



Understanding the Conflict of Positions on FRAND

PHOENIX ISSUE X

Today's Discussion

- ▶ Global Perspectives on Injunctions
- ▶ Comparing *Unwired Planet* (U.K.) and *TCL* (U.S.)
- ▶ The Non-Discrimination Prong of FRAND
- ▶ Approaches to Determining FRAND
 - ▶ Lessons from Litigation
 - ▶ Arbitration Proposals
- ▶ Guidance from government agencies
 - ▶ U.S. Dept of Justice and FTC
 - ▶ Other jurisdictions

Global Perspectives on Injunctions

- ▶ Since *eBay*, the use of injunctions to enforce FRAND obligations has been sharply limited in the U.S.
- ▶ The same is not true with respect to other countries like Germany where injunctions are granted as a matter of course to prevailing parties
- ▶ Throughout Europe and Asia, the number of countries that have adopted or judicially approved the use of injunctions in FRAND matters has been expanding
 - ▶ Raises the prospect of inconsistent rulings and confusing guidance to entities attempting to comply with their obligations

The current environment for injunctions in the U.S. and the U.K.

- ▶ In the past two years, three significant events have reignited the debate over whether the use of injunctions in FRAND cases is appropriate
 - ▶ *Unwired Planet* decision in the U.K.
 - ▶ *TCL v. Ericsson* decision in the U.S.
 - ▶ Statement by DOJ AGG Delrahim in Dec. 2018, rejecting previous stand on injunctions and withdrawing from its 2013 joint guidance with the PTO on SEPs subject to FRAND commitments
 - ▶ Use of injunctions focuses on “hold out” versus “hold up” in the FRAND process

What is the path forward for using injunctions for FRAND matters?

- ▶ The debate within the antitrust community is unlike to be resolved any time soon
 - ▶ Scope and extent of injunctions fall into two buckets: anti-suit and enforcement of FRAND obligations
 - ▶ The anti-suit injunction has global implications and the enforcement injunction is often seen as a tool that gives too much power to the patent owner and becomes anti-competitive when used or threatened
 - ▶ The contrary view is that injunctions advance the laudable goals of standard setting organizations by preventing “hold out”

Path Forward for Injunctions (cont.)

- ▶ The impact of the DOJ revised guidance is not yet clear but the door is open to broader and more frequent use of injunctions
 - ▶ This change tends to bring the U.S. closer to the practices that prevail in other nations
 - ▶ However, the issue of whether an injunction places too much power in the hands of the patentee continues
 - ▶ Seems likely that case law will need to be developed that strikes a balance

Comparing Unwired Planet (U.K.) & TCL (U.S.)

Unwired Planet v. Huawei

- ▶ Comparable licenses approach for FRAND. Top-down used as a check.
- ▶ Court of appeal ruled there is no single FRAND rate
- ▶ Two geographic rates: major markets and other markets
- ▶ ND – Benchmark approach applied. No breach if one licensee receives lower rate.
- ▶ Doesn't deal with expired patents
- ▶ Multimode rates calculated
- ▶ FRAND injunction if a license isn't entered into

