The New Landscape in FRAND Litigation

By Haris Tsilikas[1]

Summary[2]

2020 marked a turning point in global FRAND litigation. In particular, three judgments by the Federal Court of Justice (*Bundesgerichtshof*) of Germany, the Supreme Court of the UK, and the US Court of Appeals for the Ninth Circuit change the landscape in international FRAND litigation.

Specifically, the German Federal Court of Justice, in its recent *Sisvel* ruling, decided on a broad range of issues around SEP-enforcement.[3] The FCJ reversed the lower court's findings that an SEP-owner that fails to make an offer on FRAND terms infringes Article 102, regardless of the conduct of the prospective licensee.[4]

Moreover, the Court emphasised both the substantial efficiencies of portfolio licensing and the wastefulness of a patent-by-patent approach to licensing.[5] According to FCJ, whether a given licensing offer is FRAND depends on 'a variety of circumstances.'[6] FRAND, however, does not entail an obligation on the part of the SEP-owner to offer identical terms to all licensees or, when it comes to the royalty rate, a 'uniform tariff.'[7] The Court noted the infringer's incentives to holdout as far as possible, even until the patent's term of protection expires.[8] Therefore, the implementer is to respond to the notice of infringement by indicating promptly and unequivocally his willingness to conclude a licence on FRAND terms and participating in the licensing negotiations in earnest.[9] Moreover, the Court indicated

[1] Haris Tsilikas, LL.M., Attorney at Law, Consultant, Doctoral Candidate and Visitor Scholar, Max Planck Institute for Innovation and Competition (Munich).

[2] Summary Citation: Haris Tsilikas, 'The New Landscape in FRAND Litigation' [Summary] (March 2021) *4iP Council*.

[3] *Sisvel v. Haier*, Federal Court of Justice (*Bundesgerichtshof*) Case No. KZR 36/17 (5 May 2020).

[4] ibid, para 79.

[5] ibid, para 90.

[6] ibid, para 93.

[7] ibid.

[8] ibid, para 94.

[9] ibid, para 95, citing (in English) Birss's J findings in *Unwired Planet v. Huawei* [2017] EWHC 711 (Pat), para. 708 ('a willing licensee must be one willing to take a FRAND licence on whatever terms are in fact FRAND').

that the general conduct of the defendant during negotiations suggested bad-faith delaying tactics.[10]

In the UK, the Supreme Court recently published its decision in *Unwired Planet*, affirming prior decisions by the High Court and the Court of Appeal.[11] The Court emphasised that the ETSI IPRs Policy aims to address both potential "holdup" and holdout by implementers unwilling to agree to a FRAND licence.[12]

With regard the appropriate geographical scope of a FRAND licence, the Court observed that worldwide portfolio licences are the industry norm in the telecommunications sector.[13] Additionally, the Court noted the onerous litigation costs for SEP-owners should they have to enforce the entirety of their portfolio on a country-by-country basis.[14] The high costs associated with country-by-country negotiation and litigation explain the clear industry preference for worldwide portfolio licences.[15] The Court underscored that calling for the patentee to establish the validity and essentiality of its entire portfolio on a country-by-country basis before enforcing his rights to exclude with injunctive relief 'runs counter to the balance which the IPR Policy seeks to achieve.'[16]

Furthermore, the Court observed that the ETSI IPRs Policy incentivises private parties to reach agreement on FRAND terms without recourse to litigation.[17] Injunctive relief is vital in the pursuit of this objective: 'it is this which ensures that an implementer has a strong incentive to negotiate and accept FRAND terms for use of the owner's SEP portfolio.'[18]

Finally, the Supreme Court held that the ETSI IPRs Policy does not entail an obligation for an SEP proprietor to offer identical terms to all licensees ('hard-edged' non-discrimination). The Court noted that ETSI rejected, in the past, the inclusion of a most-favoured nation (MFN)

[10] ibid, para 110.

[11] *Unwired Planet International Ltd v. Huawei Technologies (UK) Co Ltd* [2020] UKSC 37.

[12] ibid, [10].

[13] ibid, [15].

[14] ibid, [36].

[15] ibid.

[16] ibid, [59].

[17] ibid, [61].

[18] ibid.

clause in its IPRs Policy, and price discrimination is the industry norm in the specific sector because it yields efficiencies, and promotes innovation and consumer welfare.[19]

In the US, the 9th Circuit published its ruling in *Qualcomm* reversing the first-instance judgment by the lower court.[20] The court reiterated that §2 Sherman Act does not impose a duty to deal with any particular customer.[21] There is only one limited exception to this rule under *Aspen Skiing*, where the Supreme Court held that a monopolist may be liable under §2 in case (a) he unilaterally terminates a profitable business arrangement with a competitor and (b) the only plausible rationale for this conduct is sacrificing short-term profits to exclude competition in the long-run.[22] The district court's finding that Qualcomm's conduct fell within the *Aspen Skiing* exception was reversed. According to the 9th Circuit, the lower court was incorrect in finding that Qualcomm terminated an existing arrangement with rivals, since there was little evidence on record that Qualcomm ever licensed at the chipset level.[23] More importantly, there was little evidence that, by licensing OEMs, Qualcomm sacrificed profits to pursue an exclusionary scheme; on the contrary, licensing at the OEM level was 'far more lucrative.'[24]

The above-mentioned developments in FRAND litigation in Europe and the US lead to the following conclusions:

First, there is convergence in the approaches to injunctive relief for SEPs in all major European jurisdictions (Germany, UK, France, the Netherlands). The basis of this convergence is the CJEU's *Huawei* framework. The emerging consensus regarding injunctions for SEPs in Europe can be summarised in three points: (a) per se illegality: SEP-proprietors that initiate injunction proceedings without first notifying the infringer face strict condemnation under Article 102, (b) per se legality: SEP-owners that have properly notified implementers and made an offer on FRAND terms are safe from antitrust liability,

[19] ibid, [116], [123]-[124].

[20] *Federal Trade Commission v. Qualcomm Inc.*, Case No. 19-16122 (9th Cir. 2020).

[21] ibid, citing *Pac. Bell Tel. Co. v. linkLine Commc'ns, Inc.*, 555 U.S. 438, 457 (2009); *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 408 (2003).

[22] *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985).

[23] *Qualcomm* (n. 52) 33.

[24] ibid, 34.

and (c) a grey area in between when the SEP-owner has properly notified the infringer and the parties disagree on FRAND terms.

Second, there is convergence in the approaches between European and US courts regarding the potential antitrust liability for practices such as licensing at the end-device level and calculating royalties on the basis of the end-device price (and not on SSPPU).

Third, prevailing industry practice guides judicial review and is decisive for courts determining whether a given conduct is non-FRAND. Briefly put, conduct that conforms to prevailing industry norm will normally be approved by courts, unless there are convincing reasons for diverging from this norm.