

WHAT'S NEXT FOR FRAND?



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BY LAURA GOOLD & RICHARD VARY¹



¹ Laura Goold is a trainee solicitor in the Bird & Bird Intellectual Property Group based in London. Richard Vary is a partner at Bird & Bird specializing in patent litigation in the mobile telecommunications sector.

CPI ANTITRUST CHRONICLE DECEMBER 2020

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I. INTRODUCTION

In autumn last year the world watched the UK Supreme Court’s televised broadcast of the hearing in the conjoined cases of *Unwired Planet v. Huawei*, and *Conversant v. Huawei and ZTE*. There were rumors that the decision would be published by Christmas. Then by Easter. Then, surely, before the court’s summer break. But the waiting continued, and it was not until August 26 that the decision came down.

FRAND judgments, it appears, are like buses: you can wait ages for one, and several arrive at once. On July 23, the Federal Supreme Court in Germany published its written judgment in *Sisvel v. Haier*. On August 11, a United States ninth circuit panel gave its decision reversing the lower court in *FTC v. Qualcomm*. On August 18, the first injunction was handed down in the *Nokia v. Daimler* cases in Germany (with others following in close succession afterwards). And on November 26, the Dusseldorf court referred questions to the CJEU. Collectively these cases have addressed the law on FRAND forward in four main areas:

- Jurisdiction
- Non-discrimination
- Availability of injunctions
- Licensing point

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CPI Antitrust Chronicle December 2020

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II. JURISDICTION

There is an inherent jurisdiction conflict in FRAND: patents are national sovereign rights, but products are sold worldwide, and licenses are usually granted on a global basis. So how does a national court, making findings in relation to a national right, deal with a FRAND defense?

The approach in *Unwired Planet & Conversant*

Unwired Planet – in brief

Unwired Planet International Ltd and another v. Huawei Technologies Co Ltd and another concerned six Unwired Planet patents. Five of these were said to be essential to mobile telecommunications standards (SEPs).

Unwired Planet sued Samsung and Huawei for using those patents without a license. It accepted that under the rules of standards-development body ETSI it had undertaken to offer licenses on a fair, reasonable and non-discriminatory basis (“FRAND”).

Samsung settled early in the proceedings, but the case went to trial against Huawei. After some of the patents were found to be valid and infringed, the court had to address FRAND.

The High Court held that Unwired Planet’s licensing offers were not FRAND: it had asked for too high a royalty. On the other hand, Huawei had not offered enough. It determined the global FRAND royalty rates. It granted an injunction to restrain infringement unless Huawei took a global license on certain terms that he found to be FRAND: this was termed a “FRAND” injunction. Huawei appealed.

In the parallel *Conversant* case, Conversant asserted SEPs against Huawei and ZTE and sought a FRAND injunction. Before the case went to trial, Huawei and ZTE challenged the jurisdiction of the English court to hear it.

In *Unwired Planet*, Huawei argued that the English court should determine a rate only for sales in the UK. If Huawei paid that rate to the patent owner, there should be no injunction. It argued that the court could not determine a global royalty rate, because that would be an indirect determination of the validity of foreign sovereign rights. That would offend comity.

The High Court did not agree. Mr. Justice Birss felt that the court must determine what a FRAND license should be. The evidence before the court suggested that commercial parties in the position of Unwired Planet and Huawei would invariably agree to a global license. A FRAND license was therefore a global license. A UK-only license would not be FRAND.

In the parallel *Conversant* case, Huawei argued that the UK was not the most appropriate court to determine a FRAND rate. China was a much bigger market for Huawei: the UK accounted only for a tiny percentage of Huawei’s global sales. Mr. Justice Henry Carr did not agree. The relief being sought by the patent owner in the UK was an injunction against the sale of products in the UK that were infringing UK patents. This was clearly a matter for the UK courts.