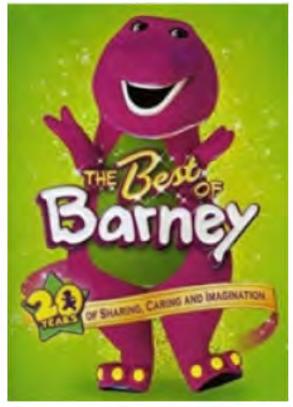
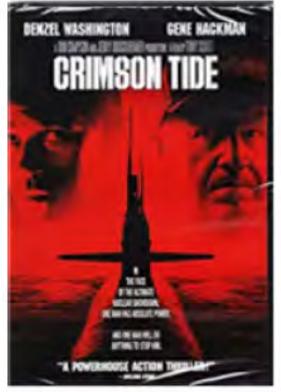
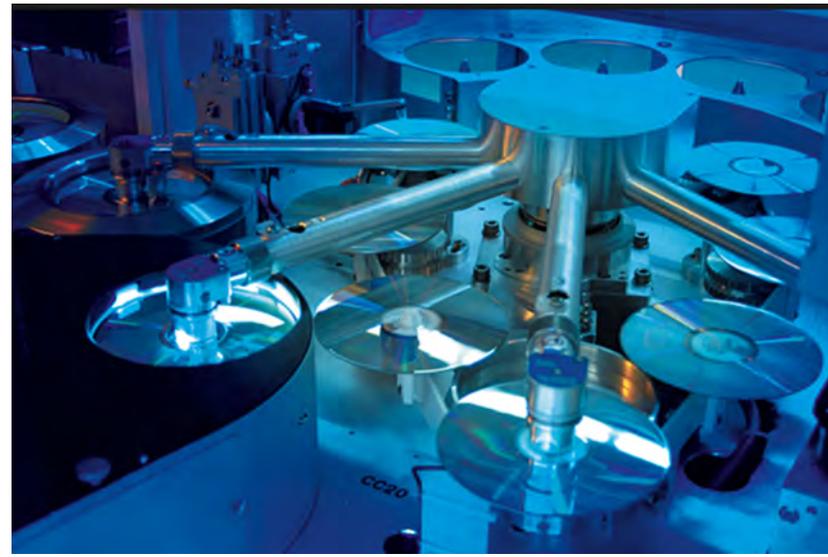
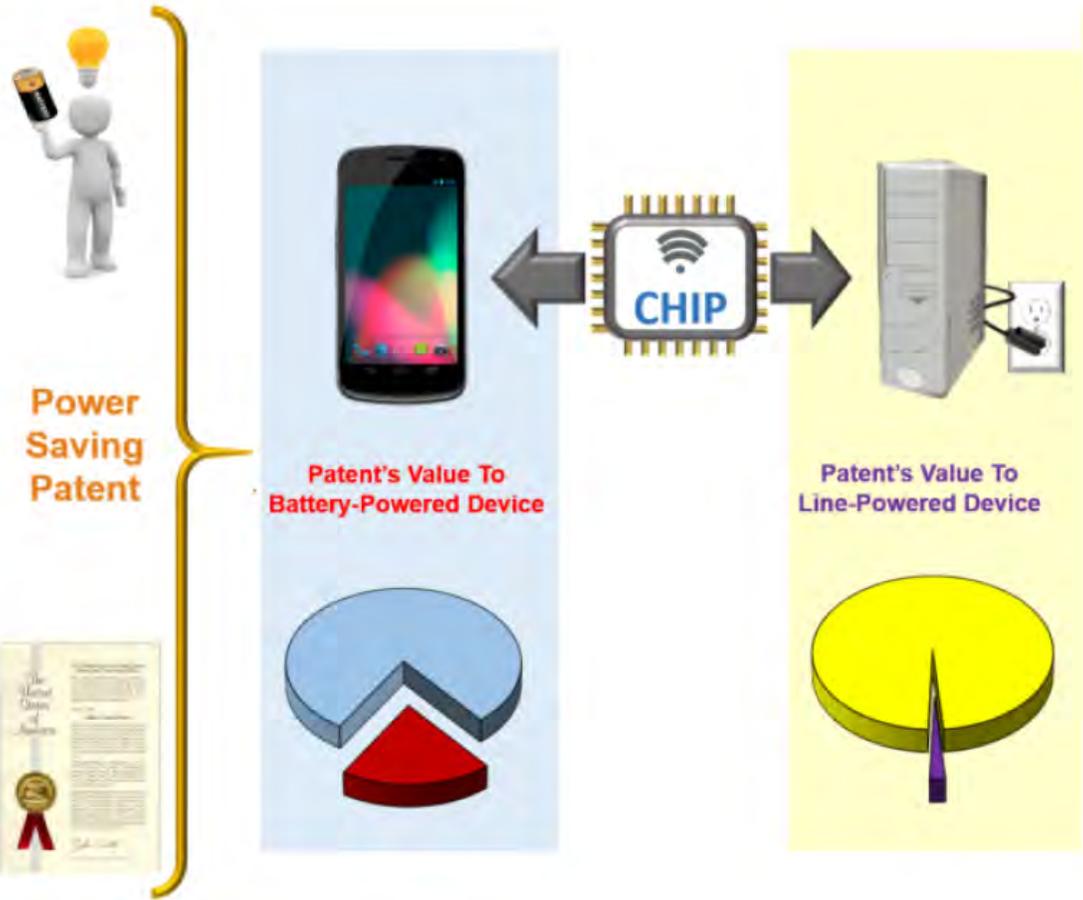
TCL v. Ericsson

