

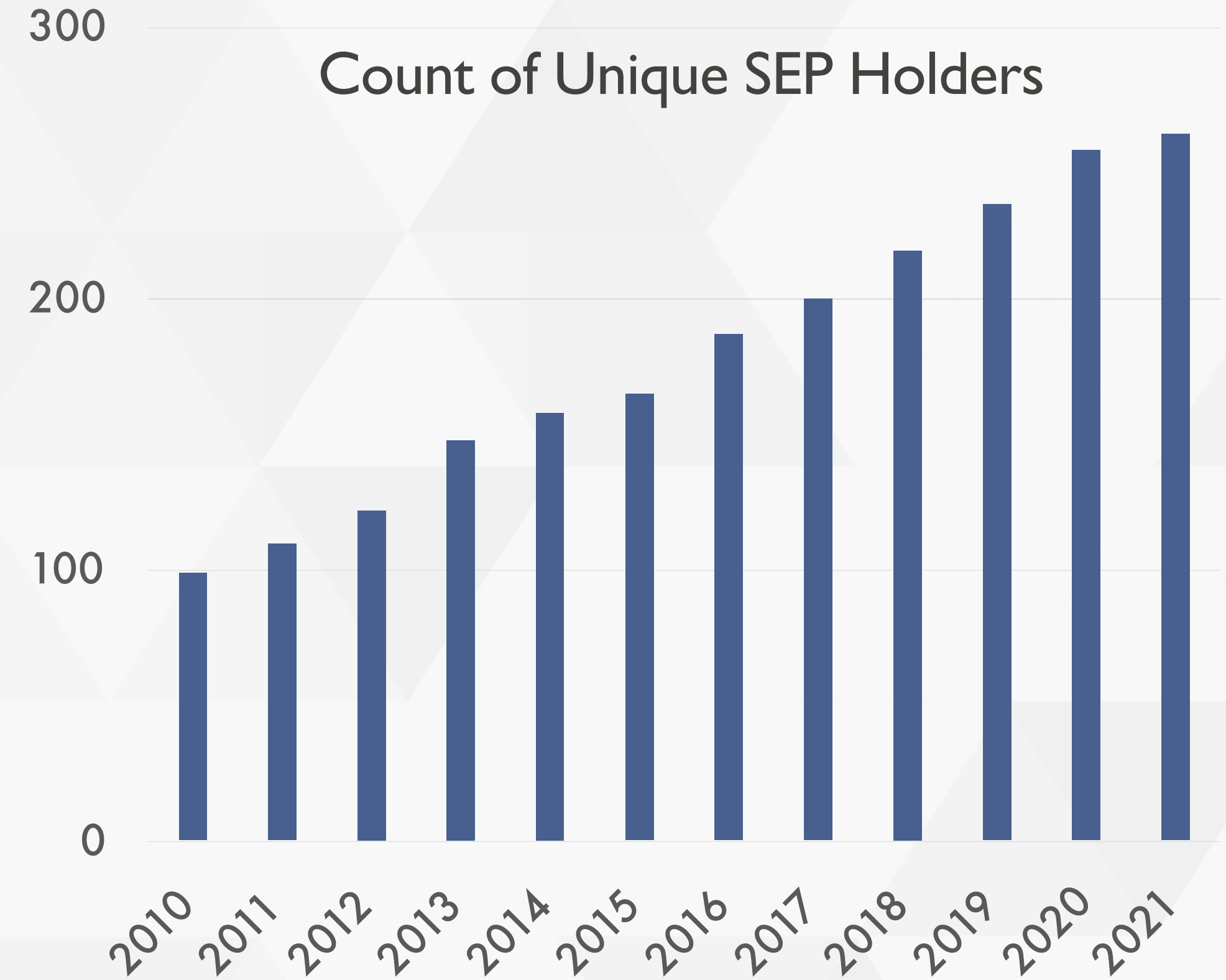
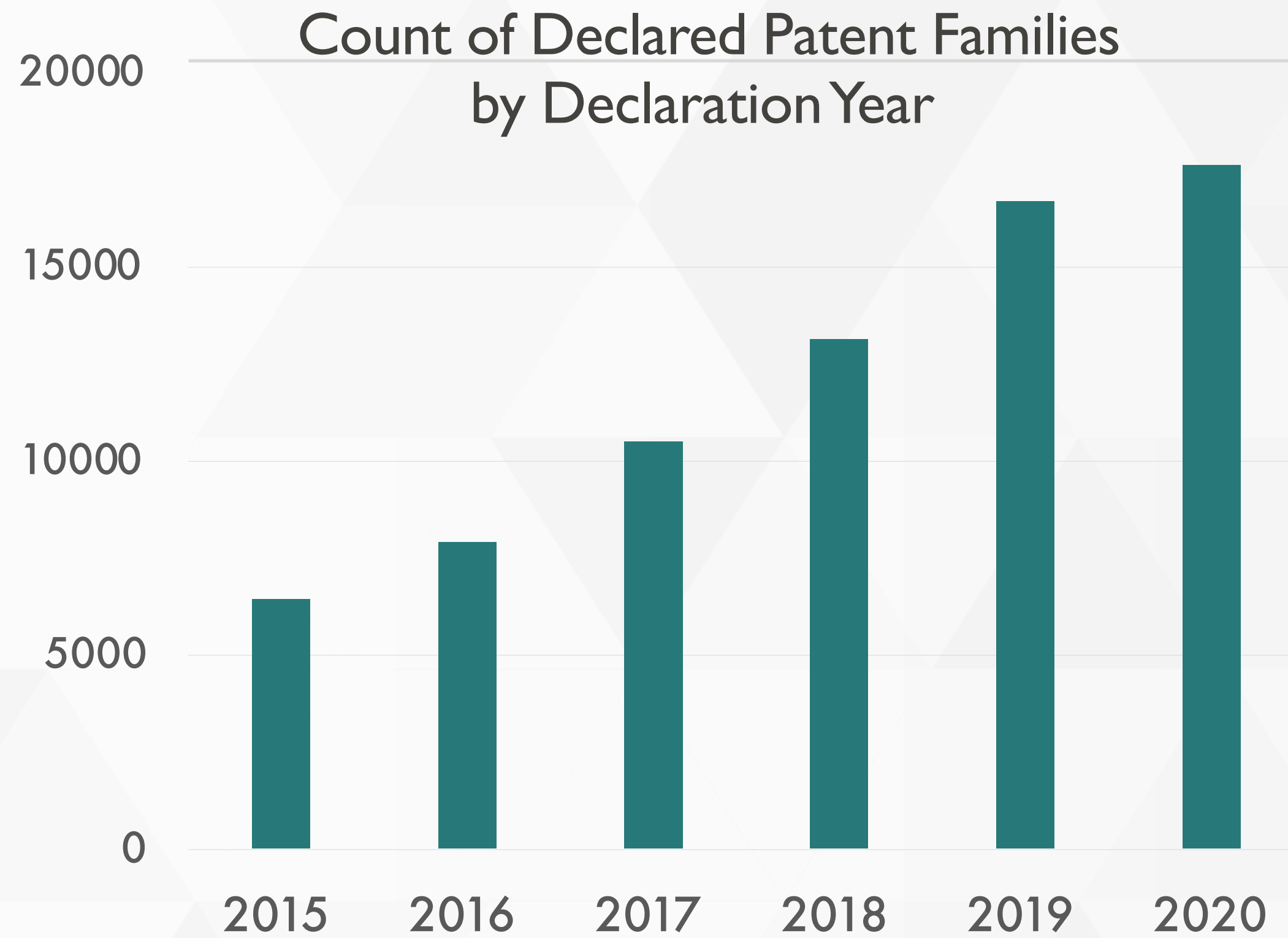
STANDARD ESSENTIAL PATENTS (SEPs): Anticipating Worldwide Impact



