



23 Avenue Marnix - 1000 Brussels - Belgium

T. +32 (0)2 289 0802

information@fair-standards.org

www.fair-standards.org

26 October 2020

Position Paper:

Coerced Global SEP Portfolio Licences Are Not FRAND

Synopsis

The Fair Standards Alliance supports a balance of interests among standardisation ecosystem participants, including the holders of standard essential patents (SEPs), prospective SEP licensees and consumers. This Position Paper explores global SEP portfolio licences and why there should be no right to use an SEP in one jurisdiction to compel licences to other declared SEPs in other jurisdictions.

As set forth below, tactics to force a potential licensee to pay for unneeded or disputed patents as a condition for obtaining an SEP licence are unfair and unreasonable. A licensee should be able to request and obtain fair, reasonable, and non-discriminatory (FRAND) licence terms for agreed-upon SEPs while retaining the right to forgo additional licences or pursue challenges to other patents the holder designates as standard-essential.

Coercive tactics to force licensees into global SEP portfolio licences, or legal rules that force licensees into global portfolio adjudications within a single jurisdiction, dilute the rights of licensees, undermine the ability to test patent applicability and quality, tread upon national and international interests in enforcing intellectual property laws, and harm the production and dissemination of standardised technologies to the detriment of consumers.

The Fair Standards Alliance’s position is that:

- Global SEP portfolio licences can be appropriate and effective on a voluntary basis, but coercing such licences is inconsistent with the SEP holder’s FRAND commitment and improperly dilutes the licensee’s right to pay only for those rights it wants or needs.
- A licensee’s choice to challenge a declared SEP’s applicability or quality within an appropriate jurisdiction, or refusal to agree to an abstract promise of a global licence determined by a court in a single jurisdiction, should not make the licensee “unwilling,” and an SEP holder should not refuse to license other non-challenged SEPs on this basis.
- Forced global SEP portfolio licensing practices invert established legal burdens requiring SEP holders to establish the infringement and any royalties for their patents and defend against challenges to validity and other defences, and they chill legal challenges by prospective licensees that would otherwise curtail exploitative licensing practices and benefit consumers through increased innovation and lower prices.
- The legitimate interest of national and regional courts and regulators to shape and enforce intellectual property laws and norms within their jurisdictions is impinged by rules and practices that either deter licensees from mounting good-faith challenges to SEPs or that mandate global portfolio adjudications in a single jurisdiction under threat of injunction.
- The threat of injunctions and market exclusion should not be used to force licensees into global SEP portfolio licences or global portfolio adjudication where adequate monetary remedies are available and sufficient to address legitimate infringement claims.

I. Background

The developer of a technology necessary for supporting an industry standard may declare a patent on that technology to be “standard-essential.” If an SEP is infringed and not invalid, manufacturers need to use the SEP to make products that interoperate with the standard in question. As a result, the SEP holder benefits from encouraging the adoption of the standard because it causes the increased use of, and payment for, its technology.

With widespread adoption of the industry standard—and, by necessity, the technology essential to that standard—the SEP holder can attain monopoly power. In exchange for the benefits afforded by the standard-essential designation, the SEP holder makes a voluntary commitment to licensing the patent on FRAND terms—that is, by agreeing to accept reasonable and non-discriminatory royalties—and must accept certain limitations on its rights to enforce the patent. That voluntary commitment is irrevocable and remains with the patent following any transfer of ownership. The FRAND commitment in particular provides comfort to the market that the patent holder will not unfairly exercise its monopoly power to, among other things, extract monopoly-level prices.

But while a standard-essential designation triggers certain market protection requirements, such as the FRAND commitment, an SEP holder still wields significant power. If left unchecked, the SEP holder can abuse that position to the detriment of prospective licensees and ultimately consumers. In particular, SEP holders can, and often do, use the leverage gained

from owning standard-essential patents to force licensees into global SEP portfolio licences. For example, SEP holders can coerce licensees to take a global licence by threatening an injunction to exclude them from the market in one jurisdiction unless they also agree to license other SEPs across other jurisdictions or unless they agree to accept a global licence determined by a court in a single jurisdiction.

While some parties may *voluntarily* agree to broader portfolio licensing arrangements, this Position Paper explains that an SEP holder should not be permitted to *require* licensees to enter into such arrangements as a condition for obtaining a particular FRAND licence, and that it would be harmful for a national court to force licensees to accept global portfolio licences under the threat of an injunction. We view such practices as inconsistent with FRAND obligations and general principles of patent and antitrust law for a number of reasons:

- First, they undermine a licensee’s right to pay for only valid and enforceable patents that it uses in the countries in which it uses them.
- Second, they neutralise the SEP holder’s burdens of proof for enforcing a patent and effectively eliminate the ability of a licensee to challenge the legal basis of the patent holder’s other SEPs, including for lack of essentiality, invalidity, and non-infringement.
- Third, they impinge on the rights of national and regional jurisdictions to patrol their own intellectual property environments and discourage innovation through an abuse of jurisdictional limitations and international norms.
- Finally, the use of injunctions to induce global SEP portfolio licences is disproportionate to harm caused by infringement of a patent within a given jurisdiction.