- ▶ Top-down approach for FRAND. Adjustments to reflect comparable licenses.
- ▶ No single FRAND rate.
- ▶ Three regions: U.S., Europe, ROW
- ▶ ND – Requires harm to individual entities, not harm to competition
- ▶ Expired patents included in total no. of SEPs in a standard, but not in Ericsson's share
- ▶ Single mode rates treated as applicable to multimode devices, but top-down acknowledged to reflect the multimode royalty burden
- ▶ Final judgment in form of mandatory injunction imposing license agreement

The ND in FRAND – “Nondiscrimination”

- ▶ FTC v. Qualcomm, N.D. Cal
 - ▶ Disagreement at the FTC; Commissioner Ohlhausen dissent
- ▶ Order Granting FTC’s Motion for Partial Summary Judgment
 - ▶ Analysis of Qualcomm’s FRAND obligations under the IPR policies of TIA and ATIS
 - ▶ “[T]he court agrees with the FTC as a matter of law, the TIA and ATIS IPR policies both require Qualcomm to license its SEPs to modem chip suppliers.”

The ND in FRAND – “Nondiscrimination”

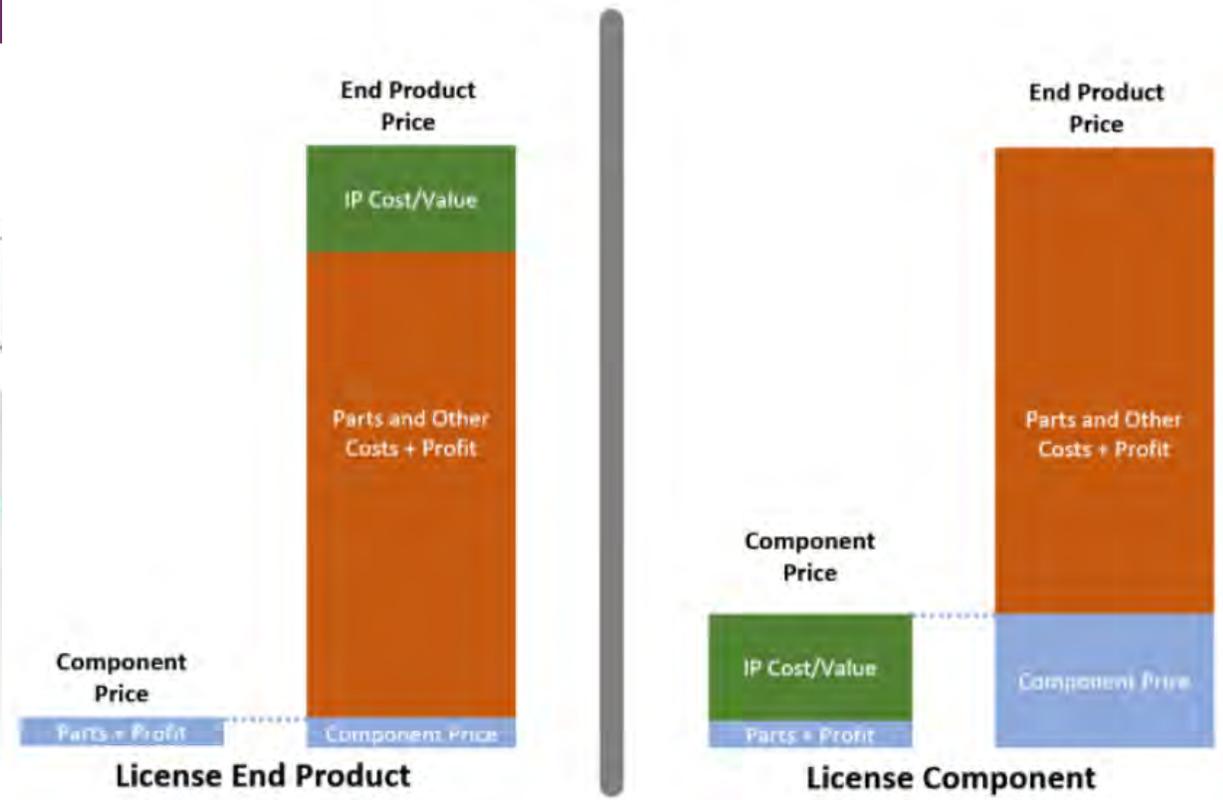
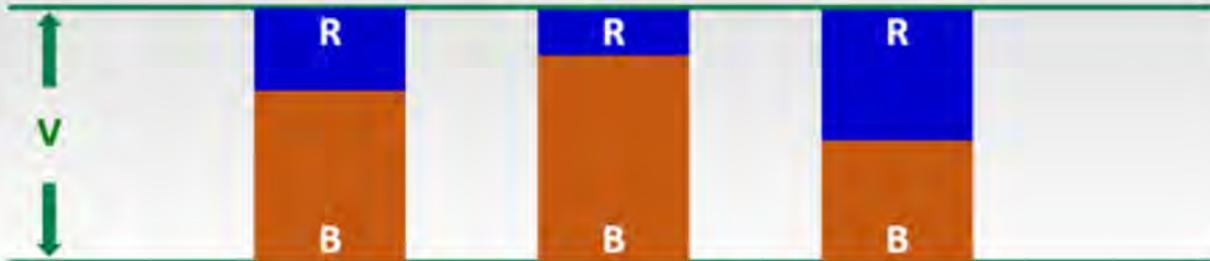


