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Restoring Balance and Clarity in the Innovation Ecosystem

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With more than 40 year of experience, Roberto Dini is one of the best known and appreciated Intellectual Property experts. He began his career with Indesit where he was Head of the Patent and Trademark Office. In 1982, Mr. Dini founded Sisvel, which has soon become a world leader in managing Intellectual Property and maximizing the value of patent rights. With Sisvel he has developed invaluable experience in setting up and managing patent pools and other forms of IP aggregation. He has extensive expertise in filing and prosecuting patents; drafting contracts for the acquisition or licensing of patents; negotiating with multi-national companies; and assisting patent owners in enforcing their patent rights, especially in the consumer electronics field.

Sir Robin Jacob joined the Faculty of Laws in May 2011 leaving the Court of Appeal of England and Wales to do so. Having read Natural Sciences at Cambridge, Sir Robin then read for the Bar (Grays Inn). He started practice at the Intellectual Property Bar in 1967. From 1976 to 1981 he was the Junior Counsel for the Comptroller of Patents and for all Government departments in intellectual property. He was made a Queen's Counsel in 1981. His practice took him abroad often (Hong Kong, Singapore, Europe, USA, and Australia). He was appointed a High Court Judge (Chancery Division) in 1993. From 1997 to 2001 he was Supervising Chancery Judge for Birmingham, Bristol and Cardiff. He was appointed a Lord Justice of Appeal in October 2003. He was Treasurer of Grays Inn in 2007. He continued to sit from time to time in the Court of Appeal until 2016. He will sometimes act as an arbitrator or mediator and IP consultant.

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Prior to setting up Kazehara AB he worked at Ericsson for over 30 years, concluding his career there as Chief Intellectual Property Officer (CIPO), where he was responsible for Ericsson's patent licensing business and patent development worldwide. Mr. Brismark has worked on FRAND licensing policy at the European Telecommunications Standards Institute and other standard developing organizations and has served as a patent licensing expert witness in patent litigations.

Richard Vary is a partner in the London office of Bird & Bird, specializing in patent disputes in the technology and communications industry. Before Bird & Bird, Richard was Vice President and Head of Litigation at Nokia, managing global commercial litigation and part of the Legal & Compliance leadership team. Mr. Vary has worked on a variety of international litigation and arbitration matters, from competition law to commercial and tax disputes, as well as brand protection, trademarks, and design and copyright issues.

Introduction

It is clear and accepted by the innovation ecosystem that those who invest in the development of new technologies need a reward, and this economic return must be obtained, especially in the case of SEPs, from

the FRAND royalty rate requested for the patented technologies used in the standards. Therefore, there is a need to establish a fair royalty rate level, not subject to industrial and geopolitical influences. The most effective and efficient mechanism to accomplish this, when parties fail to negotiate an agreement, is to delegate this task to international arbitration bodies, which could solve, once and for all, the problem of how to determine the value of the FRAND royalty between parties for SEPs on a global basis.

SEPs Litigation and the Rise of the ASI Phenomenon

In the early 2000s, SEP litigation was rare and the FRAND defense unproven with respect to a global license. Nevertheless, market participants were able to efficiently reach negotiated agreements over SEP portfolio licenses. Litigating SEPs was seldom needed and therefore rare. It was believed that the most a non-US court could award was a FRAND royalty on the single patent in a single country for a certain period.

This belief changed with the German Federal Supreme Court (Bundesgerichtshof—BGH) Orange Book position (a case of a de facto SEP without any FRAND commitment) initiated competition law rules by which patent owners could assert SEPs and ask for injunctions. That was followed by the Court of Justice of the EU (CJEU) decision in *Huawei v. ZTE* and, more recently, *Unwired Planet v. Huawei* in the UK, and *Sisvel v. Haier* in Germany. These cases confirmed and refined those rules, making it practicable to enforce SEPs in the UK, Germany, and other European countries. SEP injunctions were awarded when technology implementers clearly avoided taking a FRAND license (so-called “unwilling licensees”).

Since then, different courts in different countries have rendered multiple decisions, some friendlier to implementers, others to patent owners. This initiated a race to the more friendly court, where parties filed in jurisdictions and courts, which they felt, were more likely to render in their favor.

One very recent example is the race to Chinese courts, who are more willing to take jurisdiction over a global FRAND rate case separate from any underlying claim of patent infringement, and issue Anti-Suit Injunctions (ASI). This phenomenon seems to be based upon a misunderstanding of the UK Supreme Court ruling in the case of *Unwired Planet v. Huawei*.

Specifically, one important conclusion in *Unwired* is that a national judge can determine the value of a global royalty rate for a SEP as part of an action

for patent infringement. However, the UK Court preserved the sovereignty of other jurisdictions by ruling that if the defendant was not willing to take a global FRAND license, the Court would issue an injunction against the infringement of the patent in the UK, and the UK alone. There was no attempt to limit either party’s rights or obligations in foreign jurisdictions.