These clear principles are based on substantial legal authority across multiple jurisdictions. Nevertheless, there have recently been a few deviating rulings in some jurisdictions, as discussed further below. For example, in a recent decision from the United Kingdom the Supreme Court held that an SEP holder may comply with FRAND even if it only offers a single global portfolio licence.¹ A German court also recently stated² that only certain scenarios³ raise competition concerns if an SEP holder offers just a worldwide portfolio licence. We disagree with the premises of the findings in these cases and believe they will have substantial negative consequences for innovation, competition, and trade.

Again, there is nothing inherently objectionable about portfolio licensing – including worldwide portfolio licensing – when it results from an arm’s length negotiation or an otherwise voluntary agreement. However, the ability of the parties to voluntarily enter into such agreements does not create a new enforceable right by itself, and SEP holders should

¹ See *Unwired Planet International Ltd v. Huawei Techs. Co. Ltd.* [2020] UKSC 37 (“*Unwired Planet v. Huawei*”). (An intermediate appellate court had previously affirmed the trial court’s decision, see [2018] EWCA Civ 2344.)

² *Sisvel v. Haier*, BGH, judgement of 5 May 2020 - KZR 36/17 (German Federal Court of Justice) (“*Sisvel v. Haier*”).

³ For example, if the licensee is obliged to make payments for the use of non-SEPs, or if the remuneration is calculated in such a way that users who wish to develop a product for a specific, geographically limited area are disadvantaged, at 78.

not be allowed to effectively coerce potential licensees into taking a broader licence through the powerful threat of an injunction that distorts market balance and competition.

II. Conditioning an individual SEP licence upon a global SEP portfolio licence violates FRAND principles, is inconsistent with well-established patent and antitrust law, and contravenes national sovereignty interests and international norms.

A. Forced global SEP portfolio licensing reduces licensee choice and results in unfair and unreasonable SEP licensing terms.

SEP owners and downstream innovators often *choose* to negotiate licences on a global basis, depending on the needs of the licensee, the strength of the SEP holder's portfolio, and other factors specific to the particular parties. But an SEP owner should not be permitted to *insist* only on a global licence for its entire SEP portfolio. A potential licensee has the right not only to license the technology it uses from an SEP holder, but the right not to license other patents in the SEP holder's portfolio that are not needed. Coercive global licensing practices dilute that right.

In the absence of other considerations, a licensee for a particular SEP usually would also not voluntarily license patents that are, for example, not essential to a standard, invalid, unenforceable, or not infringed by the licensee. For example, a provider of cellular phones or components likely will have no need to license network infrastructure SEPs which may be part of the SEP holder's overall portfolio. Likewise, a company that operates only in a particular geographic region likely will not require worldwide rights. Moreover, a company that would benefit from SEP rights still may elect not to pay for a licence if it believes that the relevant patent is invalid, unenforceable, is not infringed, or has improperly been designated as standard-essential.

However, if a licence to a needed SEP is conditioned upon agreeing to licensing the rest of the SEP holder's portfolio on a global basis, the licensee may find it necessary to act against its self-interest and pay for technology rights it does not need or would otherwise challenge. Forcing licensees to enter into global SEP portfolio licences through such coercion violates FRAND principles and, in fact, allows an SEP holder to circumvent the protections theoretically generated by the FRAND terms tied to the particular SEP. Even if the SEP holder offers FRAND terms for each of its patents (or holistically for the broader portfolio), the licensee ultimately pays more than it would in a fair transaction where it could license only the patents it desires in the geographies it needs.

A licensee's right to pay only for patent rights it needs is further curtailed when combined with the risk that the potential licensee could be unfairly labelled as "unwilling" on the basis that it refuses to accept a forced global portfolio adjudication in a single jurisdiction while courts in other appropriate jurisdictions may need to adjudicate the merits of patents that have been issued within their territories. This designation is significant as it enhances an SEP holder's ability to improperly seek an injunction. But the "unwilling licensee" designation is reserved for parties that refuse to agree to pay SEP royalties on known FRAND terms for patents that have indeed withstood legal challenges to their merits. However, to require a licensee to agree

to a global SEP portfolio licence, or to agree to have a court in a single jurisdiction determine a global rate, where it does not need to license parts of that portfolio in the first place, has the potential to turn this notion on its head. A licensee's disinclination to agree to pay royalties for patents to which it has a rational legal challenge in one or more jurisdictions, or for which it has no interest in obtaining rights, should not be used to designate the licensee as unwilling. Indeed, the European Court of Justice confirmed in *Huawei v. ZTE* that potential licensees "*cannot be criticised either for challenging, in parallel to the negotiations relating to the grant of licences, the validity of those patents and/or essential nature of those patents to the standard [...] or for reserving right to do so in the future.*"⁴

