an inequitable hardship on Ericsson because it [would] unfairly deprive Ericsson of the right to bring claims it is entitled to bring under United States law” (*id* at 5). The Texas court explained that it did not intend to interfere with the Wuhan court's procedures, but that it “equally insist[ed] that it be permitted to adjudicate the issues raised here pursuant to its own legitimate jurisdiction and without interference” (*id* at 6).

The Texas court therefore enjoined Samsung from taking any action “that would interfere with this Court's jurisdiction to determine whether Ericsson or Samsung have met or breached their FRAND obligations as they relate to both Ericsson and Samsung's 4G and 5G SEPs” (*id* at 8). The Texas court also required Samsung to indemnify Ericsson against any fines the latter incurred through the enforcement of the Wuhan court's anti-suit injunction (*id*).

Other US courts have issued similar injunctions against foreign proceedings or remedies in favour of resolving FRAND issues domestically. In 2018, for example, in a dispute between Huawei and Samsung involving Huawei's 4G SEPs, a US district court in California enjoined Huawei from enforcing injunctions issued by the Intermediate People's Court of Shenzhen barring Samsung from selling 4G LTE smartphones in China (*Huawei Techs Co Ltd v Samsung Elecs Co Ltd*, 3:16-cv-02787-WHO, 2018 WL 1784065 (ND Cal, 13 April 2018)). The court explained that “the Chinese injunctions would likely force [Samsung] to accept Huawei's licensing terms” before the California court could adjudicate the parties' FRAND claims, which would frustrate the court's “ability to adjudicate issues properly before it” (*id* at 10). A few years earlier, the US Court of Appeals for the Ninth Circuit upheld a similar injunction against an SEP holder barring it from seeking or enforcing an injunction from a German court until the US court could resolve the parties' FRAND dispute (*Microsoft Corp v Motorola Inc*, 696 F.3d 872 (9th Cir 2012)).

Comment

Taken together, these decisions indicate that SEP disputes are likely to end up before US courts if either side files suit there, regardless of whether litigation is already ongoing in other venues. SEP holders and implementers alike should therefore be cognisant of that possibility, and therefore of the peculiarities of US patent litigation, including those discussed above.