The Court of Appeal agreed with the reasoning of both Mr. Justice Birss and Mr. Justice Henry Carr. It reviewed the case law of other courts and dismissed Huawei’s argument that the High Court was out of step with other countries.

The Supreme Court confirmed that English Courts do have the power to grant the FRAND injunction granted by the High Court, and to determine the terms of the license, even though those terms covered payments for sales in other countries. Whilst validity and infringement of national patents are matters for national courts to determine, the ETSI IPR policy which gives rise to the FRAND obligation does so by way of a contract between patent owner and implementer. That contract is of a global nature. The English court is able to determine the terms of that contract.

The Supreme Court also dismissed Huawei's argument that the UK was not the most appropriate forum to hear the dispute. It was inclined to agree with the lower courts that the correct characterization of the dispute was a claim for infringement of UK patents and a UK injunction under those patents. That was clearly a matter for English courts. However, the Supreme Court noted that the evidence before it did not establish any other court as being more suitable. In this case it had no basis to overturn the lower court's decisions. No doubt future implementers will take steps to improve that position.

III. NON-DISCRIMINATION

Earlier in the *Unwired Planet* litigation, Samsung had also been a party. Samsung had settled with Unwired Planet at a point where Unwired Planet was short on cash. Consequently, it had obtained a good deal: a better deal than the court subsequently determined that Huawei should pay.

Huawei argued that the "non-discrimination" limb of FRAND should put it in the same position as Samsung. It would be discriminated if it were to pay more.

The lower courts had found that the Non-Discrimination limb of FRAND is not "hard-edged": differential pricing is not *per se* objectionable. The Court of Appeal held that a hard-edged non-discrimination rule could harm the evolution of standards if it forced the SEP owner to accept rates that did not reflect the value of the technologies being licensed. A balance needs to be struck.

The German Supreme Court in *Sisvel v. Haier* adopted a similar approach to the UK lower courts. Haier had complained that Sisvel's offer was not FRAND because another licensee had received a lower rate. The evidence suggested that the other licensee received this lower rate only after the strong intervention of the Chinese regulator on behalf of that party. The German Supreme Court stated that the relevant assessments are:

- Art. 102 para. 2 lit. c) TFEU: "applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage"; and
- Sec. 19 para. 2 no. 3 of the German GWB (Act against Unfair Competition): "demands less favorable payment or other business terms than the dominant undertaking demands from similar purchasers in comparable markets, unless there is an objective justification for such differentiation."

Patent owners can protect their business interests and be acting reasonably by accepting conditions lower than normal, but this won't mean that subsequent licensees are then entitled to the same rate.

The UK Supreme Court stated that FRAND conveys a single unitary obligation to be fair, reasonable and non-discriminatory. FRAND cannot be split out into distinct obligations of fairness, reasonableness and, separately, non-discrimination. The ETSI IPR Policy requires participants to offer a FRAND price to all based on the market value of the portfolio, without adjustments for the circumstances of individual licensees. But, as with the German position, if a SEP owner accepts a lower rate from one potential licensee, this does not necessarily mean the price offered to others must drop.

IV. INJUNCTIONS IN FRAND

The CJEU's decision in *Huawei v. ZTE* recognizes that SEP owners may be in a dominant position under Art. 102 TFEU. It sets out steps a patentee should follow to avoid placing itself in a position of abusing any dominant position.

Huawei v. ZTE – steps for injunctions

To determine whether such an injunction would amount to abuse of a dominant position the courts will consider if:

1. The SEP owner, before commencing proceedings, notified the alleged infringer of the infringement by designating the patent and specifying how it has been infringed;
2. The alleged infringer demonstrated a willingness to take a FRAND license;
3. The SEP owner presented in writing a FRAND offer specifying the royalty and the way in which it is to be calculated; and
4. The alleged infringer made a FRAND counteroffer.

Before the German Supreme Court, Haier argued that Sisvel had not followed these steps. In particular, it had failed under Step 3 to make a FRAND offer.

