



Remembering a blissful summer for SEP owners

From key court decisions in the United States and Europe to positive policy developments, write Joseph Casino, Benjamin Diessel and Michael Kasdan of Wiggin and Dana, the global SEP community has had much to celebrate this year

While most of the world would be glad to forget the year 2020, owners of SEPs are taking a different view after a summer replete with positive developments from both courts and regulatory authorities on contentious licensing and litigation topics.

First, in a watershed antitrust ruling, a Ninth Circuit Court of Appeals panel unanimously ruled in favour of Qualcomm in its litigation with the Federal Trade Commission (FTC). The panel rejected the argument that a company that has agreed to license its SEPs on FRAND terms has an antitrust duty to license at the component level. It also rejected the claim that an SEP holder's royalty rates are unreasonable simply because they are based on handset prices.

The panel echoed sentiments recently expressed in commentary from other US agencies, including the Department of Justice (DOJ), questioning whether antitrust law is suited to resolve FRAND disputes and recognising that its misapplication could chill innovation. The Ninth Circuit's decision is already having an impact. A federal court in Texas positively cited these rulings in a recent decision dismissing an antitrust and FRAND challenge brought by a sophisticated implementer against the Avanci licensing platform and some of its members.

Next, the DOJ, building on its prior guidance on FRAND and SEPs, weighed in with two important business review letters reflecting its alignment with these judicial developments:

- First, it [supplemented](#) its 2015 business review letter to the Institute of Electrical and Electronics Engineers (IEEE) to clarify that it did not endorse the IEEE's 2015 IP Rights Policy changes. In particular, the department pushed back on the IEEE's recommendations to cap FRAND royalties based on the smallest saleable patent practising unit (SSPPU) and drastically limit the availability of injunctions. The DOJ advised that these policies failed to account for the risk of hold-out by implementers and could harm innovation incentives. The DOJ encouraged the IEEE to revisit its policy.
- Second, the DOJ evaluated the Avanci 5G SEP licensing platform and [concluded](#) that it does not intend to challenge the platform. Here, the department accepted Avanci licensing end products rather than to component suppliers, citing similar practice in the cellular industry, and rejected capping royalties based on SSPPU.

Across the pond, in a consolidated review of three lower court decisions, the UK Supreme Court [upheld](#) UK courts' jurisdiction to require agreement to a worldwide FRAND licence as a condition for a party to avoid injunctions to halt continuing SEP infringement in the United Kingdom. The court rejected a so-called 'hard-edged' non-discrimination obligation, ruling that ETSI's FRAND obligation does not require SEP licensors to provide identical terms to all licensees in order to comply with FRAND principles.

Also in Europe, in July, Germany's highest court issued a ruling in Sisvel's SEP case against Haier, outlining the criteria for implementers to demonstrate that they are willing licensees. The court ruled, among other things, that Haier's failure to timely demonstrate and clearly express its willingness to enter into a FRAND licence fell short of those criteria. It also rejected a hard-edged non-discrimination obligation and ruled that Sisvel had discharged its FRAND obligations.

Although *Unwired Planet* and *Sisvel*, as well as legal developments in the United States, could pave the way for SEP owners increasingly seeking and obtaining injunctions, other jurisdictions may also have a say in how global SEP litigation unfolds.

For example, China's Supreme People's Court recently issued its first anti-suit injunction, granting Huawei's request to enjoin Conversant from enforcing an injunction that it obtained in Germany. These decisions illustrate that both licensors and licensees will need to carefully monitor legal developments around the world, as the SEP litigation playbook will necessarily continue to evolve.

FTC v Qualcomm sets the weather to fair for SEP owners

On 11th August 2020, a unanimous Ninth Circuit panel handed Qualcomm a victory in its years-long antitrust litigation against the FTC. The FTC had argued – and the district court had previously ruled – that Qualcomm violated the Sherman Act (15 USC §§1 and 2), by unreasonably restraining trade in, and unlawfully monopolising, alleged code division multiple access (CDMA) and premium long-term evolution (LTE) cellular modem chip markets (*id* at 982). The Ninth Circuit panel disagreed, holding that Qualcomm's practices do not violate antitrust laws and vacating the district court's ruling. The panel's opinion offers welcome insights on the role of antitrust law in addressing disputes rooted in FRAND obligations. In late September the FTC indicated that it would seek a rehearing *en banc*.

IEEE in the spotlight

The DOJ's 2015 business review letter to the IEEE had analysed proposed revisions to the latter's patent policy relating to SEP licensing and FRAND obligations that, among other things, would have made injunctions for SEP infringement essentially unavailable other than in narrow circumstances and would have capped FRAND royalties based on SSPPU. In its 2020 IEEE letter, the DOJ described its supplementation of the 2015 letter as an "extraordinary step".

This, the DOJ said, was necessary to make clear that its 2015 IEEE letter did not endorse the IEEE's 2015 policy. Of particular concern to the department was the fact that its 2015 letter had been proffered and interpreted as endorsing restrictions on injunctions and using SSPPU to cap royalties. The DOJ was also concerned that the 2015 IEEE letter did not adequately address the prospect of hold-out by implementers or the importance of preserving innovation incentives for SEP holders.