TOM CHIA, JD, PHD

December 10, 2021

The Growing Importance of SEPs

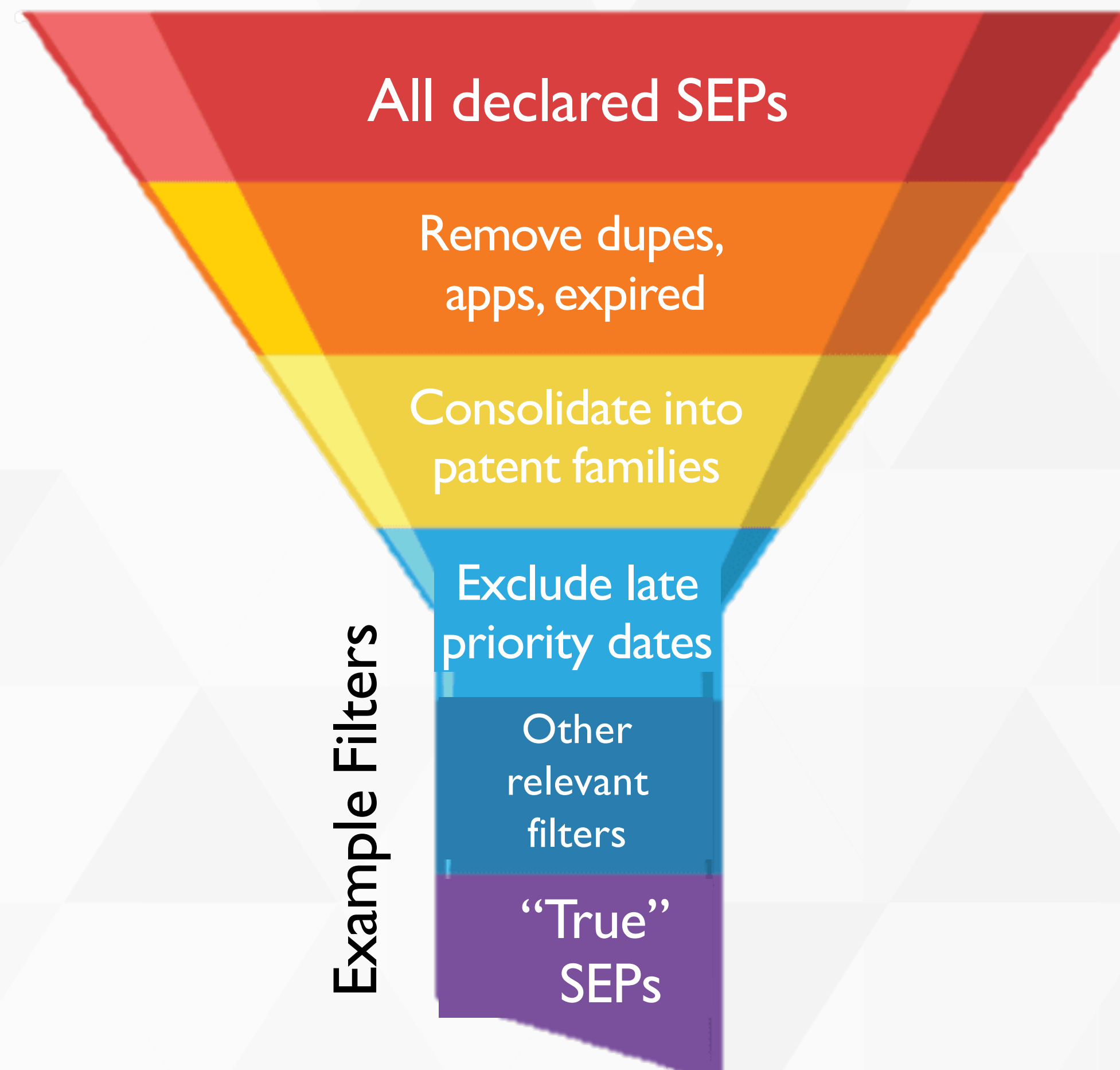


IPLytics, 2021

**“First-class companies make standards,
second-tier companies make technology, and third-tier companies make products.”**
- China’s Standardization Administration

