

# PARALLELS AND DIVERGING APPROACHES IN THE UK AND GERMAN SUPREME COURTS' DECISIONS ON FRAND



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## I. INTRODUCTION

Long-standing discussions in Europe regarding the licensing of Standard Essential Patents (“SEPs”) on Fair, Reasonable, and Non-Discriminatory (“FRAND”) terms and conditions are approaching significant conclusions. A number of court cases have reached the Supreme Courts of Germany, the UK, and the Netherlands; and the German Federal Cartel Office is urging German courts to refer questions regarding the level of licensing in the value chain to the Court of Justice of the European Union (“CJEU”) for clarification. In the meantime, the European Commission may soon further clarify its future regulatory approach to SEPs, as various follow-ups to the European Commission’s Communication on Standard Essential Patents are in the works. In this context, the Supreme Courts of two countries accounting for the vast majority of SEP litigation in Europe have published their first decisions on FRAND since the CJEU created its framework for the analysis of SEP licensing obligations in the 2015 *Huawei v. ZTE* decision: the German Federal Court of Justice, on July 8, published its decision in *Sisvel v. Haier*;<sup>2</sup> and on August 26 the UK Supreme Court gave its judgment on the appeals to the Appeal Court decisions in *Unwired Planet v. Huawei* and *Huawei v. Conversant Wireless* and *ZTE v. Conversant Wireless*.

Both judgments hand significant victories to SEP holders. Nevertheless, the judgments take very different approaches to the resolution of SEP licensing disputes. In this paper, I will analyze three different levels at which the different judgments intersect: on the first, most specific and technical level, the courts faced similar legal questions, and the decisions demonstrate a convergence in the approaches of German and UK courts to these questions. These include the question of whether a SEP holder may fulfill his FRAND obligations by only offering worldwide portfolio licenses, as well as the exact implications of the non-discrimination prong of the FRAND commitment. On a more general level, the judgments highlight a widening divergence between two different approaches to SEP licensing disputes: one approach emphasizes the parties’ obligation to engage in good faith negotiations over the terms and conditions of a SEP license, while another approach seeks to define what specific licensing terms are FRAND. On the most general level, the different controversies illustrate the geopolitical challenges to the European SEP licensing landscape, where the increasing Chinese participation in the development of mobile telecommunication standards raises difficult questions regarding the insufficient protection of foreign patent rights in China. This geopolitical challenge to the existing balance in the SEP licensing landscape manifests itself in direct government intervention on behalf of state-owned licensees as well as Chinese courts determining very low FRAND rates in disputes between foreign patent owners and Chinese implementers.

<sup>2</sup> BGH KZR 36/17. The decision is available in German at <https://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&Datum=Aktuell&Sort=9216&nr=107755&pos=23&anz=723>, and an English translation is provided by Arnold Ruess [https://www.arnold-ruess.com/fileadmin/user\\_upload/2020\\_07\\_07\\_FCJ\\_SisvelvHaier\\_English.pdf](https://www.arnold-ruess.com/fileadmin/user_upload/2020_07_07_FCJ_SisvelvHaier_English.pdf).

While both judgments offer some relief to SEP holders facing these challenges, a more unified approach within the CJEU's balanced and market-oriented framework for the resolution of SEP licensing disputes would have had better chances at achieving a durable solution. The German Federal Court of Justice's decision corroborates the *Huawei v. ZTE* framework's emphasis on parties' obligations to resolve FRAND licensing disputes through bilateral negotiations. By contrast, the UK Supreme Court curtails the role of the *Huawei v. ZTE* framework, and affirms the authority of English judges to set the terms and conditions for global SEP licenses under dispute. There is a clear risk that other courts in countries with lower standards of patent protection will follow this example and set low royalties and other inadequate terms for global SEP licenses. The ensuing forum shopping by SEP holders and implementers may ultimately weaken the effectiveness of worldwide SEP protection, and subject the global market for SEP licenses to greater uncertainty.

Bilateral negotiations between parties (potentially assisted by arbitration) are the most suitable forum for the determination of licensing terms and conditions. This is particularly true for SEP licenses, which regularly span across many different countries with different patent laws and different approaches to SEP licensing dispute resolution. National courts can usefully support this market-driven process by enjoining companies unwilling to engage in serious licensing negotiations from implementing the standard in a particular country. The German Federal Court of Justice's decision in *Sisvel v. Haier* provides a template for such an approach in support of bilateral negotiations. As other major SEP licensing disputes are still pending, and significant controversies in particular regarding the appropriate level of licensing in the value chain continue to await resolution, it is important that other courts and regulators will heed the Federal Court of Justice's example and similarly give priority to bilateral negotiations between SEP holders and implementers.