The ND in FRAND – “Nondiscrimination”

“[T]he governing rule is that the ultimate combination of **royalty base [B]** and **royalty rate [R]** must reflect the **value [V]** attributable to the infringing features of the product, and no more.”

Ericsson Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1226 (Fed. Cir. 2014)

$$V = B \times R$$



Determining FRAND – U.S. Case Law

- ▶ Case law on determining FRAND has become more robust – 20+ significant FRAND decisions in U.S. courts in last six years.
- ▶ Federal Circuit has articulated principles to guide FRAND determinations, but not prescribed specific methodologies.
- ▶ Unique apportionment principles for SEPs (whether FRAND-committed or not):
 - ▶ “First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, the patentee’s royalty must be premised on the value of the patented feature, not any value added by the standard’s adoption of the patented technology. These steps are necessary to ensure that the royalty award is based on the incremental value that the patented invention adds to the product, not any value added by the standardization of that technology.”

Ericsson, Inc. v. D-Link Systems, Inc., 773 F.3d 1201, 1232 (Fed. Cir. 2014).

Determining FRAND – U.S. Case Law

Federal Circuit Principles, cont.

- ▶ Standardization does not necessarily mean that selected technology is “the best”:
 - ▶ “When a technology is incorporated into a standard, it is typically chosen from among different options. Once incorporated and widely adopted, that technology is not always used because it is the best or the only option; it is used because its use is necessary to comply with the standard. In other words, widespread adoption of standard essential technology is not entirely indicative of the added usefulness of an innovation over the prior art.”

Ericsson, 773 F.3d at 1233.

Determining FRAND – U.S. Case Law

- ▶ “Potential problems” of patent hold-up and royalty stacking:
 - ▶ “Royalty stacking can arise when a standard implicates numerous patents, perhaps hundreds, if not thousands. If companies are forced to pay royalties to all SEP holders, the royalties will ‘stack’ on top of each other and may become excessive in the aggregate.”

Ericsson, 773 F.3d at ____.
- ▶ No per se FRAND factors for consideration:
 - ▶ “There is no Georgia-Pacific-like list of factors that district courts can parrot for every case involving RAND-encumbered patents.”

Ericsson, 773 F.3d at ____.

Determining FRAND – U.S. Case Law

- ▶ District court cases provide a “tool kit” for applying unique apportionment principles for SEPs. Tools cannot simply be applied mechanically -- each tool has a “but.”
 - ▶ “Proportionality” or “top down” approach based on royalty stacking considerations (e.g., *Microsoft v. Motorola*; *In re Innovatio*; *TCL v. Ericsson*).
 - ▶ Inputs: Aggregate royalty for all SEPs for given standard; total number of SEPs for a given standard; cost or profit of SSPPU.
 - ▶ But need to consider relative importance of particular SEP to standard and to other SEPs and “actual evidence” of royalty stacking.