SEP Licensing: Approaches to Valuation

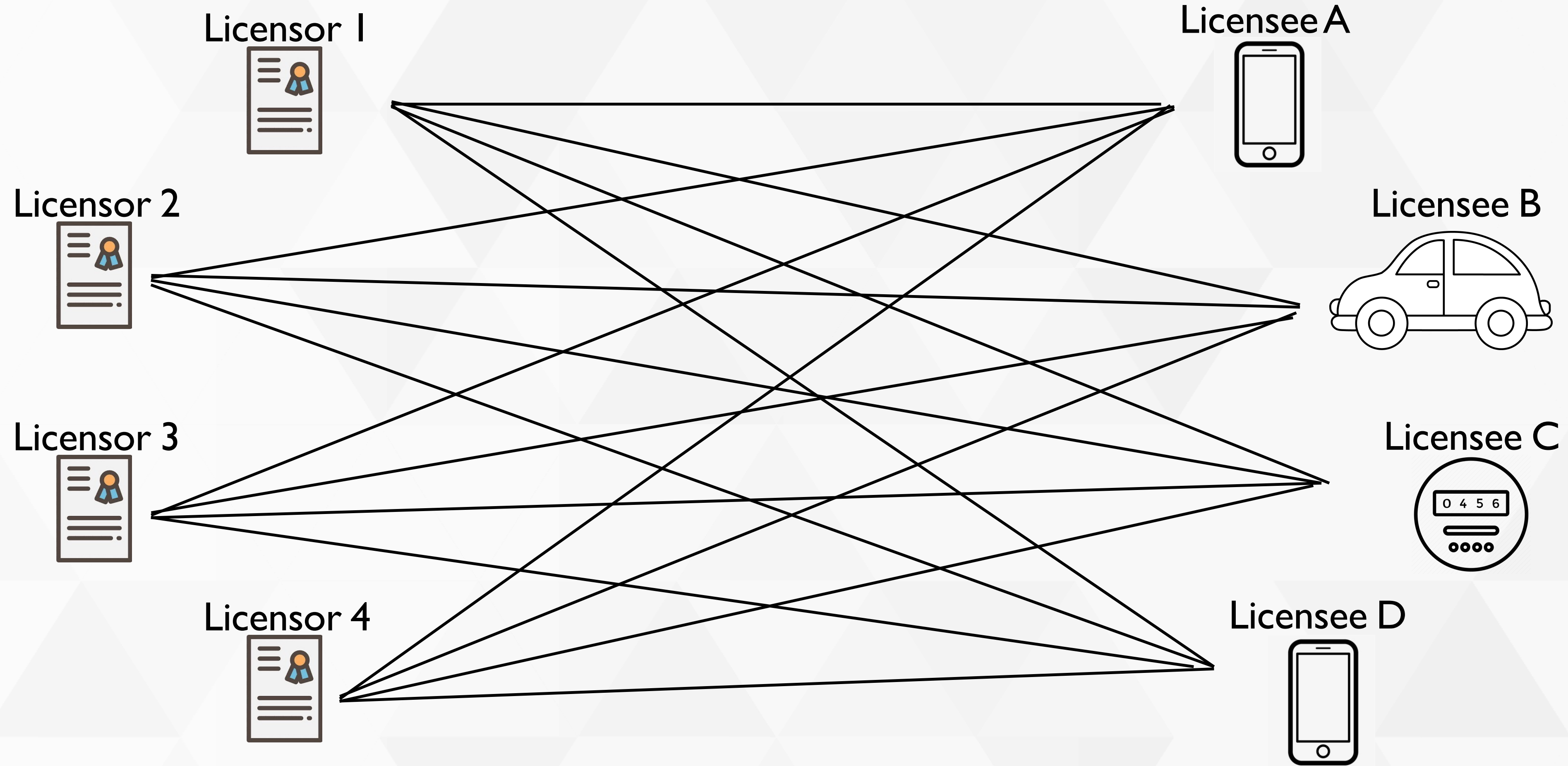
Top Down



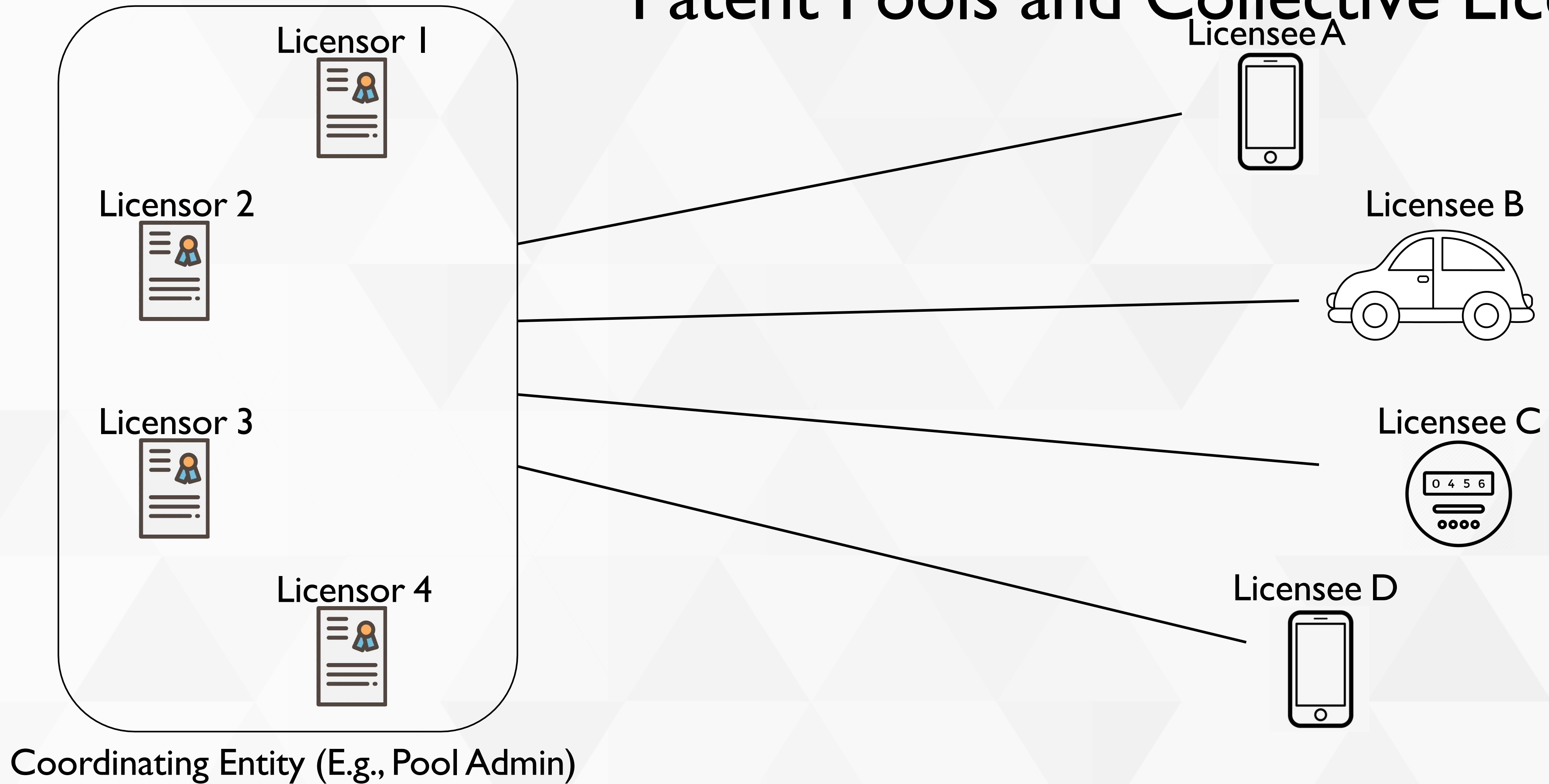
Bottom Up

- Assess the value of asserted SEPs in isolation
 - Using comparable license agreements and other methodologies
 - Less reference to other patents covering the same standard