## II. CONVERGING STANCES ON SPECIFIC ASPECTS OF FRAND

On the specific issues, some of the most controversial debates regarding SEP licensing appear to be heading towards satisfactory resolutions. As other commentators have observed, the recent *Sisvel v. Haier* decision by the German Federal Court of Justice signifies an important convergence with the approach of UK courts to some of the most relevant current controversies.<sup>3</sup> The UK Supreme Court judgment, which upholds the lower courts' rulings and explicitly underlines their commonalities with the decisions of foreign, including German, courts, reinforces and extends this convergence.

### A. Portfolio Licensing Offers may Fulfill a FRAND Obligation

One element of contention in a large number of licensing disputes is the conflict between SEP holders' desire to license entire portfolios of patents essential to the same standard, and implementers – at least when taken to court for patent infringement – who often seek to limit the scope of the license under dispute to the much smaller subset of patents asserted in the lawsuit.

A large number of patents are declared to be potentially essential by their owners, as a cautionary measure. When checked, more than half of these patents are regularly found not to be essential.<sup>4</sup> Nevertheless, performing such checks on a large number of patents, such as the thousands of patents declared to be potentially essential to mobile communication standards such as LTE, would be prohibitively expensive even for large standard implementers. It is thus almost inevitable that portfolio licensing of SEPs leads standard implementers to take licenses for at least some patents that they do not actually use.<sup>5</sup>

Nevertheless, the very real potential for this outcome cannot justify a refusal by standard implementers to consider SEP portfolio licensing offers. In particular, a company that has been found to infringe a certain number of SEPs should not be allowed to insist on a license to these SEPs only. Courts cannot possibly deal with hundreds or thousands of patent infringement claims at once. Especially in the area of mobile telecom-

<sup>3</sup> Richard Vary of Bird & Bird states that "it seems that Germany has moved closer to the opinion of the Court of Appeal in *Unwired Planet*." In particular, he emphasizes the similar interpretation of the non-discrimination obligation, as well as the direct reference to Justice Birss' comment that "a willing licensee is one who is willing to accept a license on FRAND terms, whatever FRAND may be." <https://www.twobirds.com/en/news/articles/2020/global/federal-supreme-court's-decision-in-sisvel-v-haier-moves-germany-closer-to-the-uk>.

<sup>4</sup> A number of studies present results of essentiality checks on samples of declared SEPs, e.g. D. J. Goodman & R. A. Myers, "3G cellular standards and patents," *2005 International Conference on Wireless Networks, Communications and Mobile Computing*, Maui, HI, 2005, pp. 415-420 vol.1, doi: 10.1109/WIRLES.2005.1549445. Audenrode, Marc & Royer, Jimmy & Stitzing, Robin & Sääskilähti, Pekka. (2017). Over-Declaration of Standard Essential Patents and Determinants of Essentiality. SSRN Electronic Journal. 10.2139/ssrn.2951617. Brachtendorf, Lorenz and Gaessler, Fabian and Harhoff, Dietmar, Truly Standard-Essential Patents? A Semantics-Based Analysis (May 2020). CEPR Discussion Paper No. DP14726.

<sup>5</sup> Portfolio licenses also typically include a license to patents that may be granted and/or may become essential later on during the term of the license, thus highlighting the contractual nature of the license.

munications technology, the patents asserted in court are very often only a small subset of the patents that are actually infringed by a product. Requiring the SEP holder to make a licensing offer limited to the asserted patents, and calculating a compensation taking only these patents into account, would thus deprive patent owners of a large share of the value of their portfolio. It would also force patent holders to assert much larger numbers of patents than they currently do, further stretching limited judicial resources. It is readily apparent that the desire to get free access to large parts of patent holders' portfolios is the real reason underneath some implementers' litigation position that refuses to consider offers of licenses to larger SEP portfolios. Real-world licenses resulting from successful bilateral negotiations are based on portfolios, and rarely break down royalties or other licensing terms on a patent-by-patent basis. This goes to show that genuinely willing licensees prefer negotiations on a portfolio basis to unnecessarily burdensome patent-by-patent analyses. It is in everybody's interest that SEP holders offer licenses to entire portfolios, even though judicial disputes are necessarily limited to much smaller numbers of patents.

An implementer's refusal to consider *worldwide* portfolio licensing offers is similarly incompatible with the conduct of a willing licensee. While a patent owner may assert infringement of its patent rights in every country in which it has patented its invention, the vast majority of patent owners assert their patents only in a limited number of jurisdictions. In Europe, these jurisdictions are mostly Germany and the UK.<sup>6</sup> Indeed, it would be very inefficient for the same dispute and the same contested licensing terms to be simultaneously litigated in 28 different national court systems. Given their limited previous exposure to SEP litigation, some national courts may be ill-equipped to handle complex SEP licensing disputes. Implementers that insist on being offered national licenses thus appear intent to use the technology for free in the large number of jurisdictions in which their risk of facing a court proceeding is low. Allowing implementers to insist on national licenses would also be likely to lead to an inflation in the number of duplicative judicial proceedings, and increase the number of global licensing disputes litigated in smaller European countries. Unsurprisingly, the large number of existing worldwide SEP licenses voluntarily concluded between SEP owners and implementers demonstrates that the large majority of genuinely willing licensees prefer negotiating global licenses to burdensome country-by-country negotiations.