Determining FRAND – U.S. Case Law

“Tool kit,” continued:

- ▶ Rates offered by patent pools (e.g., *Microsoft v. Motorola*).
 - ▶ But need to consider extent of participation in patent pool (more robust the participation, the more reliable the metric, and vice versa) and quality of patents in pool.
- ▶ Comparable licenses
 - ▶ But need to consider (1) circumstances in which they were negotiated (e.g., a license negotiated under threat of litigation or an injunction may not be indicative of FRAND), (2) contextual similarity to patents-in-suit (e.g., comparability of technology), (3) whether they are based on value of multi-component product, (4) whether they are portfolio licenses

Determining FRAND – U.S. Case Law

“Tool kit,” continued:

- ▶ Selection of SSPPU as royalty base (e.g., *In re Innovatio*; *GPNE v. Apple*; *Core Wireless v. Apple*)
- ▶ Apportionment based on die space, source code, features, and other technical metrics
- ▶ “Modified” Georgia-Pacific factors

Determining FRAND – Status of Huawei v. ZTE

- ▶ Recap: *Huawei v ZTE* C-170/13 set out steps that need to be taken by patent holder and implementer to avoid or rely on abuse of a dominant position under Article 102 TFEU.
- ▶ Many issues were left open:
 - ▶ Are the steps mandatory?
 - ▶ Means of enforcing FRAND undertaking beyond antitrust law
 - ▶ Substantive issues as to what is FRAND (e.g., how to assess rates, is a global portfolio license FRAND; what is effect of non-discriminatory prong?)
- ▶ Germany and UK courts have approached some of these issues differently

Determining FRAND – Status of Huawei v. ZTE

▶ Germany

- ▶ Has applied *Huawei v ZTE* framework faithfully.
 - ▶ The framework is a relatively important safeguard as an injunction may be granted before there is any validity determination (due to bifurcated system) and before any final FRAND license determination.
 - ▶ Failure to give notice by SEP holder means injunction will not be granted; the time for implementer to respond will depend on circumstances (including extent of information given) (*Sisvel v Haier*, I-15 U 66/15).
 - ▶ If subsequent offer made by patent holder is not FRAND, implementer is under no obligation to make a counteroffer.
- ▶ Some case law suggesting that a global portfolio license offer may be FRAND in some circumstances (*Pioneer v Acer* 7 O 96/14; *St Lawrence v Vodafone* 4a 073/14).
- ▶ Non-discriminatory prong has been interpreted as a discrete requirement that differences should be objectively justified (*Sisvel v Haier*).

Determining FRAND – Status of Huawei v. ZTE

▶ U.K.

- ▶ Has downplayed the significance of *Huawei v ZTE (Unwired Planet v Huawei [2018] EWCA Civ 2344, Court of Appeal)*.
 - ▶ Injunction will not be granted until validity has been upheld, and FRAND terms determined, so early steps in negotiations addressed by CJEU were considered less critical than in other jurisdictions.
 - ▶ Analysis of FRAND undertaking as contractual, with antitrust considerations reserved for more extreme cases.
 - ▶ Framework in *Huawei v ZTE* interpreted as being flexible, with only the requirement to give notice before proceedings being considered mandatory (and extent of details in notice depends on circumstances) (*Unwired Planet v Huawei CA*).

Determining FRAND – Status of Huawei v. ZTE

▶ U.K.

- ▶ FRAND rates based on benchmarks derived from comparable license agreements and apportioning by counting patents; with a top down analysis used as a cross-check (*Unwired Planet v Huawei [2017] EWHC 711 (Pat), Patents Court*).
- ▶ FRAND license was held in a case to be to a global portfolio (*Unwired Planet v Huawei CA*).
- ▶ Non-discrimination limb requires fair terms to be offered generally; does not exclude preferential terms being offered to particular implementers (*Unwired Planet v Huawei CA*).
- ▶ UK court has taken firm approach to asserting jurisdiction in relation to global FRAND disputes, even where UK accounts for a relatively low portion of turnover, on basis that determination of global FRAND license is justiciable and that forum is appropriate as dispute itself relates to UK patent (*Huawei v Conversant Wireless [2019] EWCA Civ 38*).