The parties to an SEP licence should be free to negotiate the scope of the licence while preserving the licensee's right to not pay for unnecessary technology it does not need. Further, doing so should not shoehorn the licensee into unwilling licensee status; objecting to paying certain royalties that it believes to be unmerited does not establish that a licensee is unwilling to agree to FRAND licensing terms.

B. Coercive licensing practices invert well-established legal burdens and chill valid challenges to SEPs to the detriment of consumers.

Although SEPs have certain unique characteristics, SEP holders generally are not entitled to legal privileges different from those afforded to other patent owners. Conditioning an SEP licence on a global SEP portfolio licence, however, has the effect of reducing the SEP holder's legal burdens and chills valid legal challenges by licensees.

Traditional patent laws and burdens are applicable when there are disputes between an SEP holder and prospective licensee.⁵ In the event of an infringement dispute, SEP holders still shoulder the burden of proof on the merits and must establish that the SEP has been infringed and payment is required, and they must withstand challenges—based on, e.g., invalidity, non-infringement, non-essentiality, unenforceability, and exhaustion—in order to obtain compensation. The patent holder's unilateral standard-essential declaration should not remove or invert these burdens.

Similarly, the policies of standards development organizations (SDOs) do not alter traditional patent law in the relevant jurisdictions in which patents are issued and litigated. Relevant SDO IPR policies leave resolution of issues of infringement, validity, and damages or royalties to the parties or, where they disagree, to national courts. The task of these SDOs is limited to ensuring that parties who claim that their patents are essential to a specific standard have given an irrevocable written undertaking to license them on FRAND terms. Nor does a licensee forgo its right to challenge the validity of a patent or a standard-essential designation when it licenses an SEP. Retention of this right is especially important because SDOs do not perform

⁴ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, at [69].

⁵ See *Apple Inc. v. Qualcomm*, 2017 WL 3966944, at *18 (S.D. Cal. Sept. 7, 2017) ("*That [a licensee] wants to litigate any alleged infringement of [patentee's] SEPs before it accepts a global offer to license [its] SEP portfolio, therefore, is yet another reasonable justification for filing the foreign actions. After all, and as neither party disputes, this Court cannot adjudicate or enforce the patent law of the UK, China, Japan or Taiwan.*").

essentiality checks or verify whether the declared patents are, e.g., valid and enforceable. More than 50 industry stakeholders in the CEN-CENELEC deliverable on *Core Principles and Approaches for Licensing of Standard Essential Patents* have noted that:

[P]ublic policy requires that potential licensees not just be permitted – but encouraged – to mount good-faith patent challenges. For example, the United States Supreme Court has emphasized that there is an “important public interest” in patent challenges because “[i]f [challenges] are muzzled, the public may continually be required to pay tribute to [the patentee] without need or justification.” Likewise, it cautioned that “the holder of a patent should not be insulated from the assertion of defenses and thus allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly....” For similar reasons, the European Commission has argued that there should be no “safe harbour” for non-challenge clauses in licence agreements.⁶

Allowing an SEP holder to *require* a potential licensee to license its entire SEP portfolio would enable the SEP holder to create an environment in which the licensee is reluctant or unable to challenge suspect patents within that portfolio. The threat of market exclusion can be significant where a licensee must rely on an SEP to conduct business and is an effective way to force licensees to license patents that potentially are non-essential, invalid, or unenforceable. Deterring challenges has several problematic consequences.

First, it weakens legal challenges as an important check on declared SEPs of suspect quality. A variety of evidentiary studies have shown that a large majority of alleged SEPs, between 70%–90%, when tested in court are found either non-essential, invalid, or un infringed. These data reflect poorly on the broader picture of the quality of declared SEPs. According to another study, around 80% of information and communications technology patents examined by the German Federal Patent Court and the German Federal Court of Justice between 2010 and 2013 were found to be fully or partially invalid.⁷ European Commission studies have observed similar results, finding that “*when rigorously tested, only between 10% and 50% of declared*

⁶ See *Core Principles and Approaches for Licensing of SEPs*, CEN-CENELEC CWA 95000, available at ftp://ftp.cencenelec.eu/EN/News/WS/2019/CWA_SEP/CWA95000.pdf (citing *Lear, Inc. v. Adkins*, 395 US 653, 670 (1969); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 US 313, 349-50 (1971); European Commission, “Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements,” OJ C 89, 28.3.2014, p. 3–50, articles 133 and 134, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C.2014.089.01.0003.01.ENG>). These principles were developed and approved by more than 20 companies and organisations, including the FSA, and supported by more than 30 other companies and organisations.