Avanci gets a boost

The DOJ's 22-page Avanci business review letter includes welcome legal support for owners of SEPs that collaborate on licensing platforms. Subsequently, the US District Court for the Northern District of Texas dismissed a complaint brought by Continental against certain Avanci members alleging, among other things, that they violated antitrust laws.

In its Avanci letter, the DOJ evaluated Avanci's proposed 5G platform under principles previously developed for patent pools since the pool operator aggregates complementary SEPs from various licensors. It concluded that the Avanci platform does not harm competition and therefore the DOJ has no intention to challenge it.

The United Kingdom has its say in *Unwired Planet*

The fine weather continued for SEP owners when the UK Supreme Court affirmed lower-court decisions on key FRAND issues in *Unwired Planet*. The ruling contains important legal rulings on SEPs/FRAND licensing and will cause both SEP holders and implementers to re-evaluate procedures and the appropriate forum for resolving contested FRAND licences. In addition to addressing a number of subsidiary and nuanced topics, the decision directly tackles five key legal questions, which can be simply recited:

Question	Holding
<p>Whether a UK court can:</p> <ul style="list-style-type: none"> ■ grant an injunction to restrain the infringement of a UK patent where the patented invention is an essential component in an international standard of telecommunications equipment, which is marketed, sold and used worldwide, unless the implementer of the patented invention enters into a global licence of a multinational patent portfolio; and ■ determine royalty rates and other disputed terms of such a global licence. 	<p>Yes to both parts. The court relied on the European Telecommunications Standards Institute (ETSI) IP policy, which it found sought to balance the interests of SEP rights holders and implementers.</p>
<p>Whether the United Kingdom is an appropriate forum to determine those matters.</p>	<p>Yes. There was no proof that the offered alternative jurisdiction, China, would take jurisdiction over a worldwide FRAND dispute.</p>
<p>Whether the non-discriminatory language in the ETSI policy imposes a so-called 'hard edged' licensing requirement.</p>	<p>No. 'Non-discriminatory' does not mean that every licensee pays the same rate. ETSI had rejected a "most favoured licence" approach to setting royalty rates when it developed its IP policy. Rather, non-discrimination is part of a single, unitary obligation to license on FRAND terms.</p>
<p>Whether an owner of an infringed SEP should be categorically denied an injunction if it has not complied with the guidance given in the judgment of the CJEU in <i>Huawei v ZTE</i> (Case C-170/13).</p>	<p>No. The guidance in <i>Huawei v ZTE</i> establishes a safe harbour, but does not impose mandatory rules. Whether a SEP owner is abusing a dominant position will depend on the overall circumstances, drawing guidance from the <i>Huawei v ZTE</i> decision where appropriate.</p>
<p>Whether UK courts retain equitable jurisdiction to impose injunctions for continuing infringement of UK SEPs in the absence of agreement to enter a worldwide licence, given the possibility of damages as an alternative remedy.</p>	<p>Yes. There is nothing inequitable in requiring a party to take a FRAND licence to avoid an injunction. Damages would unlikely to be an adequate substitute for an injunction because, in absence of an injunction, the patentee would be required to undertake impractical and expensive country-by-country litigation.</p>

Germany sets the SEP trend

Astute watchers might trace this fine weather back to Germany, where in July 2020 the country's highest court, the Federal Court of Justice, issued its written decision in Sisvel's ongoing SEP case against Haier (English translation available [here](#)).

The court had previously issued a provisional oral ruling at a hearing in May 2020, where it tentatively ruled that implementer Haier had failed to comply with its FRAND obligation to demonstrate willingness to enter into a licence based on its conduct during licensing negotiations with SEP holder Sisvel. In its decision, the court rejected Haier's defence that Sisvel did not offer FRAND terms and rejected the hard-edged interpretation of the non-discriminatory aspect of the FRAND requirement, recognising that FRAND does not mandate that all licensees get the same deal.

The decision also sets a high bar for implementers to meet their FRAND obligation to be a willing licensee. Specifically, the court took aim at various hold-out and delay strategies, pointing out that an implementer must actively engage in licensing negotiations with the clear, distinct and unconditional intention of obtaining a licence on FRAND terms.

China flexes its muscles

A [September decision](#) issued by the People's Supreme Court in China granted Huawei's request to enjoin Conversant from enforcing an injunction that it obtained in Germany. The Chinese court held that it has the power to enjoin parties from foreign actions that undermine legal proceedings in China. It maintained that an injunction against Huawei in Germany would force it to settle its worldwide disputes at an amount 18.3 times greater than the rate determined by the Chinese courts.

This may lay the groundwork for future injunctions against parties seeking worldwide FRAND rate determinations in the United Kingdom (or elsewhere) if they have parallel litigation in China concerning the same portfolio of SEPs.

All in all, it has been a summer of fine weather and additional clarity for SEP owners. Forecasters can only hope that the skies remain clear.

This is an abridged version of a longer article to be published in the next issue of IAM, which will be available for subscribers to access at the start of November

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