

## Anti-suit injunctions are a race to the bottom – and arbitration is the answer

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- **Anti-suit injunctions in patent cases are not new but are increasingly being deployed to enforce national court rate setting, with extraterritorial implications**
- **However, the manner in which these tools have been used in recent years is having significant – and growing – geopolitical and geoeconomic implications**
- **One possible way out of this maze is to take FRAND rate setting away from national courts and entrust it to international arbitration bodies**

The race for jurisdictional supremacy in the field of SEP litigation is nothing new. However, the recent take up of anti-suit injunctions (ASIs) by some courts has the potential to lead to a spiralling race to the bottom in the context of global SEP dispute resolution, ultimately resulting in a litigation gridlock. The urgency of the situation is reflected in the European Union's initiation of a formal WTO process in July 2021 seeking more information from China regarding its use of ASIs.

This situation has also reignited calls for international alternative dispute resolution (ADR), which has the most potential to ease the global SEP litigation burden and, at the same time, resolve SEP disputes efficiently and effectively.

In its 2015 *Huawei v ZTE* decision, the Court of Justice of the European Union recognised the role that independent third parties could play in resolving SEP disputes, noting particularly that where those involved in negotiations fail to reach agreement on FRAND terms, they may seek a determination of the royalty amount by an independent third party by common agreement. This has incentivised some implementers to agree to arbitrate.

Even before *Huawei v ZTE*, in 2014 the European Commission recognised that ADR mechanisms may be relied on to settle FRAND disputes. This was based on commitments made by Samsung regarding its SEP enforcement practices, which included a commitment, in the event of no agreement being reached on FRAND terms, to having a third-party determination of FRAND terms by an arbitrator. In its subsequent 2017 Communication on SEPs, the European Commission recognised and acknowledged the potential benefits of arbitration in resolving SEP disputes.

Yet despite these various advantages, we still face a situation where international ADR is not used nearly as often as it should. Stronger incentives, therefore, need to be considered; particularly given the danger posed by emerging tools such as ASIs in the SEP space.

## The ASI phenomenon

In 2020 the UK Supreme Court handed down a landmark judgment in *Unwired Planet v Huawei* that influenced other decisions around the world. The most important fact is that a national judge determined the value of a FRAND royalty to be paid for a global SEP licence. Following this, other courts issued decisions stating that they are likewise entitled to determine the royalty rate for a global licence, and to enforce it worldwide. This has raised big questions about sovereignty and also sparked discussions about which courts can define FRAND royalty rates.

China, the world's largest consumer market and location of perhaps the greatest number of implementers, was one country that felt entitled to set global rates in this way. In the case involving ZTE and Conversant, for instance, the Supreme People's Court (SPC) affirmed that Chinese courts had jurisdiction because the relevant patents were granted and implemented in China; ZTE's legal seat is in Shenzhen and 60% of the company's income comes from the domestic market. According to Chinese judges, China was therefore the correct venue to review this case, while the United Kingdom – which accounts for only 0.1% of ZTE's income – was not.

No matter how Chinese courts might try to justify it, it is highly controversial for a national court to assume jurisdiction on this manner and use its power to issue cross-border injunctions with regard to global licence determinations.

There is an important distinction between the UK decision in *Unwired Planet v Huawei* and subsequent Chinese rulings that deployed ASIs in an effort to claim the right to establish global royalty rates (which are, from the perspective of patent owners, often very low). The UK court held that if the plaintiff was unwilling to take a global licence on the basis of the court ruling, it would issue an injunction covering the United Kingdom and the United Kingdom alone. This contrasts with the practices of Chinese courts, which take on cases as contract disputes (rather than merely patent infringement matters) and subsequently deploy ASIs, which have the effect of interfering with foreign judgments or companies over which they do not have jurisdiction.

## Key factors considered by Chinese courts

The prevalence of ASIs in SEP disputes is quite a recent phenomenon. It is therefore crucial to understand the rationale adopted by Chinese courts when issuing ASIs.

The Chinese courts have issued ASIs in at least three cases so far:

- *Huawei v Conversant* (2019, Zui Gao Fa Zhi Min Zhong 732, 733 and 734 No 1);
- *Xiaomi v InterDigital* (2020, E 01 Zhi Min Chu 169 No 1); and
- *Samsung v Ericsson* (2020, E 01 Zhi Min Chu No 743).

In *Huawei v Conversant*, Huawei filed a lawsuit before the Nanjing Intermediary People's Court on SEP infringement and FRAND royalty determination. The court issued a first-instance judgment, which Conversant appealed to the SPC. A parallel SEP litigation was filed in Germany, where a Dusseldorf court issued a first-instance judgment finding that Huawei infringed Conversant's patent rights and that Conversant's licensing offer was consistent with its FRAND commitment.

The FRAND rate established by the Dusseldorf court was 18.3 times higher than that determined by the court in Nanjing. For this reason, the Chinese court decided to issue an ASI to prevent Conversant from enforcing the Dusseldorf judgment before the SPC made its final decision.