Traditional Bi-Lateral Licensing



Patent Pools and Collective Licensing

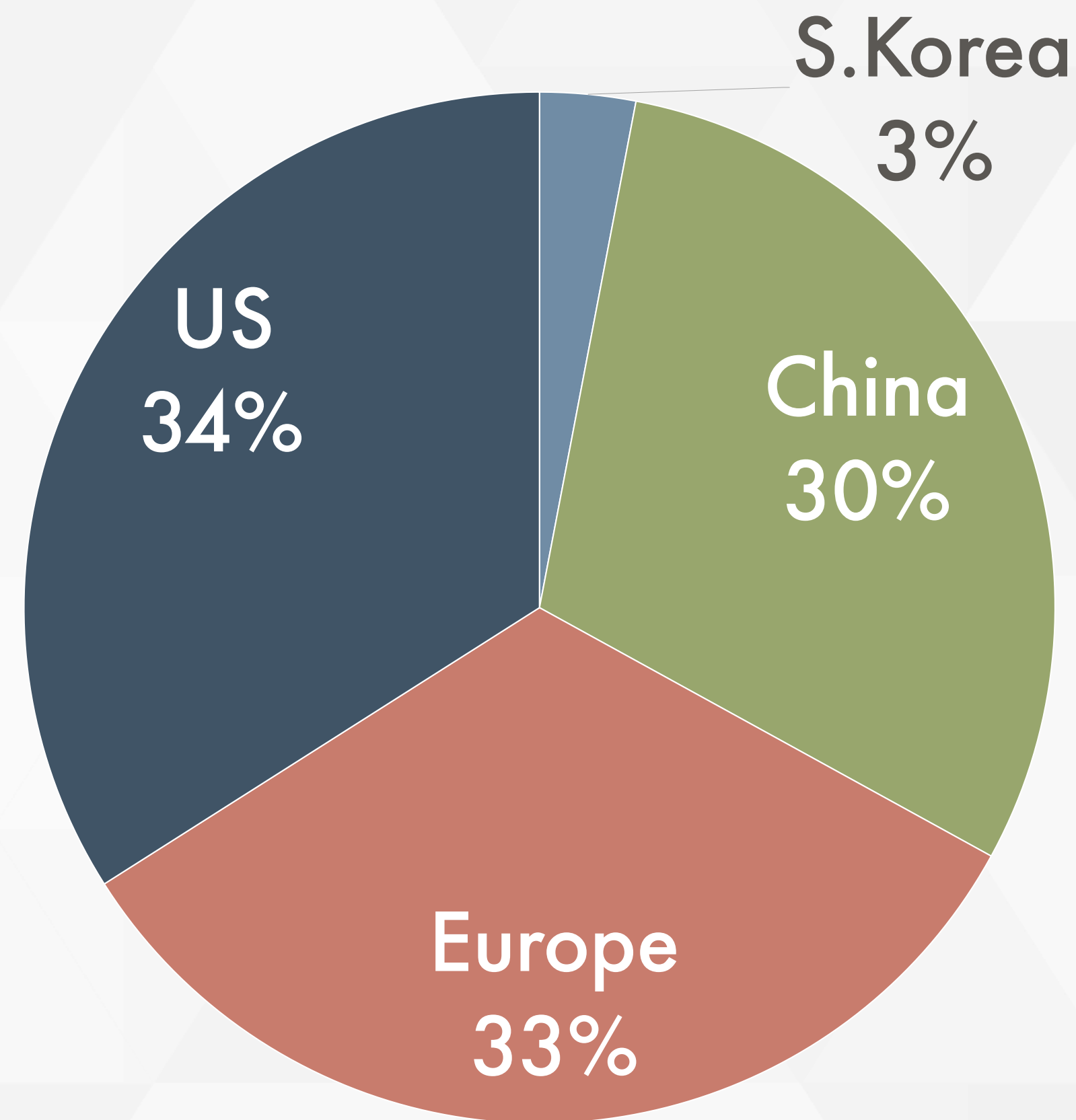


Patent Pools and Collective Licensing

“Comparing the cost of running a pool with the counterfactual cost of licenses, we estimate empirically the transaction cost savings from pooling patents: millions of dollars in transaction costs.”

Merges, Robert P., and Michael Mattioli. "Measuring the costs and benefits of patent pools." *Ohio St. LJ* 78 (2017)

Poll Results: Which Jurisdictions will Drive SEP Litigation in the Upcoming Years?



IPWatchdog Webinar Polls, March 2021, N=384

Thank You



Judicial Determination of FRAND Royalties in China


Yuan Hao, PhD, JD

Berkeley Centre for Law and Technology

Dec. 10, the 22nd Berkeley-Stanford Advanced Patent Institute



Outline

- Legal Basis and Challenges for Judicial Determination of FRAND Royalties
 - FRAND Methodologies in Landmark Cases
 - Recent Judicial Willingness to Set “Global Royalty”
- 

Legal Basis and Challenges

- I. **Patent Infringement Claim** – Consideration in Granting Injunction
 - II. **Anti-monopoly Law Basis** – Abuse of Market Dominance
 - III. **“Free-Standing” Claim** – Dispute of FRAND Royalties
- Legal basis:
 - Section 3, Art. 24 of the Judicial Interpretation II (2016)
 - Section 16, Art. 1 of the Judicial Interpretation I (2001) (revised in 2020)
 - Unresolved Challenges:
 - How to interpret FRAND commitment under Chinese law?
 - Is the legal basis of “free-standing” claim adequate under Chinese law?

“Free-Standing” Claim: Dispute of FRAND Royalties

➤ Legal basis:

- Section 3, Art. 24 of the Judicial Interpretation II (2016): Precondition for Judicial Determination - *A mutually agreed royalty cannot be reached after adequate negotiations by both parties*
- Section 16, Art. 1 of the Judicial Interpretation I (2001) (revised in 2020): “Free-Standing” Claim on FRAND royalty dispute

➤ Unresolved Challenges:

- How to interpret the FRAND commitment under Chinese law?
- Is the legal basis of “free-standing” claim adequate under Chinese law?

FRAND Methodologies in Landmark Cases

- Huawei v. Interdigital (Guangdong High People's Court, 2013)
 - Comparable license approach
- Huawei v. Samsung (Shenzhen Intermediate People's Court, 2018)
 - Top-down approach
- Huawei v. Conversant (Nanjing Intermediate People's Court, 2019)
 - Top-down approach

Question: How "binding" are these cases?

Recent Judicial Willingness to Set Global Rate

- Sharp v. Oppo (Supreme People's Court, IP Division) (2021) (2020 *Zhi Ming Xia Zhong* No. 517)
 1. Parties' willingness and previous negotiations to a global license;
 2. Closer connection to China;
 3. Proper jurisdiction



Thank you!

