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Preserving the Optionality of Arbitration and Mediation in Standard Essential Patent (SEP) Disputes

FSA Position Paper Supplementing

[*Facilitating the Fair and Balanced Settlement of Disputes on SEPs \(Feb. 15, 2017\).*](#)

Synopsis

This paper builds on the FSA's position paper of February 15, 2017, and sets out further detail on the FSA's views on the role of arbitration and mediation in the resolution of standard essential patent (SEP) disputes. It explores the roles arbitration and mediation can play, looking at how they can best be structured to contribute to the fair and balanced settlement of SEP disputes about fair, reasonable, and non-discriminatory (FRAND) licensing terms, outside of court litigation.

Alternative dispute resolution (ADR) mechanisms such as arbitration and mediation must be consensual so the key principle is that the decision to resolve a SEP licensing dispute through arbitration and mediation must be voluntary. Thus, a party's choice not to engage in arbitration or mediation to resolve a SEP dispute does not demonstrate a lack of interest in resolving that dispute, or that such a party is otherwise an unwilling licensor or licensee. Nor should such a decision create any presumptions or trigger any penalties, such as a disadvantage in litigation, against that party in any subsequent dispute resolution process. Equally, a mere offer to arbitrate or mediate by a licensor is insufficient to demonstrate that the SEP holder is a willing licensor.

Voluntary decisions to mediate may be helpful in resolving SEP disputes in some circumstances. Some courts offer or order mediation of SEP disputes after litigation is filed, but before a court action proceeds, which may help the parties to see if they can reach agreement in a facilitated process. Although the complexity of FRAND disputes means it is unlikely that that full agreement

will be reached during mediation, it could narrow the issues in dispute, thereby usefully progressing matters towards a final resolution.

I. Introduction

This position paper (Supplemental Paper) supplements the FSA's position paper dated February 15, 2017, titled '*Facilitating the Fair and Balanced Settlement of Disputes in SEPs* (2017 Paper).

The 2017 Paper set out the FSA's view on how best to facilitate the fair and balanced settlement of standard essential patent (SEP)-related disputes through negotiation, mediation, arbitration or court litigation. By way of brief overview, the FSA positions set out in the 2017 Paper were:

- *“Voluntary nature:* Both parties must be able to freely agree whether to arbitrate/mediate the FRAND dispute (including on the rules of those proceedings) instead of litigating in courts[.]”
- *“Consideration of the merits under the traditional rules concerning the burden of proof:* The potential licensee's rights under patent laws to challenge the validity, essentiality, or infringement of the alleged SEP cannot be compromised in the name of licensing efficiency. The SEP holder should have the burden of proving its entitlement to FRAND royalties through a showing that it owns infringed patents actually essential to the standard (and whether the used features of the standard are mandatory or optional) and withstanding any challenges to validity, enforceability, or any other defenses. ADR should not simply be a matter of setting a rate if the licensee contests the SEP holder's claims[.]”¹
- “The fair and balanced settlement of disputes regarding SEP licensing on FRAND terms outside of litigation must provide for voluntary participation, neutral rules, decision-makers who consider the merits under the traditional rules concerning the burden of proof, and some degree of transparency to the public.”
- “A party should not be considered “unwilling” to reach an agreement or to enter into mediation or arbitration proceedings because it does not agree to the proposed procedural rules governing such mediation or arbitration, or to a proposed mediator or arbitration tribunal.”

¹ *Facilitating the Fair and Balanced Settlement of Disputes on SEPs* at 5 (Feb. 15, 2017), http://fair-standards.org/wp-content/uploads/2020/07/170213_FSA-Position-Paper-Facilitating-the-Fair-and-Balanced-Settlement-of-Disputed-on-SEPs.pdf.

- “Where a judicial decision is taken finding an infringement of a SEP, the judiciary should always consider the requirements of fairness, equity and proportionality before issuing an injunction against an infringer.”²

This Supplemental Paper is intended to set out in further detail the FSA’s views on the role of arbitration and mediation in the resolution of SEP disputes.