The Chinese judges held that Conversant's act of enforcing the Dusseldorf judgment might hinder the judicial review pending in China. It was thus reasonable and urgent to issue an injunction against Conversant, otherwise Huawei would have suffered irrecoverable damages and the decisions of the Chinese courts would have been rendered useless.

The court further determined that the damages Huawei might suffer if the injunction in Germany was adopted significantly exceeded any that Conversant could face if the SPC issued the ASI. In addition, according to the SPC, the decision to adopt an ASI would not harm the public interest and was consistent with the doctrine of comity.

The same logic was applied by the Wuhan court in *Xiaomi v InterDigital*. Xiaomi filed a lawsuit asking the court to determine a global FRAND rate, while InterDigital subsequently applied for an injunction before the Delhi High Court in India to prevent Xiaomi from implementing its Indian SEPs in the Indian market.

According to the Wuhan court, InterDigital deliberately initiated the Indian injunction application in order to exclude the Chinese court's jurisdiction and offset the impact of the Wuhan case. If InterDigital's application for an injunction was not stopped in time, the Wuhan Court considered the Delhi court likely to issue a judgment that conflicted with its own, which would severely harm Xiaomi's interests in the Indian market and lead to irreparable damages. In contrast, the Wuhan Court determined that the issuance of an ASI would not cause any substantial damage to InterDigital and would not harm the public interest.

The Wuhan court issued an ASI that not only requested that InterDigital withdraw or suspend the injunction application before the Indian court, but also enjoined the US company from initiating proceedings in any other national courts applying for injunctive relief or a FRAND rate determination.

In the *Samsung v Ericsson* dispute, Samsung filed a lawsuit in a Wuhan court to determine a global FRAND rate, while Ericsson applied to the US District Court for the Eastern District of Texas for a declaration that its offer to Samsung complied with its FRAND commitment and the ETSI IP rights policy. Samsung sought an ASI before the Wuhan court.

While this case applied the same logic, it was interesting that the Wuhan court issued both an ASI (prohibiting Ericsson from seeking or enforcing any injunction against Samsung and enjoining it from requesting other courts to set a FRAND licence rate), as well as an anti-anti-anti-suit injunction (barring Ericsson from filing an anti-anti-suit injunction in other courts to revoke the Wuhan ASI application).

Ericsson ignored Wuhan's harsh sanction threats and immediately filed an anti-anti-suit injunction at the District Court of Texas, which issued a temporary restraining order and an anti-interference injunction against Samsung.

To summarise, the Chinese courts analysed the following elements when making these ASI decisions:

- the possible impact of the enforcement of foreign court decisions on parallel litigation in China;
- whether it was necessary to issue an ASI;
- whether the damage to the applicant if an ASI was not issued exceeded the damage to the respondent if an ASI was issued (ie, the balance of interests);
- whether issuing the ASI would damage public interest; and
- whether issuing the ASI complied with the doctrine of comity.

It is regrettable that the courts in China seem to have an incomplete analysis of public interest. Chinese legal terms such as 'social public interest' must not only be considered with respect to the final rates charged by SEP licences, but also the interest in always having new standards and improvements in products used in daily life. Insufficiently rewarding innovators who have incorporated their patented technologies into industry standards is contrary to the goal of fostering innovation and making new and safer products available. This is the real public interest, which is also the stated purpose of China's Patent Law.

## Reactions of national courts in Europe

National courts should issue decisions directed at their own territories and refrain from interfering in foreign judgments. Restraining a party from applying a foreign judgment in a foreign territory raises serious doubts about lawfulness, as it purports to bind courts in other countries. In this context, ASIs do not appear to take into account territorial sovereignty (a fundamental principle of any legal system).

However, requesting an ASI certainly reduces, if not completely ends, the possibility that the licensor and the licensee might reach an agreement for the use of patented technologies. Disruptive actions such as ASIs disturb the innovation ecosystem with respect to patent holders, who make significant investments in R&D and expect a reward for their patented technologies. They also have a big impact on implementers, who have an economic interest in entering new product markets, as well as the need to use innovations legally.

The latest trend to seek court-determined FRAND rates and obtain cross-border injunctions has sparked a race to sue counterparties in courts deemed friendly, notwithstanding the universal principle of national sovereignty. However, in *Vestel Elektronik Sanayi Ve Ticaret AS v Access Advance LLC* (2021, EWCA Civ 440), the Court of Appeal of England and Wales tried to end such forum shopping. There was no patent infringement action in England, only the direct application to the English court to fix the rate of royalty for a technology standard being implemented by Vestel. The court determined that it lacked jurisdiction to do so and explained that without action for patent infringement, there is no jurisdiction to invoke a FRAND defence and thus to fix a global FRAND rate.

Those who have tried to justify the jurisdiction of national courts over global FRAND rates by pointing to *Unwired Planet* in the United Kingdom have unfortunately misunderstood the true grounds of this case, and also missed the significance of *Vestel Electronic v Philips*.