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10 DECEMBER 2021

**22nd Annual Berkeley-Stanford
Advanced Patent Law Institute
SEPs: Anticipating Worldwide
Impact**

Steven Baldwin, Partner, London

EU (and beyond) Case Law Developments

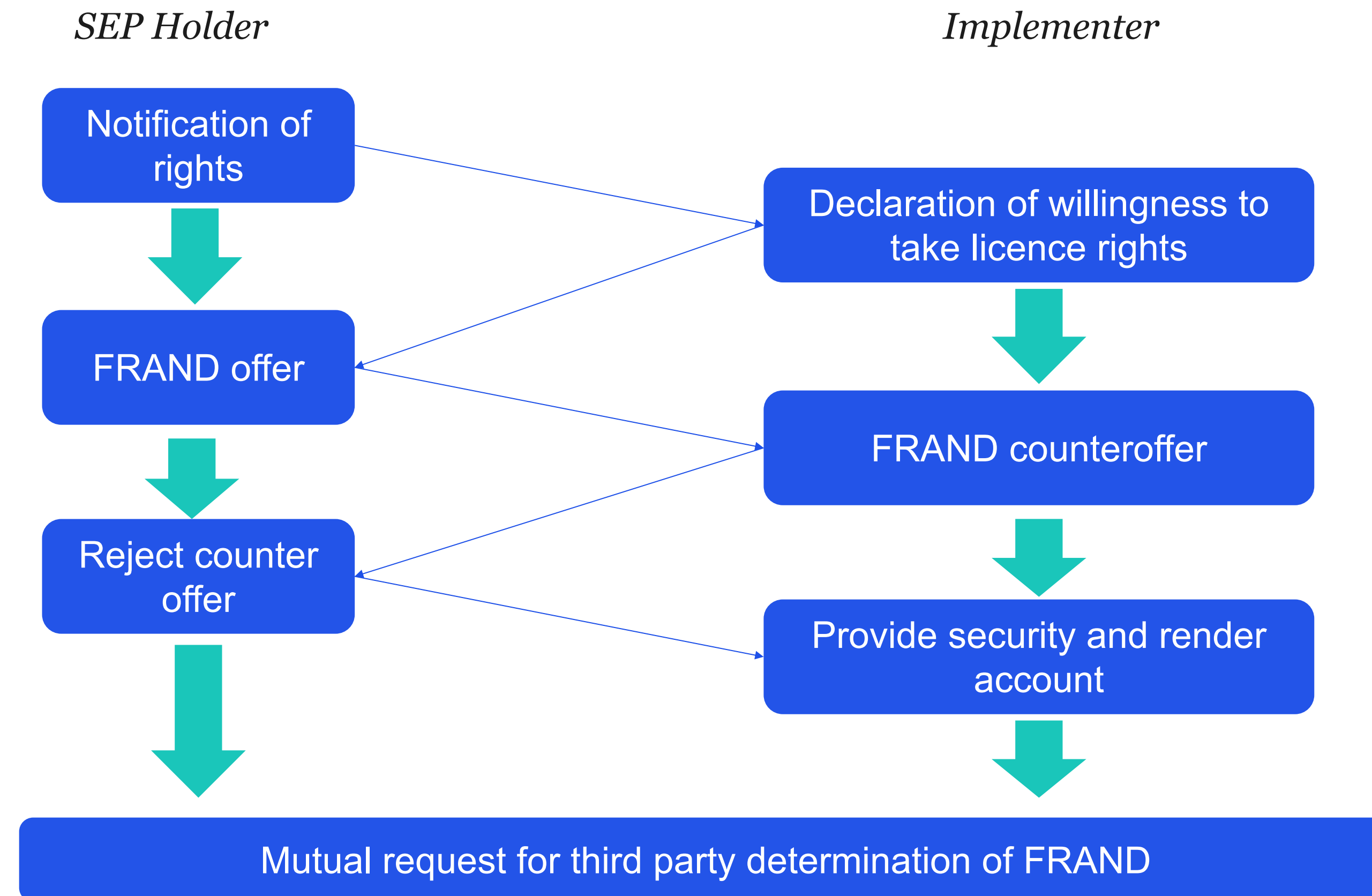
- ▶ UK as a Non-Consensual Forum for Global FRAND Cases
- ▶ Outstanding Questions
 - Injunctions
 - Disclosure of Comparables and Confidentiality
- ▶ International Comity and Parallel Proceedings
- ▶ Activity in key European jurisdictions
 - Germany
 - France
 - Netherlands

Huawei v ZTE (CJEU; C-130/15)

Background

- ▶ A referral from the Regional Court Düsseldorf.
- ▶ Explained when a SEP implementer could rely on an EU competition law defence.
- ▶ Accordingly it effectively set the framework for the conduct of FRAND licensing negotiations.
- ▶ However, this framework is not viewed as binding in all member states or the UK, instead being considered by some as providing guidelines for negotiation.

▶ CJEU Framework for FRAND Negotiations



- ▶ The Regional Court of Düsseldorf referred further questions to the CJEU in *Nokia v Daimler*, seeking (among other things) clarity on certain of the requirements laid down in *Huawei v ZTE*. However, these questions will not now be answered due to the litigation settling in June 2021.

UK as a Non-Consensual Forum for Global FRAND Cases

▶ ***Unwired Planet v Huawei & ZTE; Conversant v Huawei & ZTE* [2020] UKSC 37: English Court**

- The English Court does have the jurisdiction to: (i) determine and set FRAND royalty rates for a global licence involving a multi-national patent portfolio; and (ii) grant an injunction against implementers that refuse to enter into one.
- The UK was a more suitable forum to determine the FRAND dispute: at the time Chinese Courts did not have the recognised jurisdiction to determine a global FRAND licence (see subsequent developments in *Nokia v OnePlus* in the UK and *Oppo v Sharp* in China).
- Supreme Court decided that determining the FRAND licence is a question of contract not damages. Anti-trust has a role to play but so far in UK cases it has been limited (with the recent exception of *Apple v Optis*).

▶ ***Philips v TCL* [2020] EWHC 2533 (Ch): French Court considered**

- Paris High Court accepted jurisdiction to hear a global FRAND action. The case included ETSI as a Defendant given *inter alia* the ETSI undertaking is French-law governed and constitutes a “*stipulation pour autrui*”. In parallel, there was an earlier global FRAND action in England, which was “first seised”. TCL applied to stay the English proceedings.

▶ ***Nokia v OnePlus* [2021] EWHC 2952: Chinese Court considered**

- The English Court acknowledged that there was an alternative court (Chongqing, in China) in which proceedings were underway and that had jurisdiction to make a global FRAND determination. (Following the Chinese jurisprudence in *Oppo v Sharp*). OnePlus/Oppo applied to stay the English proceedings.

▶ **Implementer led UK jurisdiction?**

- There is an outstanding question on whether an implementer can bring a global FRAND claim in the UK. It is likely to come down to how particular claims in issue are defined and what relief should flow from those claims. Current cases provide a mixed view: *Vestel UK v Access Advance LLC & Philips* [2021] EWCA Civ 440; *Mitsubishi and Sisvel v Xiaomi and others* [2021] EWHC 1541.

Outstanding Questions

FRAND Injunctions

- ▶ ***Optis v Apple [2021] EWHC 2564 (Pat)* – “Blank cheque undertaking; unwilling licensee”**
 - The English Court held that a party which has been found to infringe a valid and essential patent may be considered to fall outside the class of beneficiaries entitled to enforce clause 6.1 of the (SEP Holder’s) ETSI undertaking if it fails, after the technical trial and without knowledge of the licence terms, to give the necessary undertaking to take whatever licence the English Court determines to be FRAND.
 - The consequence of failing to give the undertaking would be the immediate imposition of a FRAND injunction after the relevant technical trial.
 - It is likely pending any appeal that all SEP holders will seek an unconditional undertaking in this form as soon as there is a finding that one of their patents has been found valid and infringed.
 - Apple has been granted permission to appeal this decision (and a follow-on decision in *InterDigital v Lenovo* is pending).

- ▶ ***InterDigital v Lenovo* – Hearing on 29 November 2021. Judgment Pending. FRAND trial January 2022.**
 - Seeking to apply Meade J’s judgment in *Optis v Apple*, InterDigital argued that if an implementer loses at a technical trial it must follow that a SEP holder should be awarded an immediate FRAND injunction unless the implementer provides an unqualified undertaking to be bound by the FRAND licence terms determined by the English Court – this scenario is not “fact sensitive”.
 - Lenovo argued that *Optis v Apple* does not apply. Lenovo are a beneficiary under clause 6.1 of the ETSI undertaking because they were willing to undertake to take a licence from the English Court so long as a mechanism is provided for ensuring that the determinations of the United States and Chinese courts in the existing proceedings are given effect. Judgment is pending.