Determining FRAND – Status of Huawei v. ZTE

- ▶ **European Commission Communication** “Setting out the EU approach to Standard Essential Patents”, COM(2017) November 29, 2017)
 - ▶ Licensing principles (terms must relate to economic value of technology but not from inclusion in standard as such; must avoid royalty stacking)
 - ▶ Elaboration of Huawei v ZTE principles (patent holder must provide details on essentiality, alleged infringement, royalty calculation and non-discrimination; implementer to make concrete counteroffer and explain its use of the standard)

Determining FRAND – Status of Huawei v. ZTE

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Determining FRAND – Arbitration Proposals

- ▶ Jorge Contreras Proposal for an Expert, Non-Governmental “FRAND Tribunal”
- ▶ New Japan International Dispute Resolution Center, Osaka

Global Rate-Setting: Contreras' New Rate-Setting Mechanism for Standard-Essential Patents

In an August 3, 2018 draft of a paper intended for publication in the Wash. L. Rev. in 2019 (Contreras "Global Rate-Setting: A Solution for Standard-Essential Patents," Prof. Contreras of the University of Utah's S.J. Quinney College of Law,

lays out a roadmap for the establishment of an expert FRAND rate-setting tribunal that promotes the tripartite goals of transparency, consistency and comprehensiveness. This tribunal is modelled on the U.S. Copyright Royalty Board and similar rate-setting agencies, though it is envisioned not as a governmental body, but an international non-governmental organization. It is hoped that such a tribunal will bring greater predictability and stability to the technology development ecosystem while reducing inefficient litigation.

Abstract, pg. 1.

The major features of the proposed FRAND Tribunal are the following:

SDOs can require (mandatory version) or offer (optional version) that their participants **resolve all disputes regarding the level of FRAND royalties to be charged for SEPs covering the SDO's standards through an international, non-governmental rate-setting tribunal.** Once the tribunal is engaged, it will collect all available evidence regarding the patented and unpatented technology included in a particular standard, determine an aggregate royalty rate for the standard, and apportion royalties among all SEP holders. **Other than these rate-setting matters, the tribunal would adjudicate no other issues, and related contract and antitrust claims would continue to be subject to adjudication by any court(s) having jurisdiction.** SDO participants would be required to refrain from seeking injunctive relief against potential licensees during the pendency of rate-setting proceedings, but once FRAND royalty rates are determined for a specific standard, a SEP holder will be permitted to pursue injunctions against product manufacturers that refuse to accept a license at the designated rate within a reasonable time. Additional details regarding this proposal are set forth below.

(Page 26).

Global Rate-Setting: Contreras' New Rate-Setting Mechanism for Standard-Essential Patents (cont'd)

[here-proposed] the global FRAND rate-setting tribunal designed to reduce negotiation, litigation and other excess transaction costs while achieving a fair allocation of resources among affected stakeholders. **It does that through a mechanism that seeks, to the greatest extent possible, to achieve the tripartite goals of transparency, consistency and comprehensiveness.** Specifically, it calls for the establishment of an international, non-governmental FRAND Tribunal, and **the modification of SDO policies either to mandate or make available the resolution of FRAND royalty disputes through this mechanism.** Like existing rate-setting bodies such as the U.S. Copyright Royalty Board, the FRAND Tribunal **will collect all available evidence** regarding the patented and unpatented technology involved in a particular standard, **determine an aggregate (top-down) royalty rate for the standard as a whole, and appropriately apportion royalties among all holders of essential patents.** **Other than these rate-setting matters, the FRAND Tribunal will adjudicate no other issues,** and related claims for breach of contract and antitrust and competition law violations would continue to be subject to adjudication by any court(s) having jurisdiction. SDO participants would be required to refrain proceedings, but once FRAND royalty rates are determined for a specific standard, **a patent holder will be permitted to pursue injunctions against product manufacturers that refuse to accept a license at the designated rate.**

Though the proposed rate-setting mechanism will not result in awards to individual patent holders that precisely account for the value of each patent, **this degree of precision is not realistic expectation nor a necessary condition to the functioning of the market.** Rather, it is hoped that the proposed FRAND Tribunal will make the FRAND licensing marketplace operate more efficiently by eliminating excessive transaction costs and enabling broad dissemination of proceeds among affected stakeholders.

Conclusion, pgs. 37-38.

U.S. Administrative Agencies

U.S. Dept. of Justice

- ▶ AAG Makan Delrahim's "New Madison Approach"
- ▶ Industry and Academic Reaction

Federal Trade Commission

- ▶ FTC v. Qualcomm
- ▶ Terrell McSweeney Paper

Guidance Across Jurisdictions

- ▶ European Commission, **Setting Out the EU Approach to SEPs** (Nov. 2017)
- ▶ Guangdong High People's Court, **Guidelines on Adjudicating Cases of Disputes Over SEPs—Trial** (April 2018)
- ▶ Japan Patent Office, **Guide to Licensing Negotiations Involving SEPS** (June 2018)