⁷ P. Hess, et al., “Are Patents merely ‘Paper Tigers’?,” *translation of “Sind Patente nur ‘Papiertiger’?”* MitttschPatAnw (2014), at 439-52, available at https://www.bardehle.com/fileadmin/Webdata/contentdocuments/broschures/Patent_Papiertiger.pdf.

patents are essential” and “[on] average more than 30% of European invalidity actions result in the explicit invalidation of the challenged patents.”⁸

The data is even more concerning in the case of Non-Practicing Entities (NPEs), which purchase patents from original patentees without the intention of themselves making any products. Instead, some NPEs exist solely to monetise patents through aggressive enforcement. Only a tiny fraction (about 6%) of SEP-related court cases brought by NPEs are successful in establishing essentiality, validity, and/or infringement.⁹ Despite this, as explained above, most SDOs do not verify whether declared patents are essential or valid.¹⁰ That leaves challenges brought by prospective licensees as a primary means of weeding out inessential or invalid patents. Disincentivising those challenges significantly increases the likelihood that inessential or invalid patents remain in effect or improperly designated.

The poor success rate in cases of purported “SEPs” is significant because these cases are the result of extended litigation during which parties share information through the discovery process. This information is not readily available to potential licensees during licensing negotiations which means that SEP holders are often able to exploit an information asymmetry during licensing negotiations as the only party possessing information necessary to assess whether they are complying with their FRAND obligation. In contrast, SEP holders normally cannot withhold such information during litigation.

Second, conditioning an SEP licence on a global SEP portfolio licence enables exploitative SEP declaration practices. One explanation for the poor quality of many SEP portfolios is that SEP holders tend to over-declare their patents as essential. Some SEP holders over-declare merely out of an abundance of caution.¹¹ Others, however, over-declare in an effort to obtain higher royalties from licensees.¹² SEP holders may also bundle a “*high quality*” SEP with other “*poor quality*” SEPs to increase the perception of portfolio size and improperly drive up licensing costs.¹³ Ultimately, unencumbered global SEP portfolio licensing practices allow a patent holder to use a single SEP in one jurisdiction to effectively immunise other SEPs in other jurisdictions from good-faith challenges.

⁸ European Commission, “Setting out the EU approach to Standard Essential Patents,” COM (2017) 712 final (Nov. 29, 2017), at 5 n.19; European Commission, “Competition policy brief – Standard-essential patents” (June 2014), at 4.

⁹ See Mark Lemley and Timothy Simcoe, “How Essential Are Standard-Essential Patents?” 104 Cornell L. Rev. 607 (Mar. 2019), at 625.

¹⁰ See Robin Stitzing, et al., “Over-Declaration of Standard Essential Patents and Determinants of Essentiality” 10 (Oct. 27, 2017) at 12, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2951617; Lemley and Simcoe (2019), at 610.

¹¹ See Jorge L. Contreras, “Essentiality and Standards-Essential Patents”, in CAMBRIDGE HANDBOOK OF TECHNICAL STANDARDIZATION LAW, at 209, 222–23 (Jorge L. Contreras ed., 2017), at 15, available at <https://dc.law.utah.edu/cgi/viewcontent.cgi?article=1020&context=scholarship>.

¹² *Id.*

¹³ See notes 5–8 above regarding the high percentage of SEPs being non-essential, invalid, not infringed.

Regardless of the underlying reason for SEP quality problems, a decrease in challenges to the patent quality of alleged SEP portfolios harms the broader public interest. The European Commission has supported the protection of potential licensees' legal recourses against SEPs, stating that: "*There is a strong public interest in fostering challenges of patent validity and infringement. Royalty payments for SEPs which are either invalid or not used may unduly increase production costs, which in turn may lead to higher prices for consumers.*"¹⁴ The United States Supreme Court, in *Lear, Inc. v. Adkins*, similarly emphasised that there is an "*important public interest*" in patent challenges because "*[i]f [challenges] are muzzled, the public may continually be required to pay tribute to [the patentee] without need or justification.*"¹⁵