Outstanding Questions

Disclosure of Comparables and Confidentiality

▶ *Mitsubishi and Sisvel v Xiaomi and others* [2020] EWCA Civ 1562

- The Court of Appeal affirmed that External Eyes Only (“EEO”) designations are exceptional, but noted that whilst an EEO tier had been agreed in this case it was not wrong in principle to adopt a staged-approach to disclosure with tighter EEO restrictions initially which may be relaxed closer to trial.
- However, the Court of Appeal affirmed that it would be exceptional, if permissible at all, that documents of importance to the trial could not be disclosed to an officer/employee of the receiving party. Confirmed in the recent decision by Mellor J in *InterDigital v Lenovo*.
- A recipient of sensitive confidential information, e.g. comparable licences, may now be expected to give undertakings not to be involved in FRAND licensing with the third party counterparties to those licences for a period of years (see also *IP Bridge v Huawei*; *InterDigital v Lenovo*).
- However, the Court of Appeal accepted Xiaomi’s argument that the confidentiality undertakings should not restrict the receiving person’s ability to be involved (or likely to become involved) in FRAND litigation (or settlement) against that other party.

▶ *Godo Kaisha IP Bridge v Huawei* [2021] EWHC 2826; *InterDigital v Lenovo* [2021] EWHC 3192 (Pat)

- In *IP Bridge* at an early stage of proceedings Mellor J ordered the re-designation of a licence provided that: (1) only Huawei representatives not involved in licensing could view the licence; (2) those individuals would have to make certain undertakings not to be involved in licensing with the counterparty to the licence (or its affiliates) for 5 years; and (3) the licence would be provided on a read-only basis (c.f. *Interdigital v Lenovo*, where the read only requirement was deemed unnecessary).
- However, for the FRAND trial in *InterDigital v Lenovo* Mellor J took a less strict approach: (1) two representatives allowed to see licences included in the trial bundle, (2) 5-year undertaking, (3) weighted average figures for IDC’s portfolio designated non-confidential

International Comity and Parallel Proceedings

The English Court tends to progress UK FRAND cases in spite of the existence of parallel foreign proceedings.

▶ ***Philips v TCL* [2020] EWHC 2533 (Ch)**

- UK vs French global FRAND proceedings. UK first in time, France second. The English Court refused to grant a stay of proceedings applied for by TCL under the Recast Brussels Regulation: Article 29: the UK and French proceedings did not have the same subject matter; Article 30: the English Court was first seised of the relevant issues and so had no jurisdiction to order a stay. *[Note also: this was a pre-Brexit decision when it was not possible for the English or French Courts to grant anti-suit injunctions against each other].*

▶ ***Nokia v OnePlus* [2021] EWHC 2952**

- The English Court held that the dispute, properly defined, related to the infringement, essentiality and validity of UK patents making the UK the most appropriate forum (in relation to *forum non conveniens*).
- The court was also unwilling to stay on case management grounds. In balancing the factors which may warrant a case management stay the Court concluded that the risk of irreconcilable judgments between national courts was an inevitable consequence of the way SSOs have arranged matters to date.

▶ **The English Court has been willing to grant a pre-emptive anti-suit injunction**

- ***Philips v Xiaomi* [2021] EWHC 2170 (Pat)**: The English Court in 2020 granted Philips a ‘pre-emptive anti-suit injunction’ to prohibit Xiaomi from pursuing a FRAND determination before any other Court outside the EU. Shortly after, Philips initiated an action for a global FRAND determination in the UK against Xiaomi. In response, in February 2021 Xiaomi commenced an action in France against Philips and ETSI seeking a FRAND licence pursuant to Philips’ FRAND undertaking to ETSI. This is a similar tactic to that adopted by TCL in its litigation with Philips (see Slide 3). Similarly the English Court again refused to stay its proceedings in favour of the French action.

▶ ***Are we heading towards a “FRAND race” to forum? How will the English Court deal with foreign parallel proceedings?***

Activity in key European jurisdictions

Germany

- ▶ ***Sisvel v Haier* (Federal Court of Justice; Case IDs: K ZR 36/17 & K ZR 35/17)**: to demonstrate they are a willing licensee, an implementer must now:
 - (1) clearly and unambiguously declare its willingness to secure a FRAND licence agreement; and
 - (2) following such a declaration participate purposefully in negotiations to demonstrate its ongoing willingness to obtain such a licence.
- ▶ The German Courts continue to be a forum for seeking (anti-)anti-suit injunctions following the decision in *Nokia v Continental*. Munich District Court has issued pre-emptive anti-anti-suit injunctions against implementers (e.g. *InterDigital v Xiaomi*; *Sharp v Oppo*) and appears at the forefront of developing this area of the law.
- ▶ Increasing findings of unwillingness against licensees and the Munich courts have also indicated *obiter* in *InterDigital v Xiaomi* that any implementer seeking an anti-suit injunction may be considered an unwilling licensee and so subject to an immediate injunction because the FRAND defence would no longer be available.

France

- ▶ ***Conversant v LG***: the French Court is still yet to make any determination on the appropriate FRAND rate in a SEP dispute.
- ▶ ***Xiaomi v Philips***: a case to watch on the French Court's jurisdiction regarding global FRAND and ETSI's role within that.

Netherlands

- ▶ The case law of the Court of Appeal remains largely pro SEP Holder, with the extant position including that:
 - SEP holders are not obliged to explain why their offer is FRAND. The burden is on the implementer to prove discrimination.
 - There is only an obligation for a SEP holder to make a licence offer if the implementer has expressed a willingness to take a FRAND licence before legal action is commenced (in contrast to the position in the UK and Germany).
 - A counter offer by the implementer must also be made before the start of legal proceedings.
 - Note the recent procedural development that VRO (accelerated merits) proceedings are unsuitable for FRAND cases given their complexity and that such cases should instead be litigated on the regular track.

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SEPs: Anticipating Worldwide Impact

