

Global Developments of the FRAND Licensing of SEPs

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Economic background of Major Asian Economies

- The licensing of standard essential patents (SEP) on fair, reasonable and non-discriminatory (FRAND) terms has recently become a thorny issue for major Asian economies, which are without exception
 - * standard-takers,
 - * have strong manufacturing sector that is dependent on standards and SEPs
 - * Their manufacturing sector is run by honest businesses which are integrated in global value chains, rather than pirates

Some Standards on FRAND Licensing of SEPs in Asia: 3 Nos and 1 Yes

- **No to bundling non-SEPs with SEPs**

KFTC (Qualcomm II case), PRC (NDRC v. Qualcomm), JFTC (Guidelines for the Use of IP under the Antimonopoly Act (2016 last amended), Part 4(5)(iv)) and the TFTC (Guidelines on Technology Licensing Agreements (last amended in 2016), 6. (3))

- **No to continual payment of royalty after the expiration of SEPs**

KFTC (Qualcomm case I), PRC (NDRC v. Qualcomm, rebuttable presumption of illegality Article 15(5) of State Council Anti-monopoly Guide on IP), and TFTC (Philips CD-R)

- **No to royalty-free cross-licensing**

KFTC (Microsoft/Nokia case, Qualcomm II case) and PRC (NDRC v. Qualcomm, rebuttable presumption of illegality Article 18(5) of State Council Anti-monopoly Guide on IP)

- **Yes to provisioning of patent lists**

PRC (NDRC v. Qualcomm), TFTC (Philips CD-R) and KFTC (Review Guidelines on the Unfair Exercise of IPRs (2014 amended), 5A(2))

Divergence Among Asian Jurisdictions

- the judgement of legality of FRAND-encumbered SEP owners seeking injunction: Korean and Indian courts v. Japanese Tokyo High Court, Chinese Anti-monopoly Committee)
- Noteworthy: 3.2. **PROPORTIONALITY CONSIDERATIONS** of Communication from EU Commission to European Parliament--Setting out the **EU approach to SEP**
- When assessing the availability of injunctive relief, courts are bound by Article 3(2) of the IPR Enforcement Directive, and notably the requirement to ensure that injunctive relief is effective, **proportionate** and dissuasive. Given the broad impact an injunction may have on businesses, consumers and on the public interest, particularly in the context of the digitalised economy, **the proportionality assessment needs to be done carefully on a case-by-case basis.**

The Commission feels that considerations need to be given to the **relative relevance of the disputed technology** for the application in question and the **potential spill-over effects** of an injunction **on third parties.**

Divergence Among Asian Jurisdictions

2. Judicially determined FRAND terms: Japan, PRC and India (Dolby v. Oppo and Vivo) v. Korea and Taiwan

- 3. Regarding no-challenge clause in the context of SEPs, the TFTC prohibits such outright (Philips CD-R), so does KFTC (Review Guidelines on Unfair Exercise of Intellectual Property Rights (2014 last amended), III 3D(6)) and EU.

In contrast, JFTC seems to take **an exceptional prohibition approach** (Guidelines for the Use of IP under the Antimonopoly Act (2016 last amended), Part 4(4)(vii))

Antimonopoly Committee of State Council PRC takes a general rule of reason approach (Article 10 of Anti-monopoly Guide in IP Area)

If however made by a dominant undertaking (SEP patentee), it is incumbent on it to justify such a clause (Article 18(2) of Anti-Monopoly Guide in IP Area)

SSPPU

- 4. On the issue of charging royalties for SEPs based on the whole devices or the smallest saleable patent practicing unit, competition authorities in the PRC, Korea and Taiwan do not require that the calculation of FRAND-compliant royalties be based on SSPPU.
- Competition Commission India insists on SSPPU. However, New Delhi High Court differs.