Following this decision, other courts also felt entitled to determine the global royalty rate, but also began to issue cross-border decisions (ASIs), creating questions over sovereignty. Chinese courts, for instance in *Xiaomi v. InterDigital* and *Samsung v. Ericsson*, deployed ASIs to stop lawsuits in other jurisdictions, interfering with foreign court decisions in India or in the US.

Initially, Unwired seemed a sensible solution for setting a global FRAND pricing mechanism for SEPs, but the decision has been misconstrued in some foreign courts. Now, technology implementers are racing to those jurisdictions around the globe that are believed to attribute far less value to intellectual property, and engaging in applications for anti-suit injunctions.

Supporting the Standards-Based Innovation Ecosystem

All industries, including technology developers and implementers, need revenue and certainty over costs to invest their resources to produce new and better technologies and products. There’s no doubt that there’s a need to agree on the value of a FRAND royalty for a global license but this must unfold free from procedural litigation tactics like ASIs.

To ascertain the best way forward, it is instructive to review the role of patents and SEPs. Briefly, a patent is an exclusive right granted to an inventor for disclosing to the public an innovative technical solution. It does not necessarily oblige the patent owner to exploit that invention. Rather, it provides the right to exclude others from making, using, selling, or importing the patented invention without the patent owner’s permission.

A SEP is a particular kind of patent which discloses and claims an invention that is technically required to practice a given industry standard, as defined by a Standard Setting Organization (SSO). The SEP owners’ commitment to the FRAND policy is typically a contract with the SSO. It avoids the creation of blocking patents and simplifies technology transfers by licensing SEPs under fair, reasonable and non-discriminatory terms. At the same time, a reasonable

economic return on R&D investments should be recognized to patent owners who contribute their technologies to international standards.

Mobile standards are an example of a massively successful innovation ecosystem, which enabled collaborative innovation globally and brought economic growth in multiple industries. Thanks to an efficient standardization and licensing effort, cellular connectivity has become globally available, used daily for mobile communications and many other purposes.

The European Commission, competition authorities, SSOs and courts have a fundamental role to support the standards-based innovation ecosystems, avoiding market distortions.

They must recognize and address the fact that some countries have used their regulatory authorities and courts to regulate pricing, tilting the playing field and creating their own rules. For example, over the years, the Chinese government has subsidized its industries. Chinese implementers could thus offer lower prices, afford long and expensive litigations that accompany hold-out behavior and, through ASIs, even seek to overturn and prevent unfavorable foreign court decisions, even if they are considered to be legally correct. Not surprisingly, this led to dramatic upheaval in many markets. In the smartphone market, many historical players have been surpassed and Chinese companies now represent the majority of the players in the top 10.

Another imbalance to address is that implementers are not currently making any commitment symmetrical to the FRAND obligation. As stated, the FRAND declaration is a commitment by the patent owners to provide access to their patented technologies under fair, reasonable, and non-discriminatory terms. However, what are the duties of the supposed licensee? So far, they have not been sufficiently clarified and in the hands of some implementers this lack of clarity can lead to hold-out behaviors and market distortion by implementers.

Many recent court decisions, such as in *Sisvel v. Haier* in Germany, have ruled that after receiving a notice of infringement of a SEP and a FRAND offer, the implementer must act proactively to reach an agreement with the patent holder in a reasonable time. Otherwise, his behavior may be recognized as “unwilling” and subject to a possible injunction or damages without a FRAND limitation. German judges have said that an implementer that files for an ASI cannot be seen as a willing licensee. Courts may therefore recognize and stop hold-out behavior, and may consider additional damages against

unwilling licensees who hold-out, as already happens in copyright.

From a competition law point of view, it must be clear that patent owners should only be in trouble if they abuse their position as SEP holders, for instance by seeking manifestly higher than FRAND royalties while refusing to have this tested by any third party. In fact, patent owners who make the FRAND declaration have little market power, because they have largely waived their monopoly right. Instead, other kinds of dominance must be curtailed, including the geopolitical influence adopted by those governments, which use coercive measures to force patent holders to accept license rates below the fair value of their assets. Another example is the concerted hold-out behaviors that are becoming more prominent.

Competition authorities should also look to the problem of “nonpayers”, because it is unfair and anti-competitive when some implementers pay, and others, either singly or through concerted practice, act as free riders.

Lastly, there is a tendency to look at standardization solely as a means to favor implementing companies, ignoring the significant investment made in long-term research by R&D centers, universities, companies and other innovators who are engaged in pure research and standardization. Ignoring these contributors is simply incorrect, and a focus on reducing royalties simply to enable cheaper products will eliminate long-term research and the technological fruits that it delivers.

It should be noted that safeguarding the public interest must not be considered only in the light of lowering the cost of consumer products. Consumers also benefit from the development of new standards and the improvements that those standards bring to products that are used daily.