December 10, 2021

Dr. Christian E. Mammen



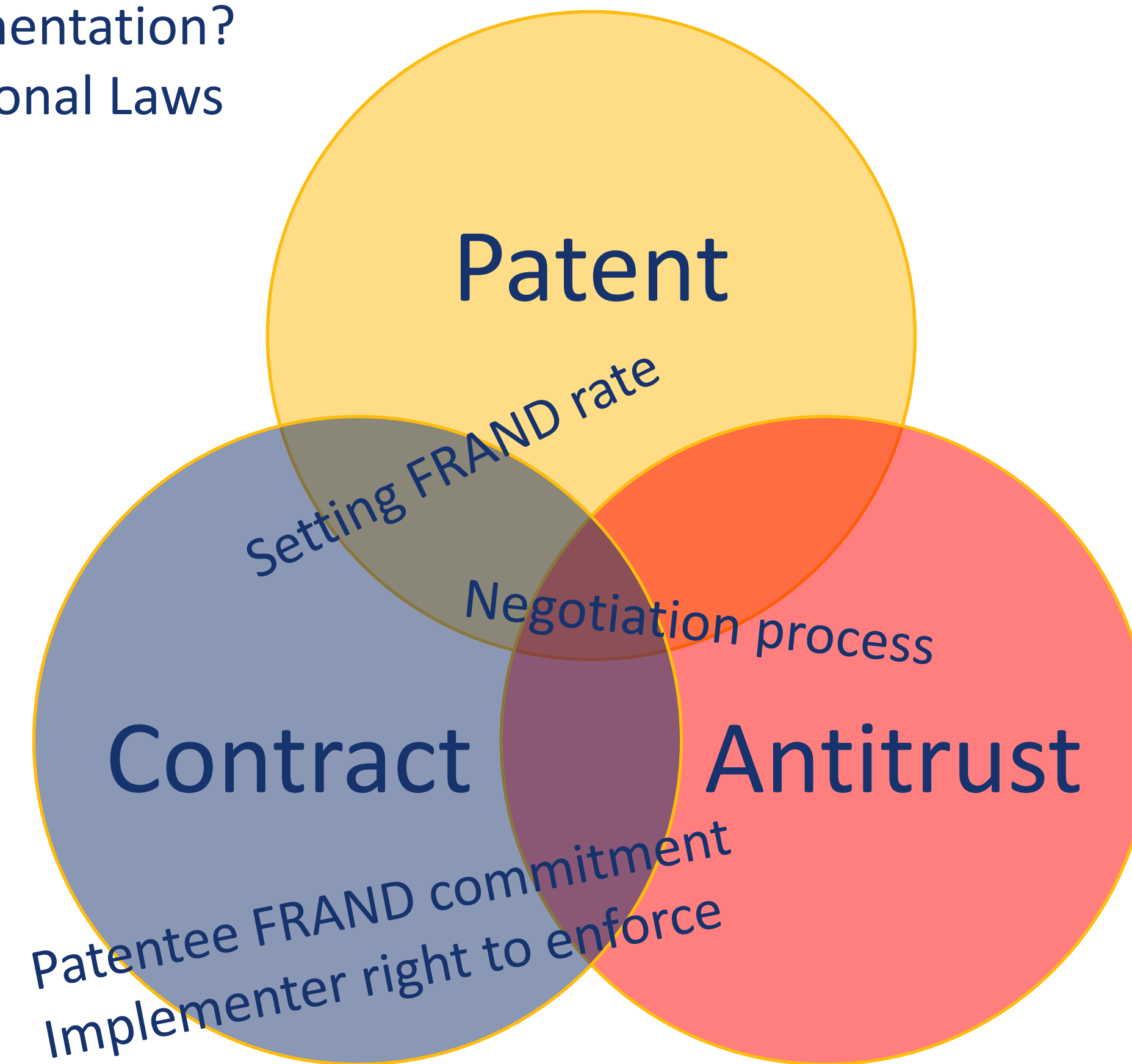
Interconnecting Issues for SEPs

Consistency or Varying Outcomes

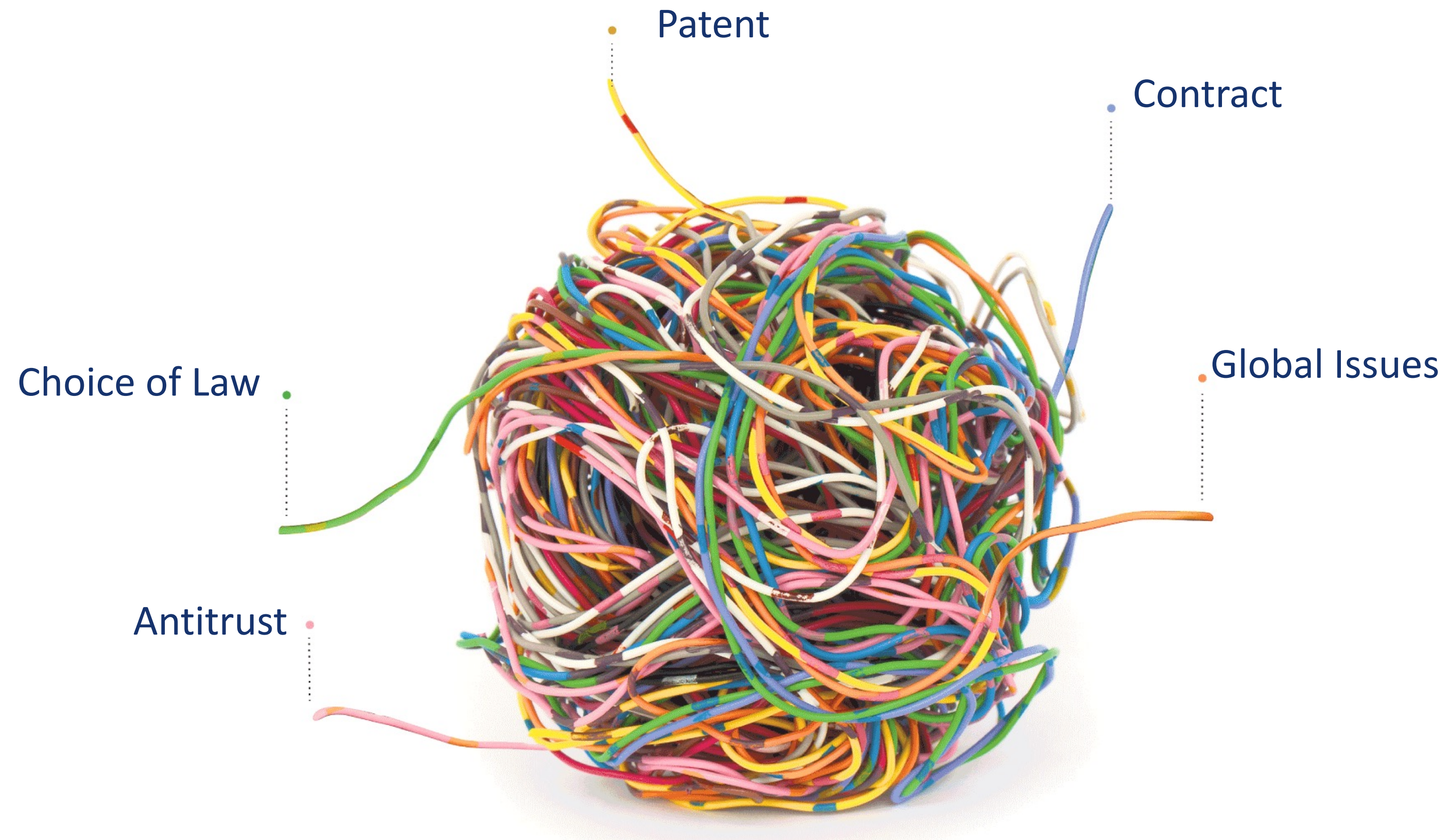
Worldwide Implementation?

Differences in National Laws

Choice of Law



More Like This ...