Divergence Between Asian jurisdictions and US/UK

1. Asian jurisdictions have treated FRAND licensing of SEP also as an antitrust issue (with German Federal Court KZR 36/17 recently joining) v. US/UK a pure contract issue
2. Asian jurisdictions seeing bundling non-SEPs with SEPs as abuse of dominance v. no issue of abuse (Unwired Planet v. Huawei, [2015] EWHC 2097 (Pat)); U.S. Philips Corp. v. Int'l Trade Comm'n, 424 F.3d. 1179, 1182 (Fed. Cir. 2005).

4 Global issues to be solved

- 1. From Asian to World Standards due to FRAND commitments made in Asia?
- 2. Patent holdup v. patent holdout
- 3. Private Arbitration v. Arbitration by SSOs
- 4. Anti-Suit (Enforcement) Injunction and Anti-Anti-Suit (Enforcement) Injunction

Global Issue 1: From Asian to World Standards due to FRAND commitments made in Asia

- The many undertakings that Qualcomm and InterDigital have made to the NDRC, KFTC, and TFTC, have the potential of reaching out of Asia and **becoming binding on them on a global scale.**
- FRAND commitments SEP owners have made should not be limited to any specific jurisdiction and should be applicable irrespective of the location where the licensees are registered.
- If SEP owners are allowed to **apply their undertakings to one national competition authority only to that particular nation and refuse to apply them elsewhere, it can hardly be “non-discriminatory.”**

Global Issue 2: Patent holdup v. patent holdout

- The US swings from preventing patent holdup to preventing patent holdout
- In the 2012 Apple v. Motorola case, Justice Richard Posner (9th circuit judge) sat on Eastern district court of Illinois and rejected the injunction applications filed by Motorola and Apple
- Motorola has committed to grant its SEPs on FRAND terms, and therefore barred from applying for injunction
- Apple did not exhibit any possible harms if injunction is denied

Preventing patent holdup in the US

- In 2013, the FTC and USPTO jointly issued Policy Statement on Remedies for Standard Essential Patents Subject to Voluntary F/RAND Commitment)
- SEP patentee's application for injunction is against the public interest, **unless the alleged infringer was unwilling or unable** to conclude licensing agreement on FRAND-terms
- Obama vetoed in August 2013 ITC's decision to ban Apple from selling in the US products infringing Samsung's SEPs, based on the same consideration

The US swings back to preventing patent holdout

- Since November 2017, the Assistant Attorney General of the DOJ Makan Delrahim has moved DOJ in a direction that allows SEP owners more freedom to use the exclusionary potential of their patents. DOJ also has redirected its focus toward the conduct of licensees and the SSOs.
- On December 7, 2018, the USPTO withdrew its consent from the more balanced 2013 Joint DOJ-USPTO “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments”

The US swings back to preventing patent holdout

- The USPTO, the National Institute of Standards and Technology (NIST), and the DOJ jointly issued in December 2019 POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS
- the 2013 policy statement has been misinterpreted to suggest that a unique set of legal rules should be applied in disputes concerning SEPs subject to a F/RAND commitment, and that injunctions and other exclusionary remedies should not be available in actions for infringement of SEPs
- a patent owner's **F/RAND commitment** is a relevant factor in determining appropriate remedies, but **need not act as a bar to any particular remedy**

CJEU more for preventing patent holdup

- CJEU in *Huawei v. ZTE* (C170/13, 16 July 2015) proposed a middle ground: The application for injunction by an SEP patentee who has made commitment to SSO to issue license on FRAND terms would not be abusing its dominance prohibited by Article 102 FTEU, if
- he has **informed the alleged infringer about the infringement before filing for injunction**, provided **written offer to license** when the infringer expressed his willingness to conclude license agreement on FRAND terms, which in particular **listed the royalty and its calculation method**,
- and the infringer continued to use the SEPs without responding to the offer in accordance with industry practice

German Federal Court (BGH) KZR 36/17 (published on May 5, 2020) more for preventing patent holdup

- The assertion of cease and desist, recall and destruction of infringing goods by the patentee through litigation can nevertheless be abusive, when the patentee was to blame for not sufficiently doing his parts to fulfill the **special responsibilities tied to its market dominant position** and not **enabling the principally license-willing infringer to conclude a license agreement**, even though the infringer has not (or not yet) declared with binding effects his willingness to conclude the license agreement under certain reasonable terms and conditions.