The use of market exclusion in one jurisdiction to force licensing of undesired patents in other jurisdictions allows SEP holders to evade testing of their patents. Untested SEPs of poor quality in turn cause potential licensees to dedicate more resources to licensing and other expenditures to participate in the industry. They also discourage innovation across industries supporting standardised technologies, as developers will be disinclined to allocate capital to develop technologies that build on a standard and compete with an SEP that purports to hold a legally countenanced monopoly. Increased costs to licensees and reduced competition through innovation are likely to harm consumers through increased prices and a reduction in choice. Indeed, for these reasons "bundling" or "tying" of SEPs with other patents or assets is viewed with scepticism and, under certain circumstances, has been deemed anticompetitive (or potentially anticompetitive) by courts and competition authorities.¹⁶ For example, in *Microsoft Mobile Inc. v. Interdigital, Inc.*,¹⁷ the court denied a motion to dismiss antitrust claims where the plaintiff alleged that the defendant SEP holder had, *inter alia*, tied SEP licences to non-essential patent licences.

C. Coercive global SEP portfolio licensing practices violate international norms and impinge on national interests in enforcing intellectual property laws.

Patents traditionally are individual assets that are geographically limited to the issuing jurisdiction.¹⁸ They are issued by individual countries and territories pursuant to local

¹⁴ European Commission, "Competition policy brief – Standard-essential patents," at 4.

¹⁵ 395 US 653, 670 (1969).

¹⁶ See European Commission decision in *Case AT.39985 – Motorola - Enforcement of GPRS Standard Essential Patents*, Council Regulation (EC) 1/2003, C(2014) 2892 final (Apr. 29, 2014), at [437] ("*As regards the scope of the Second Orange Book Offer ... it covered all Apple products infringing the licensed SEPs in Germany. Hence this offer was a clear indication of Apple's willingness to enter into a licensing agreement on FRAND terms and conditions*"); and 386 ("*In the Der Grüne Punkt – Duales System Deutschland GmbH ('DSD') case, the Union Courts held that it was abusive for a dominant undertaking to require a royalty payment for the use of a trade mark when the licensee was not actually using the service denoted by the trade mark. In the same vein, in this case, Motorola's seeking of royalty payments for the use by the iPhone 4S of SEPs that Apple may not be infringing, amounts to Motorola requesting the payment of potentially undue royalties, without Apple being able to challenge such infringement*").

¹⁷ 2016 WL 1464545, at *1 (D. Del. Apr. 13, 2016)

¹⁸ See, e.g., Timothy R. Holbrook, *Boundaries, "Extraterritoriality, and Patent Infringement Damages,"* 92 *Notre Dame L. Rev.* 1745 (2017) (discussing "lengthy history recognizing the domestic nature of patent law").

intellectual property laws and local administrative and regulatory frameworks. Their scope and enforcement extend only within the boundaries of the territory in which they have been issued. Licensees often seek and use patent rights only in certain geographies where they do business. Individual countries and territories thus have a fundamental interest in adjudicating patent rights within their jurisdiction and enforcing intellectual property laws according to their own legal frameworks.

By forcing a licensee to pay for rights to an entire SEP portfolio on a global basis, an SEP holder can impinge on that national interest. In particular, coercive licensing practices can force licensees to forgo challenges to SEP patents altogether (including in jurisdictions where such a challenge would be most aptly brought) or force a global SEP portfolio adjudication within a single jurisdiction. These outcomes risk creating barriers to trade or imposing unacceptable limits on the ability of national authorities to regulate their markets in accordance with their laws, and as prescribed by international agreements.¹⁹

In practice, each country or territory has its own norms or laws regarding the establishment, limitation, and enforcement of such rights. Patentability criteria differ across various jurisdictions.²⁰ As a result, courts in different jurisdictions can reach different conclusions, including when the patents at issue come from the same family.²¹ Consequently, in the event that a SEP declarant files a lawsuit a potential licensee, it is important for the courts with competence in the jurisdiction that issued the relevant patents to retain the ability to review the claims and issue decisions based on applicable law. Preserving licensees' rights to access these courts facilitates free trade across borders by discouraging overreaching or conflicting court decisions that could block international investments or prevent consumers in particular jurisdictions from accessing innovative products.

¹⁹ See Article 40(2) of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which states that *“Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.”*

²⁰ For example, in the United States, an invention is patentable if it is subject matter eligible (as defined under Section 101 of the US Patent Act – 35 U.S.C. 101), as well as new, useful, and non-obvious. In contrast, in the UK the invention simply must be novel, involve an inventive step and industrially applicable. Other countries, like China, offer Utility Model Patents which only protect products with new shape or structure, or a combination thereof, and have different patentability requirements than other patents.