Sample Contract Issues

- What is the contract?
 - SSO rules, with implementer as third party beneficiary
 - SSO rules, with implementer as SSO member too
(*Microsoft*, 854 F.Supp.2d 993, 999 (W.D. Wash. 2012))
 - Between patentee and implementer (e.g., license agreement), with duty of good faith
- What are the contract terms?
 - Bare duty to make FRAND offer?
 - Specifying FRAND terms
- Third party beneficiary rights
 - Some countries do not recognize third party beneficiary rights
 - Different non-French courts have differed as to whether France does
- Choice of law
 - ETSI: French law
 - ITU, IEEE: no choice of law
- Where to appeal (if not patent issue → regional circuits)

In the U.S., Who Determines Standard-Essentiality?

- According to the Federal Circuit, **JURIES**
 - *Godo Kaisha IP Bridge 1 v. TCL*, 967 F.3d 1380 (Fed. Cir. 2020)
- Essentiality of patent claims is a *fact* issue
 - Like any fact issue, it may be amenable to resolution on summary judgment, but that does not mean it becomes a question of law
- Whether the claim elements read onto mandatory portions of a standard is determined by the trier of fact (typically the jury)
- TCL's petition for cert denied (6/28/21)

Can a Patentee Prove Literal Infringement By Relying Solely On Essentiality?

- According to the Federal Circuit, **YES**
 - *Godo Kaisha IP Bridge 1 v. TCL*, 967 F.3d 1380 (Fed. Cir. 2020)
- Patentee may prove infringement by establishing
 - (i) asserted claims cover a mandatory portion of the standard (i.e., a part of the standard required in all implementations of the standard); and
 - (ii) the accused products are standard-compliant
- Patentee does not need to prove infringement by comparing the asserted claims to the accused product
- Defenses: (i) claims do not cover all implementations of the standard or (ii) accused products do not practice the standard

Strategic Implications of *Godo Kaisha IP Bridge 1*

- SEP-holders may not need much, or any, infringement discovery, reducing both the cost and burden of taking cases to trial
- SEP-holder's trial presentation can be very simple and streamlined for the jury, avoiding technical complexity and confusion
- Risk that lazy juries may simply rely on patentee's "essentiality" declaration that was not vetted by the SSO
- Defense Considerations:
 - While SEP-holders will try to skip past claim construction, claim construction may be critical to distinguish from the standard or certain implementations
 - Seek to exclude "essentiality" declaration before SSO (hearsay, lack of foundation, relevance, FRE 403); build discovery support for exclusion
 - Exercise caution in marketing or other public statements declaring standard-compliance unless necessary for commercial reasons

In the U.S., Who Calculates FRAND?

- According to the Federal Circuit, **JURIES**
 - *TCL v. Ericsson*, 943 F.3d 1360 (Fed. Cir. 2019)
- “Substance” of the relief is **legal**, not equitable → effectively damages for past patent infringement
 - Even where the claim is implementer’s claim for specific performance of the FRAND contract obligation (and no patent infringement claim is litigated)
- 7th Amendment right to a jury trial on FRAND calculation
- Cert denied
 - →juries will generally decide damages for past SEP infringement (and set rates that can be used to establish forward-looking royalties)
- July 2021: Global TCL-Ericsson settlement announced
- *Note*: Motorola consented to bench trial of FRAND rate in *Microsoft v. Motorola*, waiving any argument that the court lacked authority to set rate

“Evolving” DOJ Antitrust Division Guidance ...

- 2015 Business Review Letter re changes in IEEE Policy
 - Violation of FRAND commitments to SSO would violate antitrust law “only to the extent that it harmed competition”
 - Themes focus on patent “hold-up” by SEP owners
 - Further disfavors injunctions
 - Explicit definition of “reasonable rate” that excludes increased value of the technology being part of the standard, and encourages value-add and comparable-license concepts
 - FRAND rate need not be the same at all levels of production
 - Addresses reciprocity and grantbacks
- 2020 Letter supplementing 2015 Letter
 - Acknowledges general right of SEP holders to seek injunctions
 - Expresses concerns about implementer “hold-out” from taking licenses to SEPs
 - Emphasizes potential to calculate royalty base using end-product sales, rather than smallest saleable patent-practicing unit (without qualifications)
- May 2021 Reclassification of 2020 Letter
 - Characterizes the 2020 Letter as an effort of advocacy, not part of the 2015 review
- November 2021 FTC commissioner encouragement to pursue antitrust claims against SEP owners who engage in “patent hold-up”

SEP Holdup As Antitrust Violation?

- Case law trend in US is against use of antitrust
- In *FTC v. Qualcomm*, 9th Circuit stated that to the extent Qualcomm breached any of its FRAND commitments, the remedy for such a breach was in contract or tort law, not antitrust
- “[G]eneral rule [is] that breaches of SSO commitments do not give rise to antitrust liability”
- No cases that find breach of an SSO agreement, without proof that “intentional deception” resulted in acquisition of market power (see *Broadcom v. Qualcomm*) and foreclosure of competition, is a violation of the Sherman Act.

Summary:

Which Courts Set A Global FRAND Rate?

US

- Generally no, except by agreement
 - (e.g., implementer's breach of contract claim)
- FRAND as contract issue
- Use of *Georgia-Pacific* factors
 - 9th Cir: yes (*Microsoft v Motorola*)
 - Fed. Cir: no (*Ericsson v D-Link*)

Europe

- **UK**
 - Sets global FRAND rate (*Unwired Planet v. Huawei*)
- **Germany**
 - Avoids setting FRAND
 - Focuses on negotiation process
 - FRAND as competition law issue

China

- Sets global FRAND rate (*Oppo v. Sharp; Xiaomi v. InterDigital*)

Looking around corners...

- Recent cases favor SEP-holders
- Trend toward contract-centric interpretation
- Whether or not national court can set Global FRAND
- SEP-holders weighing foreign Global FRAND and injunctions vs. US juries/damages
- Anti-suit, anti-anti suit, and anti-anti-anti suit injunctions
- SEPs and the secondary market → are trolls bound by predecessors' FRAND commitments? (under what theory -- privity of contract, attaches to the patent right, etc.)
 - IEEE policy requires patentees to bind assignees and transferees to Letter of Assurance



Dr. Christian Mammen

Partner – Silicon Valley, CA

For more than 20 years, Chris has guided Silicon Valley, national, and global tech clients in high-stakes patent, other intellectual property, and technology litigation. He has led both large and small trial teams in courts throughout the United States, and has also served as lead counsel on appeals before the Ninth and Federal Circuits. His clients include companies in the software, artificial intelligence, telecommunications, microelectronics, medical devices, and life sciences sectors. He has litigated high-profile, hard fought patent cases and also successfully represented many clients against patent trolls and non-practicing entities.

One of only a handful of practicing lawyers to have earned a doctorate in Law from Oxford University in addition to a U.S. law degree (from Cornell Law School), Chris has held visiting faculty positions at UC Hastings School of Law, Berkeley Law School, Stanford Law School, and Oxford University. Drawing on his years of teaching civil procedure, evidence, e-discovery, and advanced patent law, Chris is a creative strategist. He has marked wins for clients on a variety of unconventional issues.

He is admitted to practice in California, Washington, and Oregon as well as before the Supreme Court of the United States, the U.S. Courts of Appeals for the Ninth and Federal Circuits, and all U.S. District Courts in California, Oregon and the Western District of Washington.

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