The most recent court decisions, including the *Sisvel v Haier Az KZR* (35/17 & 36/17) cases decided by the German Federal Supreme Court, ruled that after receiving a FRAND offer, the prospective licensee must act proactively to reach an agreement with the patent holder within a reasonable time frame. Failure to do so could result in the party being considered unwilling and therefore subject the prospective licensee to a possible injunction. Considering this latest European jurisprudence, if a prospective licensee seeks an ASI rather than attempts to reach an agreement with the patent holder, it will not qualify as a willing licensee.

Recently, in *InterDigital v Xiaomi Az*, the Regional Court of Munich stated that requesting an ASI interferes with the proprietary rights of the patentee and a foreign ASI could not be accepted as a domestic decision. Applying for an ASI regularly triggers a finding of unwillingness to take a FRAND licence. The court held that if a patent implementer were willing to accept a licence, it would refrain from further unlawful interference with the patentee's legal positions. Therefore, a patent implementer who applies for an ASI, or intends to, cannot be regarded as sufficiently willing to take a licence within the meaning of the case law of the Court of Justice of the European Union and the German Federal Supreme Court.

To put an end to the spiral of ASIs, anti-anti-suit injunction and anti-anti-anti-suit injunctions, the Munich Regional Court went a step further, holding the implementer liable in attempting to escape its obligation to pay royalties. The court was explicit: the implementer could try to acquire an ASI, but the patent owner could then go back to the Munich court, which would grant it an injunction. This reasoning demonstrates that a FRAND royalty cannot be proactively negotiated using ASIs, while trying to rebalance the situation between patent owner and implementer.

## Arbitration – an efficient tool for solving FRAND disputes and avoid delaying tactics

Given the challenging situation caused by ASIs and the over-use of national courts' powers, it seems that one of the few options remaining to ensure that global FRAND rates are determined fairly and free of geopolitical influences is to transfer this task from national courts and delegate it to international arbitration bodies.

Arbitration reduces the costs of litigation and has the advantage of solving once and for all the problem of how to determine the value of SEP royalties. Indeed, in the event of disagreement on royalty value, if implementers were to refuse to go to an arbitration body, their attitude should be considered proof that they were an efficient infringer and, thus, an unwilling licensee.

Arbitration is an advantageous dispute resolution mechanism, where the dispute involves a multitude of patents and spans several jurisdictions. First, it enables parties to choose arbitrators with the necessary expertise for SEP/FRAND disputes, in both a legal and also a technical and economic sense. Second, it promises a higher degree of confidentiality. Third, arbitration has the advantage of high efficiency and low cost. It can more easily cover entire SEP portfolios, because the territoriality principle does not prevent arbitration tribunals from considering patent cases from various jurisdictions, which is more efficient than court proceedings. Finally, the cross-border enforcement of arbitral awards requires recognition and enforceability, which may be secured under the regime of the New York Convention. This is thus a promising resolution with regard to ASI stalemates in court proceedings.

However, in reality, arbitration as an alternative to court disputes has so far yielded mixed results. Anecdotal evidence suggests that Chinese parties are generally suspicious about arbitration outside of China, and have more confidence in home courts. So, how can we make parties arbitrate?

Standards-setting organisations (SSOs) could, for instance, encourage arbitration among their members. As they are consensual bodies, they cannot impose a requirement to arbitrate. However, they could request a declaration of willingness to arbitrate for their members. Some licensors and standards contributors already do this.

Competition authorities also have a significant part to play. To avoid hold-outs and hold-ups, they should recognise that a lack of agreement on the FRAND royalty rate means that there is a competitive obligation among both patentees and implementers to arbitrate. Not long ago in its conditional approval decision over Microsoft's acquisition of Nokia's mobile phone business, even China's merger review body allowed Nokia's proposal to use arbitration as a means to assess the willingness of implementers.

Finally, to foster international arbitration, national judges called to decide on SEP matters could use their procedures to powerful effect to encourage people to arbitrate as a sign of good faith and willingness in FRAND disputes. This will be more efficient from the perspective of judicial resources, whether in China, Germany or the United Kingdom.

To achieve convergence in this world of FRAND and make arbitration more acceptable than a decision from a national court, it is vital that the arbitrators come from different countries. One of the current troubles in perception is that national courts are just that: national. Therefore, there should be a pool of international arbitrators to ensure broader-based decisions. The WIPO panel of arbitrators specialising in SEP disputes is an example of this.

## Looking ahead

ASIs are emerging as a tool used by national courts to defend the interest of their industries and perhaps could also be seen as constituting state aid or even an unfair trade practice, in violation of international trade treaties such as the WTO and emerging multilateral agreements.

Courts, SSOs and governmental institutions like the European Commission, as well as various national competition authorities, have a fundamental role to play in stopping this market distortion and supporting standards-based innovation ecosystems, by promoting measures such as arbitration to help establish a fair global royalty rate.

Failing to reward innovators for their extensive R&D investments and to recognise the benefits that their patented technologies bring to society may discourage them from investing in new research. To the detriment of technological progress, they may decide to avoid participating in the standardisation process and revert to proprietary, closed solutions or trade secrets as means of protection. Such a broken standard and patent ecosystem could well have all sorts of unintended consequences, producing an even worse scenario for all those involved.

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