Failing to recognize this essential driver of technological progress may discourage innovators from investing in new research. Alternatively, they may decide to avoid participation in the standardization process and revert to proprietary, closed solutions, or trade secrets.

Factors to Consider When Setting a FRAND Royalty Rate

As previously established, standards foster innovation and increase competition, which benefits consumers, but standards must benefit innovators

as well. For this reason, in addition to being affordable, the royalty rate must reward the massive R&D investments made by the innovators. To accomplish this, a FRAND royalty rate should reflect the value of patented functionalities included in any product; the higher the value generated, the higher the royalty rate.

This is especially true in the mobile industry with its many different products and use cases. A mobile phone that some time ago, at most, was able to make phone calls and send short messages, should not be compared to a smartphone, which, due to the growing number of embedded features, includes many more IP rights. These modern devices are worth more than older, less functional devices, and implementers and users must recognize the enhanced value of the IP that makes those features possible.

What is true with mobile phones is also true with cellular technology deployed in automobiles. However, rather than determining what is FRAND based upon the value that a cellular connection brings to an automobile, some implementers campaign for “component-level licensing”, which proposes that the royalty calculation should be based on the component price without consideration of use or value that the technology brings to the end product. Framed as a supply chain issue, this is a strategy to provide auto makers with access to cellular connectivity at a cost that ignores the true financial value the technology brings to the final product.

The difficulties with this argument become apparent if we consider the relatively low cost of a license to the IP, compared to the preparedness of customers to pay for cellular connectivity in a car. In the automotive industry, all SEPs owned by most companies related to 4G connectivity are available at a one-time cost around \$15 to \$20 USD; less than a parking ticket in many cities. At the same time, the value added by them to the car’s functionalities, concerning broadband connectivity and road safety etc., is orders of magnitude higher than this price. In 2021, few consumers would buy a premium or even mid-value automobile without cellular features; yet car manufacturers are intensely litigating and lobbying to further reduce the royalty paid on these technologies.

Beyond a fair reward to the innovators, licensing the car manufacturer rather than the component manufacturer simplifies and reduces the costs of the licensing process, avoiding a fragmented approach to several component makers. This solution will also benefit licensees, as the car is charged only once, even if it may implement multiple components serving different uses.

Arbitration Solution

A FRAND royalty is a fair reward to the patent holder for making their patented technology available within a standard. At the same time, FRAND pricing must also incorporate licensee-related interests, such as whether the aggregate royalty paid by the implementer is reasonable. Negotiation is needed to turn these concepts into numbers or rates. When the negotiation fails, is litigation the only tool available?

Not at all. In fact, arbitration is often a better tool than long and costly litigation in multiple jurisdictions. It is faster and less expensive than multi-jurisdiction litigation and has the advantage of solving once and for all the problem of determining the value of the global SEP portfolio royalty.

Another advantage is secrecy. Licensing agreements can be complicated and often include cross licenses, other standardized technologies, and even non-standard essential patents. Arbitration can consider all these issues while ensuring confidentiality for all of the parties involved.

Finally, one problem with the courts is that they are often “national” in perception if not in reality. A pool comprised of international arbitrators with the requisite legal and technical skills could effectively arbitrate multi-jurisdictional disputes much more effectively than any single court in any single country.

Despite these benefits, arbitration and other forms of Alternative Dispute Resolution (ADR) have so far yielded mixed results as an alternative to court disputes. Several types of institutions can help turn this around and make arbitration more desirable than judicial proceedings.

For instance, SSOs could encourage arbitration among their members. As they are consensual bodies, they cannot impose a requirement of arbitration. However, they could ask for a declaration of willingness to solve disputes through an arbitration.

Some companies already offer the arbitration tool to solve the issue of determining the FRAND royalty rate. For instance, Sisvel in principle offer arbitration to every prospective licensee.

To avoid hold-up and hold-out behaviors, competition authorities should also recognize that there is a fair obligation for both patentees and implementers to arbitrate.

Finally, national judges called to decide on SEP matters should push parties into arbitration as a sign of good faith and willingness in a FRAND dispute. If a party refuses to enter arbitration, this should be considered evidence of being an unwilling licensee.

Conclusion

In order to deliver value back to the innovators and to maintain a growing development ecosystem, there must be a reasonable return on investment to the innovators, including public and private R&D companies, which are fundamental for long-term research.

We need therefore to stop the so-called efficient infringement and provide a clear guidance in SEP licensing negotiations. We also need to dissuade parties from procedural litigation like ASIs, which are emerging as a tool used by national courts to defend

the interests of their local industries. These could be even seen as a state aid, subject to international trade treaties such as the WTO.

The most efficient and effective mechanism to establish a FRAND royalty rate and avoid unnecessary friction between patent holders and implementers is international arbitration. Governmental institutions should foster arbitration, and if a party refuses to join an arbitration system, this may continue to be considered an evidence of being an unwilling licensee, and addressed by with injunctions, or additional damages, or otherwise.

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