²¹ One of the most well-known examples of such inconsistent rulings concerns the 100A SEP owned by ICom. Between 2012 and 2019, ICom sued Apple, HTC, Nokia and others on that SEP in both the UK and Germany. The patent repeatedly was found infringed in some cases but not others. See Mikael Ricknäs, “Nokia loses UK patent appeal against ICom,” *Computerworld* (May 10, 2012), *available at* ; Karin Matussek, “Apple wins dismissal of \$2.5 billion German patent suit,” *The Sydney Morning Herald* (Mar. 3, 2014), *available at* [MISSING CITE].

Permitting an SEP holder to use a patent enforceable in a single national jurisdiction to force a royalty payable on a global basis reflects a violation of FRAND principles, national sovereignty, and international norms.²² To allow coercive portfolio licensing practices ignores the fact that parties may, and often do, agree to geographically limited licences. It also ignores that parties regularly challenge patents in select jurisdictions where there is a heightened national or regional interest (e.g., because the patent was issued by that jurisdiction or the licensee seeks to use the patented technology only in that jurisdiction, or because that jurisdiction is a significant market).

The ability of SEP holders to force users into a global SEP portfolio FRAND rate-setting adjudication or global merits determination presents users with a “Hobson’s Choice”: either accept market exclusion or lose the right to access the courts most competent to exercise jurisdiction over suspect patents. Both options are inconsistent with national interests and international norms, and ultimately serve to harm downstream innovators and consumers. Indeed, the ability of SEP holders to force global portfolio adjudications in a single jurisdiction will incentivise forum shopping, while the costs for companies to remain in or enter a specific market, such as the UK, will increase dramatically.²³ Jurisdictions that so far have refrained from setting global portfolio rates could choose no longer to exercise that restraint, further increasing the potential for forum shopping.

D. The threat of an injunction should not be used to coerce willing licensees into global SEP portfolio licences.

A primary means of inducing global SEP portfolio licensing arrangements is the threat of an injunction in any meaningful jurisdiction to that licensee. That is, an SEP holder can threaten to enjoin a prospective licensee from using its patented essential technology in one jurisdiction, unless the licensee accepts a broader licence of other SEPs, including usage rights in other jurisdictions. While any method of coercing licensees into global SEP portfolio licences is harmful, using the threat of an injunction for a FRAND-encumbered SEP to do so is especially problematic. This is because the threat of exclusion from a market through the inability to use standard-essential technology immediately distorts the licensing negotiations to favour the SEP holder over the potential licensee. The prospect of exclusion from a market—which can significantly increase the risks and costs of doing business—is likely to influence a licensee’s

²² The WTO Agreement on TRIPS states in Part I, art. 1: “Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.” See also 1970 Declaration on Principles of International Law concerning Friendly Relations and Co-operation among States, General Assembly Resolution 2625 (XXV) of 1970, *American Journal of International Law*, 65 (1971), at page 248: “No State ... has the right to intervene, directly or indirectly, for any reason whatever, in the internal or external affairs of any other State ...”.

²³ See Rose, et al. (2017) at 1; see also the comments by various SEP holders in M. Klos, “Navigating the fog: SEP litigation in Europe,” *Juve Patent*, September 13, 2019, available at <https://www.juve-patent.com/news-and-stories/legal-commentary/navigating-the-fog/> (“We are currently deciding on a case-by-case basis in which court to file injunctive relief claims for infringement of an SEP” and “We always decide on a case-by-case basis where to claim the infringement of our SEPs, depending on various circumstances specific to the implementer”).

business decisions, including those regarding investments that otherwise would benefit consumers in those jurisdictions.

In light of the impact of prospective injunctions on licence negotiations, national and regional courts have sought to address some of these concerns. For example, the Court of Justice of the European Union in *Huawei v. ZTE* provided a framework for SEP licensing negotiations and established a competition law defence against injunctions.²⁴ Under the *Huawei v. ZTE* framework, a potential licensee's FRAND counteroffer to license only the national SEPs being asserted by the SEP holder should maintain that licensee's "willing status," thereby allowing it to raise a good-faith defence against the SEP holder's injunction request.²⁵

Even SEP holders recognise the impact of an injunction threat when made against them instead of against the prospective licensee. For example, following trial in *Federal Trade Commission v. Qualcomm*, the United States district court issued an injunction requiring an SEP holder to renegotiate its patent licence agreements. In seeking a stay of that order, the SEP holder explained: "If this Court does not grant a stay, [the SEP holder] will be forced to negotiate under the cloud of an injunction requiring it to accept terms to which it would not otherwise agree."²⁶

Asserting that injunction threats should not be countenanced as a tool for coercive licensing is not to say that SEP holders should be without recourse for true infringement situations. Where a licensee has wilfully infringed an SEP or otherwise acted in bad faith, it may be appropriate for the patent holder to seek monetary compensation for any resultant harm. This could include back royalties, enhanced damages, or interest and costs. In fact, monetary remedies are better aligned with FRAND principles than injunctive relief resulting in market exclusion. The root of an SEP holder's infringement claim is the other party's failure to pay royalties—indeed, any licensing arrangement is at bottom the SEP holder's promise to accept payment in lieu of a right to exclude the licensee from the market. This is particularly true for NPEs whose business model is structured around the recuperation of royalties for their patents, rather than the sale of products and services. Hence, excluding a manufacturer from a market could only serve as a coercive tactic to extract excessive royalty fees.