Sisvel argued that this did not matter, as it was not in a dominant position. Its patents evidently did not preclude access to the market: Haier had been accessing the market for some considerable time without a license. The German Supreme Court did not accept this: in making a determination of dominance, infringement of patents should not be considered an alternative way to access the market.

Infringement of patents is not, however, irrelevant in determining if abuse of such a dominant position has occurred. SEPs need to be able to enforce their rights through injunctions: because they have no way to force an implementer to take a license (for example using competition law or by enforcing the ETSI contract) an injunction against further infringement is their only remedy. It would only be abusive if the injunction is sought where the infringer was willing to take a FRAND license.

Infringers need to conduct licensing negotiations “seriously and in a target-oriented way” to be able to argue willingness. On the facts, Haier had not done so. That justified Sisvel in seeking an injunction, and to do so was not an abuse. There was no need to go on to consider steps 3 and 4 of the *Huawei v. ZTE* steps.

In *Unwired Planet* the English courts approached the CJEU's *Huawei v. ZTE* steps in a slightly different way. They found that the steps provided a safe harbor. But deviating from those steps does not automatically equate to abuse.

The UK Supreme Court held that the nature of the notice required by step 1 of *Huawei v. ZTE* depends on the facts. Unwired Planet had not given notice before starting litigation. But in determining whether the litigation was therefore an abuse under Article 102, it mattered that Unwired Planet had not sought an unconditional injunction. It had sought an injunction only if Huawei refused to take a license on terms set by the court to be FRAND. In contrast, Huawei was only prepared to take a license on certain terms that it determined. Willingness needs one to be willing to accept a license for whatever is FRAND. Unwired Planet was willing; Huawei was not.

In *Daimler* the Mannheim Court also considered the steps in *Huawei v. ZTE* in deciding whether to grant an injunction. Again, willingness to take a license was key to the decision. The court held that in assessing willingness it is reasonable to consider a party's conduct in negotiations.

Daimler had required Nokia to make licensing offers to its Tier 1 suppliers. Nokia had done so. Daimler then withdrew from negotiations. This withdrawal was incompatible with a demonstration of true willingness.

Daimler made an offer to submit to third party determination of a license rate, but this was well after the start of the proceedings. It also served to create further delay in making any payments. The court did not consider this as a sign of willingness.

Daimler made counteroffers. These were based on the average price that it paid its suppliers for a connective module (which was lower than the price for which Daimler would sell connectivity modules to owners of Mercedes cars). The court found the use of a mid-chain price as a royalty base did not reflect the benefit of the technology to the end product.

As the Mannheim Court found that Daimler had not demonstrated the willingness required in Step 2 of the *Huawei v. ZTE* case, it could not argue that in seeking injunctive relief Nokia was abusing its dominant position under Article 102. Daimler should be enjoined from further infringement of Nokia's patent in suit.

All, so far, appears clear. Then, on November 26, the Dusseldorf court hearing another Daimler case bucked the trend. It has referred to the CJEU a number of questions, but one of the questions is as follows:

Can it be inferred from license terms which the SEP user has submitted with a counter-offer that there is a lack of willingness to license, with the consequence that the SEP holder's action for injunction is subsequently granted without prior examination of whether the SEP holder's own license offer (which preceded the SEP user's counter-offer) actually corresponds to FRAND terms?

This appears to be a direct question about the Supreme Court's decision in *Sisvel v. Haier*. Possibly it is a brave first instance judge who asks the CJEU if the Supreme Court got it right, but now it seems the CJEU may have an opportunity to comment.

V. WHAT SHOULD BE THE LICENCE POINT?

Traditionally, telecoms SEPs have been licensed at the handset level. In the automotive industry, OEMs prefer that their supply chain handles any IP licensing and indemnify them against any IP infringement claims. Daimler and its suppliers argued that the license point should be at the component level. They argued that: (1) SEPs are implemented in the components, so component manufacturers should take the license; and (2) any royalty should be based on the sale price of the component.