II. Arbitration

It is important that parties retain the flexibility to use the best-suited means for resolving SEP disputes at the appropriate point in time, depending on their respective assessments of the case and the individual situation. During negotiations between prospective SEP licensors and licensees, there may be points at which the parties may wish to agree to enter into mediation or arbitration, or otherwise to avail of their right to litigate in competent national courts. Ultimately, there is no one-size-fits-all approach that is appropriate in all circumstances, nor should one be imposed.

A. Retaining the choice to arbitrate

A party must have the right to choose whether to resolve a licensing dispute arising out of SEP negotiations through arbitration. A potential licensee’s fundamental right of access to national courts for the resolution of disputes should not be undermined by governmental measures. Standards development organizations (SDOs) also should not mandate the use of such procedures by third-party beneficiaries of the SDO’s patent policy. By contrast, parties may agree to arbitrate SEP disputes of their own volition, if they consider it appropriate under the circumstances, and are able to agree to a procedural framework that neither party considers disadvantageous. Arbitration has not, however, been an attractive option for many prospective SEP licensors and licensees.³

There are many legitimate reasons for a party to not agree to arbitrate. For one, a potential licensee may prefer to avail of its fundamental right to have a dispute resolved before national courts, which resolve disputes according to law, using established rules of evidence and burdens of proof, provide public access, and generally allow parties to appeal their decisions. Additionally

² *Id.* at 1.

³ FSA is not aware of a meaningful number of arbitrations that have been used to resolve SEP disputes, though data on such arbitrations may not always be publicly available. The International Chamber of Commerce (ICC) has been involved in FRAND arbitrations between Huawei and InterDigital (2014-15); Nokia and Samsung (2015-16); and Nokia and LG (2015-17), <https://media.crai.com/wp-content/uploads/2021/06/15135703/IP-Insights-SEP-Jurisprudence-June-2021.pdf>; FSA further understands that there have been arbitral awards in disputes between Ericsson and Huawei (2015) and Blackberry and Qualcomm (2017). Civil Minutes – General at 2, *TCL Comms. Tech. Holdings, Ltd. v. Telefonaktenbolaget LM Ericsson*, (C.D. Cal., May 26, 2016); <https://www.marketwatch.com/story/blackberry-awarded-final-940-million-in-arbitration-with-qualcomm-over-royalties-2017-05-26>. To the FSA’s knowledge, there have not yet been any SEP arbitrations concluded by the WIPO Arbitration and Mediation Center (WIPO Center).

or alternatively, a party may not want to arbitrate if it is not able to reach agreement on arbitration processes and procedures or on the identity of the arbitrator with its counterparty. A prospective licensee may also not want to forego the assessment of the alleged infringement, essentiality and/or validity of the patents or portfolio in issue should the prospective licensor seek to insist on limiting the scope of the arbitration. Deciding not to arbitrate a SEP licensing dispute, or rejecting an offer to arbitrate, is a multi-faceted and legitimate choice for a party to make, and therefore cannot result in that party being deemed an unwilling licensor or licensee. Nor should it create any presumption or trigger any penalty, such as a disadvantage in litigation, in any subsequent dispute resolution process.

B. Issues with mandatory arbitration

Arbitration, which may promote licensing efficiency, can do so at the expense of other values that are equally important. Mandating its use is both inappropriate and unjustifiable. First, arbitration processes may circumvent built-in safeguards against a potential licensee having to license non-essential, invalid or non-infringed patents, in circumstances where very few litigated patents meet all three of these criteria.⁴ As such, and by way of example, for an arbitration process to merely assume that a given patent is essential and infringed, or to remove the ability of a potential licensee to challenge the patent under any relevant doctrine, such as validity, eligibility, or enforceability, would be to render this process more favourable for a SEP licensor than litigation through national courts. In national courts, an SEP holder, like any other patent holder, must prove its claim of infringement and respond to challenges by a potential licensee.

Second, arbitration processes may derogate from other fundamental rights because they may alter the traditional rules on burden of proof and rules of evidence to the benefit of one party over the other, or may alter traditional due process rights, including the right to appeal.