As a result, monetary compensation is almost always an adequate remedy for the infringement of an SEP. In *Motorola - Enforcement of GPRS Standard Essential Patents*, the European Commission found that damages actions focused on specific patents were sufficient

²⁴ See Case C-170/13 *Huawei Techs. Co. v. ZTE Corp.*, at [55] ("in order to prevent an action for a prohibitory injunction or for the recall of products from being regarded as abusive, the proprietor of an SEP must comply with conditions which seek to ensure a fair balance between the interests concerned")

²⁵ See Rose, et al. (2017) at 8.

²⁶ See Motion for Partial Stay of Injunction Pending Appeal at 5, *Federal Trade Commission v. Qualcomm*, Case No. 19-16122, United States Court of Appeals for the Ninth Circuit (July 8, 2019), available at <https://www.qualcomm.com/media/documents/files/motion-for-partial-stay-of-injunction-pending-appeal-united-states-court-of-appeals-for-the-ninth-circuit-7-8-19.pdf>.

to protect a patent holder's commercial interests.²⁷ Similarly, the US Court of Appeals for the Federal Circuit held in *Apple Inc. v. Motorola, Inc.*,²⁸ that injunctions on FRAND-encumbered SEPs should be rare (though not subject to a *per se* ban) because monetary damages will usually suffice as adequate compensation for harm.

There is little justification, therefore, for an SEP holder to threaten or seek an injunction (or similar *de facto* means of exclusion) except in exceptional circumstances and only where FRAND compensation cannot be obtained via an adjudicative procedure. Parties should be encouraged to negotiate FRAND terms without the unfair leverage created by the spectre of an injunction.

E. Contrary decisions are based on problematic premises

Although the weight of authority supports interpreting FRAND to prohibit an SEP holder from coercing global licences, recent court decisions from the UK and Germany deviate from these principles. In *Unwired Planet v. Huawei*, the UK Supreme Court relied on the potential for SEP owners and licensees to voluntarily agree to worldwide portfolio licensing to justify its *mandate* that potential licensees must accept a *worldwide* SEP license offer to avoid injunctions on UK SEPs. In a somewhat more limited decision, the German Federal Court of Justice in *Sisvel v. Haier* found that a worldwide portfolio SEP license offer is unobjectionable under cartel law as long as it does not also oblige the licensee to pay for the use of patents that are not essential to the standard, and that remuneration is calculated in such a way that users wishing to develop a product for a specific, geographically limited area are not placed at a disadvantage. Collectively, these decisions empower SEP holders to undermine their FRAND commitments by leveraging the power of a single patent, in a single jurisdiction, to force potential licensees to enter into worldwide SEP portfolio licences of untested patents.

Both the UK and German rulings are inconsistent with decisions by other courts which have refused to transfer an SEP holder's FRAND responsibilities onto potential licensees. For example, in *Optis Wireless Technology, LLC v. Apple Inc.*,²⁹ the SEP holders sought, among other items, a declaration that the potential licensee acted unreasonably by engaging in hold-out. The potential licensee moved to dismiss that claim by arguing that the court did not have jurisdiction over the potential licensee's negotiations regarding of foreign patents. The court agreed because "like claims for foreign patent infringement, claims asking the Court to pass upon foreign obligations under foreign laws related to foreign patents are best left to the

²⁷ See European Commission decision in *Case AT.39985 – Motorola - Enforcement of GPRS Standard Essential Patents*, at [519] ("*Motorola claims that damages actions do not adequately protect its commercial interests as such actions are slow, expensive and generally only retrospective, due to the fact that they need "to be conducted on a patent-by-patent basis and can therefore only be brought with respect to a handful of patents". Regarding the need to conduct damages actions on a patent-by-patent basis, as a matter of patent law, injunction proceedings also have to be conducted on a patent-by-patent basis. As for the allegedly slow, costly and retrospective nature of damages actions, the fact that Motorola is seeking damages and rendering of accounts from Apple in Germany shows that Motorola nonetheless considers that such actions do provide it with a certain level of protection of its commercial interests.*").

²⁸ 757 F.3d 1286, 1332 (Fed. Cir. 2014).