German Federal Court (BGH) KZR 36/17 (published on May 5, 2020) more for preventing patent holdup

- **Special behavioral responsibilities** of a patentee with market dominance can derive from the fact that the infringer after being notified of his infringement has clearly made known his readiness to sign a license agreement with FRAND terms, but was not or was not easily in the position to draft **the conditions for such an agreement**, which **the patentee** under consideration of the prohibition of discrimination and hindrance concerning himself **should have offered**. **These responsibilities** of the patentee can include the duty to provide his license offer with detailed reasonings, which would enable the license-willing (infringer) to assess whether the license offer constitutes abuse of a dominant market power.

Germany relaxes its absolute stance on issuing injunctive relief upon finding patent infringement

- In June 2021, German Parliament passed the amendment to its Patent Act.
- Article 139 "*The [claim for injunctive relief] is excluded to the extent that granting such relief would result in a disproportionate hardship for the infringer or a third party that is not justified by the exclusivity right, taking into account the special circumstances of the individual case and the principles of equity and good faith. In this case, the infringed party must be awarded reasonable monetary compensation. The claim for damages pursuant to sub-paragraph 2 remains unaffected.*"
- an exclusion of injunctive relief should only be considered in truly exceptional cases. This is a very high threshold.

Choice for Asian economies? more for preventing patent holdup

- From the economic viewpoint, since Asian economies are of less SEP patentees, Asian choice should be more for preventing patent holdup.
- The fact that Asian ICT manufacturing sector is run by honest businesses, which are integrated in global value chains, rather than pirates, also speaks for the choice for preventing patent holdup.

Global issue 3: Private Arbitration v. Arbitration by SSOs

- The problems with private arbitration:
- 1.1. Generally
- For decades, the spread of **forced arbitration and its twin demon, the class-action waiver**, have slowly eroded Americans' civil rights.
- Sixty million employees in the United States — at places from Buffalo Wild Wings to Facebook to Goldman Sachs — are now bound by mandatory-arbitration agreements, and of those, 25 million are bound by class-action bans. (Tammy Kim, NY Times, May 18, 2018)
- it lacks the positive externality of a litigation. Its results will not be published, no teaching and research on and oversight over it will be possible. Relevant knowledge will not be accumulated for and disseminated to the public.

The problems with private arbitration

- 1.2. Arbitration in SEP Licensing agreements
- there is an arbitration clause in almost every SEP license, which was almost always imposed by SEP holders and almost always designated the home turf of SEP holders or headquarters of Standard Setting Organizations (SSOs) as place for arbitration, which are almost always non-Asian.
- The result of such arbitration tends to take a formalistic and pure contract law approach to interpret SEP license as Lord Justice Birss has said “it is not necessary to rely on competition law to enforce the FRAND undertaking.” Arbitrators will almost certainly ignore the dominant market power possessed by SEP licensors and its abuse.

The problems with private arbitration

- FRAND ADR Case Management Guidelines (Munich IP Dispute Resolution Forum) takes notice of the concern of lack of positive externality and suggests that “**public policy** considerations have to be balanced with confidentiality as an established ADR-principle” and “at least the **methods and principles adopted by the parties and the arbitral tribunal in the determination of FRAND terms and conditions** should be made public.”
- Whether this will be acceptable to and practicable for ADR institutions remains highly uncertain.

Arbitration by SSOs (similarly FRAND Tribunal by Jorge Contreras, University of Utah)

- To verify the essentiality of declared SEPs
- To be the depository of FRAND terms and to do their own collection and analysis of relevant data
- To provide **arbitration service to their members**. Parties should go through the “baseball-style or final offer” arbitration under the auspice of SSOs, in which **each of the parties can make one final offer and the arbitrator can only choose one from the two offers and may not make a decision of his own**.
- To expand the chance of its offer being taken by the arbitrator, each party will do its best to collect and analyze existent FRAND terms, easing the work for arbitrators.