Third, the use of arbitration, which is typically confidential in nature and does not involve the provision of public input, such as through amicus curie filings, may have broader public consequences, which argue against its mandatory use in SEP disputes. In particular, arbitration of SEP disputes reduces the ability of national jurisdictions to manage and retain authority over the national, public rights associated with each patent granted in each relevant jurisdiction.

⁴ Matthew G. Rose et al., *Between a Rock and a Hard Place*: *Unwired Planet v. Huawei and the Dangerous Implications of Worldwide FRAND Licenses*, e-Competitions National Competition Laws Bulletin (Aug. 2017) at 6 (study showing 11% of the SEPs originally asserted valid and infringed), <http://s3.amazonaws.com/cdn.orrick.com/files/eCompetitions-August-2017.pdf>;

Mark A. Lemley & Timothy Simcoe, *How Essential Are Standard-Essential Patents?*, 104 Cornell L. Rev. 607, 627 (2019), <https://scholarship.law.cornell.edu/cgi/viewcontent.cgi?article=4791&context=clr>.

In this regard, the public nature of the determinations of national courts on validity, essentiality and infringement provides a benefit to all relevant market participants,⁵ and adds to the development of case law to guide future determinations and negotiations.⁶ Moreover, the setting of rates in publicly available judgments may serve to create benchmarks, and to provide market participants with information as to the determined value of a given patent or portfolio, which may well diverge from a SEP holder's advertised "headline rates" once subjected to judicial scrutiny.⁷ These benefits are not obtained in confidential arbitration proceedings.

What must be avoided is policy-makers viewing mandatory arbitration as an expedient way to promote licensing efficiency and to relieve pressure on national court systems. Such an approach risks not only depriving the parties of their right to seek recourse from the national courts, but also harming the public interest more generally by preventing proper development of the law and scrutiny of granted patents.

Finally, it has been suggested by some commentators that a mandatory global arbitration system for determining FRAND disputes would prevent a number of the undesirable consequences of current trends in FRAND litigation such as the need to litigate in multiple jurisdictions, races to find the most favorable jurisdiction for a global determination, and the increasing use of anti- and anti-anti-suit injunctions.⁸

However, the proposals for such a regime are based on a presumption that the terms of a FRAND license may be directly addressed without the need for preliminary litigation in relation to patent essentiality, infringement and validity. This approach overlooks the fact that almost all disputes concerning SEP licenses cannot be resolved by simply setting a FRAND rate based on an automatic assumption of essentiality, infringement, and validity. Rather, a prospective licensee is entitled

⁵ See European Commission Decision AT.39939, [Samsung - Enforcement of UMTS standard essential patents, AT.39939](#) dated 29 April 2014 at ¶106 ("[C]ourt findings on invalidity have an *erga omnes* effect, thereby contributing to the public interest of eliminating any obstacle to economic activity which may arise where a patent is granted in error.") (EC Samsung); *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (explaining that "the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain").

⁶ EC Samsung at ¶106 ("court judgments are public, including the FRAND rate, and create precedents").

⁷ European Commission Decision AT.39985, [Motorola – Enforcement of GPRS Standard Essential Patents](#), 29 April 2014, ¶¶312 --321 (temporary exclusion from the market forced licensee to accept egregious terms), https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf; *Microsoft Corp. v. Motorola, Inc.*, No. 10-01823, 2013 U.S. Dist. LEXIS 60233 at *13, 20 (W.D. Wash. Apr. 25, 2013) (licensee forced to pay 150 times more than FRAND rate and move distribution operations to the Netherlands); *Realtek Semiconductor Corp. v. LSI Corp.*, No. 12--03451, 2014 U.S. Dist. LEXIS 81673 at *23 (N.D. Cal. June 16, 2014) (SEP licensor sought royalties 500 times higher than court's FRAND terms); *In re Innovatio IP Ventures, LLC*, No. 11-09308, 2013 U.S. Dist. LEXIS 144061 at *43--44 (N.D. Ill. Sep. 27, 2013) (licensor sought royalties 36 to 386 times higher than court's FRAND terms); Bill Baer, Ass't Atty Gen. Dept' of Justice, *Reflections on the Role of Competition Agencies When Patents Become Essential*, Remarks Before 19th Annual Int'l Bar Assn. Competition Conference (Sept. 11, 2015) at 4-5, <https://www.justice.gov/opa/file/782356/download>.