A similar argument was raised against Qualcomm by the United States FTC. Qualcomm had refused to license competitor chip maker Intel, preferring to license its SEPs to Intel's customers. The FTC argued that this violated antitrust law. At first instance, the United States District Court for the Northern District of California had agreed.

The Court of Appeals for the Ninth Circuit noted that if Qualcomm were required to license its patents at the chip level, this could result in a partial exhaustion of Qualcomm's rights. OEMs would be less likely to take a license, leaving Qualcomm with more limited options to recover value for its IP. It would need to increase the price of its chips, or try to split its SEP portfolio into chipset level patents and end user product patents.

Splitting a portfolio between chipset and end user product can be difficult, as few patents are solely implemented in the chipsets themselves. For many SEPs, primary infringement only occurs when the chipset is used in an end user product, such as a smartphone. The chipset may provide some of the functionality to enable infringement (which may give rise to an indirect infringement argument) but for the most part it does not directly infringe on its own.

“No license, no chip”

Qualcomm considered whether Qualcomm's “no license, no chip” policy breached US Federal antitrust laws. The first instance decision held that it did, by imposing an “anticompetitive surcharge” on sales by rival chip manufacturers. This was supported by *Caldera v. Microsoft*, where Microsoft required OEMs to pay a license fee on all devices even if they did not contain the Microsoft operating system.

The Court of Appeal held that the policy in *Qualcomm* was “qualitatively different” from Microsoft, as an OEM requires a license from Qualcomm to avoid infringing Qualcomm's patents, regardless of the chip being used.

In its judgement the Ninth Circuit Court of Appeal held that Qualcomm's policy was not in breach of antitrust laws as:

- Maximizing returns (by licensing at the OEM level) is not an abuse of competition law and that OEM licensing was consistent with current industry practice;
- The policy was “chip supplier neutral” and so there was no anticompetitive treatment; and
- Intel and MediaTek had successfully broken into the market, demonstrating that the policy was not excluding others from the market, nor discouraging competition.

Qualcomm also deals with the question of whether licensing at the handset level is anticompetitive. The Court concluded that if there was any anticompetitive harm caused by Qualcomm's rates, it would have been to the OEMs who were customers rather than competitors. This puts the matter outside the scope of antitrust law.

In *Daimler*, the Mannheim Court also held that antitrust law (here Art. 102(c) TFEU) was intended to ensure that there was no distortion of competition between trade partners. The question is whether there is evidence of unequal treatment which hinders competition. There was no risk that Nokia's actions would have put Daimler at a competitive disadvantage to other automotive OEMs: many of them were already licensing these patents at the OEM level. So, Nokia's decision to license at the OEM level was not anti-competitive.

On November 26, the Dusseldorf court hearing another Daimler case referred to the CJEU a number of questions about the licensing level. These include whether a downstream company can raise an Article 102 “abuse” defense against a SEP holder if the standard is implemented in a precursor product purchased by the infringing party from a supplier that is willing to license.

If the CJEU were to answer this in the affirmative, it may preclude injunctions, in Germany at least, against end user product manufacturers. This would leave SEP owners unable to enforce patents at that level, and therefore force component level licensing on the industry. The CJEU is not known for moving quickly, so there may be some time before we get an answer. It may decide not to answer at all, since Nokia had made licensing offers to Daimler's suppliers, so the CJEU may consider that the question is, in this case at least, a hypothetical one.

VI. CONCLUSION

This flurry of FRAND had, for a brief period, cleared away the mists surrounding the world of SEP licensing. It became reasonably clear that German and English courts can give injunctions on SEPs if the infringer is unwilling to take a FRAND license. A FRAND license can be a global license. It was not anti-competitive to license patents at the OEM level, instead of the component level. But perhaps predictably, that moment of clarity was not destined to last. Following the Dusseldorf court's reference to the CJEU the sea mists have rolled back in, and the telecoms industry is left again to grope around in a fog of uncertainty.

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