Arbitration by SSOs

- To nurture qualified arbitrators.
- To take the need for collective management of SEPs seriously. They can learn from the examples of the extended collective management of copyright to form umbrella organizations or arrangements that provide **one-stop clearance for both SEP owners and implementers.**
- **Patent law should recognize the extended collective management of SEPs**

Global issue 4: Anti-Suit (Enforcement) Injunction and Anti-Anti-Suit (Enforcement) Injunction

- US Courts issued injunctions in SEP-related cases
- 1. Anti-suit injunctions
- As late as Microsoft v. Motorola in 2012, US courts have applied anti-suit injunction broadly to prohibit litigants from initiating or continuing parallel SEP-related litigation in another jurisdiction.
- the Northern District Court of California granted in June 2015 InterDigital's motion for a preliminary injunction requiring Pegatron (a Taiwanese company) to dismiss its suit in Taiwan, and
- The England and Wales High Court also held anti suit injunction could be permissible in Conversant (Singaporean company) v. Huawei and ZTE in 2018

2. US Courts Anti-enforcement injunction

- the Northern District Court of California issued in April 2018 anti-enforcement injunction in Huawei v. Samsung to enjoin Huawei from enforcing an injunction on Chinese SEPs entered by the Shenzhen Intermediate People's Court.

3. German/French courts issued anti-anti-suit injunction in SEP-related cases

- Munich Regional Court granted an anti-anti-suit injunction in *Continental v Nokia*, the first time a court issued this type of measure, after finding that to start legal proceedings seeking an anti-suit injunction in the US with the aim of halting an action in Germany was not compliant with German law, and therefore should be enjoined (case ID: 21 O 9333/19 Order of 11 July 2019).
- a Paris Court of First Instance decided on 8 November 2019 to issue an anti-anti- suit injunction order requesting the SEP implementer Lenovo to withdraw an anti-suit injunction action filed before the Northern District Court of California (*IPCom v Lenovo*) (Case No 19/59311)

International comity driven away by Unwired Planet v. Huawei decided in the UK in 2020?

- The UK Supreme Court ruled in 2020 that a UK court is able to set the global rate infringer should pay for all of its products worldwide, even though the court only considers the infringement of UK patents.
- Apple's lawyers warn it could quit UK market if court forces company to pay 'commercially unacceptable' fee for technology used in its iPhones in Optis v. Apple.
- Optis Cellular Technology and its sister companies, PanOptis, Optis Wireless Technology, Unwired Planet, and Unwired Planet International, are NPE.

Chinese courts started to issue anti-suit (enforcement) injunction

- In OPPO v Sharp, Shenzhen Intermediate Court barred **in about April 2020** Sharp from initiating anywhere in the world litigation concerning the SEPs at dispute. This case is reported as being the first worldwide "anti-suit injunction" and dealing with "anti-anti-suit injunctions" in other jurisdictions- **However, EU is complaining to the TRIPS Council it was unable to find this ruling. (not published due to trade secrets asserted)**
- The Supreme People's Court on August 28, 2020 issued one landmark ruling: Conversant v. Huawei, SPC issued within two days (therefore without hearing Conversant) an **anti-enforcement injunction** against Conversant in August 2020, prohibiting it from enforcing a decision rendered by **Dusseldorf district court** against Huawei. The Court bolstered the effect of the order by coupling it with a penalty of RMB 1 million per day of violation.

Wuhan Intermediate People's Court

- Xiaomi v InterDigital (September 23, 2020)
 - 1. Parties have previously never reached any licensing agreement,
 - 2. Licensing agreement went on 5 years (2015-2020) without success
 - 3. InterDigital acted recklessly, not responding to court's inquiry, not attending court procedure
- Samsung v. Ericson (December 25, 2020)
 - 1. parties have reached two consecutive licensing agreements,
 - 2. Ericson has not acted recklessly