⁸ *SEPs, FRAND and Mandatory Global Arbitration*, GRUR 2021, 123.

to require that a SEP holder first prove its claims of, essentiality and infringement and issues of validity, essentiality and infringement will still need to be resolved in most cases. Indeed, the overwhelming majority of challenged SEPs are not found to be valid and infringed.⁹ Accordingly, these are fundamental issues that underpin the fairness of any resolution to a FRAND dispute and any final determination of the appropriate FRAND license.

As such, it remains the case that any arbitration of a FRAND dispute must be capable of addressing the merits of the SEPs at issue, because in most instances this will be a necessary first step to making a FRAND royalty determination.¹⁰ If the parties agree to arbitrate a dispute about licensing a global portfolio of patents, it will usually include the need to fairly consider arguments about infringement, validity and essentiality of patents from multiple jurisdictions, in advance of and separate from the issue of the valuation to be given to the patents at issue.¹¹ Any such analysis will require multi-jurisdictional expertise to fairly assess these issues under the appropriate national laws. It also requires that there be a fair sampling of proxy patents, especially if adjudicating upon a large portfolio, through a process on which the parties can agree. Some potential options could include random sampling, or for each party to select an equal number of patents from the list of the alleged SEPs in the portfolio in question.

The points discussed above highlight that mandatory arbitration would deprive parties of the rights and procedural protections offered by litigating before a court, without offering a wholly comparable regime. This deprivation is especially relevant where the arbitration would not be able to replicate certain public functions that ought to result from FRAND litigation, such as ordering the revocation of invalid patents and creating benchmarks for use in future negotiations. Given these factors, making arbitration mandatory is not justifiable.

C. A place for voluntary arbitration

⁹ Rose et al. and Lemley & Simcoe, *supra* note 3.

¹⁰ *EC Samsung* at ¶ 106 (“Samsung and the potential licensee will be required to request the court or the arbitration tribunal to take into account issues of infringement, validity and essentiality raised by the parties when determining FRAND terms and conditions. Finally, the arbitration tribunal will be required to take these issues into account when making a FRAND determination.”).

¹¹ As FSA has previously explained, [c]oercive 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.” FSA Position Paper: *Coerced Global SEP Portfolio Licences Are Not FRAND*, <http://fair-standards.org/wp-content/uploads/2020/10/Coerced-Global-SEP-Portfolio-Licences-Are-Not-FRAND-1.pdf>.

Notwithstanding that compelling parties to arbitrate is not appropriate, there may be occasions where arbitration is an attractive option to the parties in a particular dispute. Voluntary arbitration therefore has a role to play.

Any arbitration that follows the principles advanced in FSA's 2017 Paper, as summarized above, could have a chance of facilitating the fair and balanced settlement of the FRAND dispute. A consensual rather than mandatory process will facilitate the necessary cooperation required of the parties, for example in selecting an arbitral tribunal that is not perceived to favor one party over another.

But the attractiveness and effectiveness of arbitration as a means to resolve a FRAND dispute will depend heavily on its structure, rules and procedures, as well as the scope of the issues to be determined, including the ability to test the underlying merits of the asserted patents. For this reason, a mere offer to arbitrate by an SEP licensor is insufficient to demonstrate that it is a willing licensor. Indeed, there are a number of important principles that should be promoted when parties decide voluntarily to arbitrate. They include whether the arbitration:

- i. Offers a highly qualified arbitral board with relevant expertise.
- ii. Has selection procedures to ensure the arbitrators are not only fair and impartial in their approach to the dispute, but are perceived as such (e.g., each party being allowed to nominate an arbitrator to the board, with the nominated arbitrators then jointly selecting a third to act as the chair).
- iii. Can offer appropriate due process rights, such as those provided by national courts, including with regard to the burden and standard of proof, rules of evidence and discovery procedures/obligations.
- iv. Provides a framework for certain mandatory submissions and disclosures (such as statements of case on FRAND terms from both parties, and the disclosure of prior licenses and side agreements) and permits the crafting of a fair regime for the sampling of representative patents, where determinations relate to large portfolios.
- v. Has an appropriately defined remit, ensuring that it does not and cannot extend beyond the subject matter the parties have agreed. For example, if a party wants to address the licensing of only one or more SEP families, it cannot be compelled by the arbitrator to settle a license concerning a wider SEP portfolio or one that includes non-SEPs.
- vi. Provides appropriate timetabling to allow sufficient time for the parties to prepare their own cases and respond to that of the other party.