²⁹ 2:19-cv-00066-JRG (E.D. Tex. March 2, 2020).

courts of those foreign countries.” Similarly, in *Apple Inc. v. Qualcomm Inc.*, the district court observed that the potential licensee “has made no binding commitment that limits where it can bring a lawsuit, under what laws, or how it can enforce its third-party beneficiary rights under ETSI [IPR Policy]. As a baseline matter, therefore, [the potential licensee] is free to exercise its rights in the United Kingdom, China, Taiwan, and Japan under those countries’ laws.”³⁰

In contrast, in its *Unwired Planet* decision, the UK Supreme Court effectively stripped other nations of sovereignty over their patent systems by exercising jurisdiction to set global licensing terms for SEPs, under threat of injunction, regardless of the nation issuing the patents. By effectively requiring licensees to pay in advance for untested SEPs,³¹ the ruling also shifts from the plaintiff to the defendant the fundamental patent-law burden of proving that an SEP is essential and infringed before monetary compensation is awarded. The court further interpreted the underlying SDO’s IPR policy’s silence on the ability to seek injunctive relief as affirmatively authorizing SEP owners to seek such relief and effectively compel a global licence, which is clearly not a position that the SDO itself has taken.³² The ruling also does not recognize that many of global licences it relied upon as “commercial practice in the real world”³³ may have been entered to avoid threatened and actual injunctions.

The German Federal Court of Justice’s decision in *Sisvel v. Haier* was problematic for many of the same reasons. The court noted that requiring a global portfolio licence was unobjectionable provided the SEP holder did not charge for nonessential patents and that the fee structure would not disadvantage potential licensees targeting specific geographic regions.³⁴ But as noted above, due to differing infringement and validity standards throughout the world, licensees should be able to access courts experienced with the practices of particular jurisdictions to determine whether those patents are nonessential.³⁵ The decision’s reliance on the practice of some companies to enter into worldwide portfolio licences failed to examine the role that threatened and actual injunctions may have played in those licence negotiations. The numerous other considerations outlined above further demonstrate the concerns with both of these decisions.

³⁰ No. 17-CV-00108-GPC-MDD, 2017 WL 3966944, at *10 (S.D. Cal. Sept. 7, 2017)

³¹ Under the UK court’s interpretation, licensees must pay in advance for SEPs that they may wish to challenge and, following the invalidation of the SEPs or determination of non-infringement by a relevant national court, licensees must then request the return of these paid fees. This outcome would shift the traditional burden of proof in patent litigation, as well as during licence negotiations, which take place under the shadow of litigation. As the UK Supreme Court recognised “...it appears that that has not been usual industry practice.” See *Unwired Planet v. Huawei* at ¶ 64.

³² See *Unwired Planet v Huawei* at ¶ 61.

³³ See *id.* at ¶ 62.

³⁴ *Sisvel v. Haier* at ¶ 78.

³⁵ Although the court did acknowledge the principle that a potential licensee may reserve the right to challenge validity and infringement after signing a licence, in effect, this type of rule gives licensees the worst of both worlds: having to simultaneously pay royalties for untested patents while spending resources to litigate the same patents.

Conclusion

Tactics that use coercion to force a potential licensee to pay for patents that are disputed, or unused, are unfair and unreasonable. In all circumstances, a licensee should be able to request and obtain FRAND licence terms for a portion of an SEP holder's portfolio, while both parties retain the right to pursue claims and defences as to the holder's other declared SEPs.

It is untenable to require a potential licensee to *first* pay for all of the disputed patents in an SEP portfolio before exercising its right to mount legal challenges. Such a "pay first" approach inverts the patent system and its requirement that the patent owner—whether an SEP holder or not—shoulder the burden of establishing the merits of SEPs and defend against legal challenges, and otherwise prove that it has a legal right to payment. Just as any creditor would not be entitled to payment from an alleged debtor without providing proof of the debt, requiring advance payment for untested patents that a licensee may dispute has no role in a fair legal system.

Simply because a patent is unilaterally declared by its owner to be an SEP does not make it so and the evidence from legal challenges suggests otherwise³⁶. SEP holders should continue to have the burden of proving patent quality and should not be allowed to use coercive licensing practices to extract higher royalties or circumvent testing SEPs in competent jurisdictions. Ensuring FRAND licences are entered into through fair and reasonable negotiations, and that licensees have the ability to access the courts of competent jurisdiction where the SEPs have been issued in order to appropriately review their merits on the basis of the relevant national requirements, are essential to safeguarding the standardisation ecosystem and protecting not just prospective licensees, but downstream consumers and the legitimate sovereign interests of national and regional courts and regulatory bodies.

NOTE: The positions and statements presented in this paper do not necessarily reflect the detailed individual corporate positions of each member.

³⁶ See notes 8-11 above.