- vii. Will result in a written decision giving full reasons for the outcome.
- viii. Has measures to ensure transparency of the process¹², including public availability of the decision (possibly in anonymized form) and limiting the use of associated NDAs.
- ix. Allows for meaningful appellate review.

With the right structures and safeguards, underpinned by the consent of the parties, voluntary arbitration may be an option for parties seeking resolution of any FRAND dispute between them.

III. Mediation

As was noted in the 2017 Paper, a mediator has no power to issue a binding decision or award to any of the parties. Instead, the mediator works to guide and facilitate the parties to reach an agreement. As such, it does not deprive either party of their rights in the dispute in the same manner as would be the case for mandatory arbitration.

Given the complexity of SEP disputes, mediation can be a very resource-intensive process with a low likelihood of a conclusive outcome. However, the mediator might lead the parties past their negotiating impasse or help them to articulate clearly their most important points of disagreement. Either of these outcomes could narrow the issues in dispute, which is a worthwhile outcome in its own right as it could assist in limiting the points that need to be determined by a court if the dispute cannot be resolved consensually.

Courts in some countries (*e.g.*, Germany, the United Kingdom, and the United States) have the discretion or even an obligation to offer or order mediation at certain points in the litigation process. Given the consensual nature of mediation and associated costs, inviting the parties to consider mediation may be viewed as the preferred approach. However, what is key is that any court facilitated mediation takes place under the guidance of a neutral expert FRAND mediator (most likely paid for by the parties), in order to maximize the prospect for a conclusive outcome or an effective narrowing of the issues.

¹² CEN-CENELEC CWA 95000, *Core Principles and Approaches for Licensing of SEPs*, § 5.6 Predictability and Transparency (June 2019) (“As indicated in the CRA report commissioned by the European Commission, such “[t]ransparency would be further enhanced if royalty rates determined through arbitration were made public and if confidentiality clauses could not be unilaterally imposed by one of the contracting parties.”), ftp://ftp.cencenelec.eu/EN/News/WS/2019/CWA_SEP/CWA95000.pdf.

IV. Conclusion

In resolving SEP disputes, it is important that parties retain the flexibility to use the best-suited means for resolving the dispute at the appropriate point in time. As such, there may be occasions where ADR processes such as arbitration and mediation are an attractive option.

Therefore, voluntary arbitration and mediation both have a role to play. With the right structures and safeguards, underpinned by the consent of the parties, voluntary arbitration may be a tool some choose to use to reach a conclusive resolution to a FRAND dispute. Similarly, voluntary mediation of SEP disputes may help the parties, but the complexity of FRAND disputes means they are unlikely to reach agreement during a mediation. They may, however, narrow the issues in dispute, thereby usefully progressing matters towards a final resolution.

What must be avoided is the mandatory imposition of arbitration or mediation by policy-makers viewing them as an expedient way to promote licensing efficiency and to relieve pressure on national court systems. In relation to arbitration in particular, such an approach risks not only depriving the parties their fundamental right to seek recourse from the national courts, but also harming the public interest more generally by preventing proper development of the law and scrutiny of granted patents.

A party's choice not to engage in arbitration to resolve a SEP dispute does not demonstrate a lack of interest in resolving that dispute, or that such a party is otherwise an unwilling licensor or licensee. Nor should such a decision create any presumptions or trigger any penalties, such as a disadvantage in litigation, against that party in any subsequent dispute resolution process. Equally, a mere offer to arbitrate or mediate by a licensor is insufficient to demonstrate that the SEP holder is a willing licensor.