It is thus very positive and important that both the German Federal Court of Justice and the UK Supreme Court have clearly stated that offering licenses to worldwide SEP portfolios may fulfill a SEP owner's FRAND obligations. After these decisions, the prospect for implementers insisting on narrower licenses appears increasingly slim. The High Court of England and Wales decreed that "A UK portfolio licence is not FRAND. The FRAND licence between Unwired Planet and Huawei is a worldwide licence."<sup>7</sup> The court's willingness to determine a FRAND royalty rate for this worldwide license was one of the main grounds of Huawei's appeal, but was fully validated by the Supreme Court in its recent judgment. The Supreme Court rejected Huawei's distinction between the terms of a license mandated by a court, which Huawei alleged must necessarily be national in scope, and the (usually global) licensing terms to which parties may agree in bilateral negotiations. In the view of the Supreme Court, Judge Birss was justified in considering that, given the circumstances of the case, a willing licensor and a willing licensee would regard the negotiation of a license country by country as "madness." In basing his determination of a FRAND license on the practices that are usual in voluntary bilateral negotiations, Judge Birss adopted an approach that was in tune with those of courts in other jurisdictions. The UK Supreme Court observes that it is a practice in the developing German case law to have "regard to the usual practices of parties in the relevant industry when the court determines the FRAND terms of a licence." Courts in the U.S. have a similar practice of "looking to examples of real life commercial negotiation of licences by parties engaged in the relevant industry when fixing the FRAND terms of a licence."

The German Federal Court of Justice in *Sisvel v. Haier* did not need to determine a FRAND rate or evaluate whether the rates offered by Sisvel for a license to its worldwide patent portfolio were FRAND. It did, however, rule that Sisvel did not violate its FRAND obligations under competition law by only offering licenses to its worldwide SEP portfolio. The court rightly saw Haier's position that Sisvel needed to corroborate its licensing offer with a patent-by-patent analysis of its portfolio of 450 declared SEPs as a delaying tactic. Haier had thus not done its part, and failed to express its sincere willingness to take a license on FRAND terms. While the Federal Court of Justice thus did not set a FRAND rate for a worldwide portfolio license, as the UK Supreme Court has now established courts in the UK may do, it nevertheless recognized and validated the practice of offering SEP licenses on a worldwide portfolio level. Given the unambiguous support from the judgments of the highest courts in Germany and the UK, the norm of licensing SEPs on a worldwide portfolio basis seems firmly established by now.

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6 See Contreras, J. L., Gaessler, F., Helmers, C., & Love, B. J. (2017). *Litigation of Standards-Essential Patents in Europe: A Comparative Analysis*. Berkeley Tech. LJ, 32, 1457. A commercial report using more recent data similarly unveils very limited SEP litigation activity in Europe outside Germany and the UK: <https://www.darts-ip.com/blog-sep-litigation-landscape-2019/>.

7 UK High Court in *Unwired Planet International Ltd. v. Huawei Technologies Co. Ltd.*, [2017] EWHC 711 (Pat), at 807(11).

## ***B. The Non-discrimination Prong of FRAND does not Entail an Obligation to Offer Unitary Rates***

Another point of contention common to several recent disputes is the interpretation of the non-discrimination prong of the FRAND obligation. Also on this issue, the recent decisions by the German Federal Court of Justice and UK Supreme Court signal a widening agreement across European countries.

The bulk of academic and policy-maker interest in FRAND has focused on defining what makes a licensing offer “fair and reasonable.” While less discussed in scholarly publications, the issue of non-discrimination has been central to some of the most prominent European legal disputes and decisions on SEP licensing. Indeed, a very strict application of the non-discrimination prong of FRAND offers implementers a powerful tool to avail themselves of any own responsibilities to meaningfully engage in licensing negotiations. The appeal court decision in *Sisvel v. Haier*, which the Federal Court of Justice now overturned, exemplified such a strict approach. For the Duesseldorf Higher Regional Court, a single license granted by the licensor to another licensee on more favorable terms was sufficient to discard the licensor’s licensing offers as non-FRAND. Rather than allowing the licensing terms of individual licenses to be determined through bilateral negotiations, this approach would lead to a unitary tariff for SEP licenses, where the licensee with the strongest bargaining position sets a royalty ceiling for all licenses to these SEPs.

In overturning the Higher Regional Court’s finding that Sisvel’s licensing offer was discriminatory, the Federal Court of Justice clarifies that unitary tariffs are not required by a FRAND obligation. In the court’s interpretation, the goal of the non-discrimination prong of FRAND is to ensure that implementers have an effective access to the standard, and the non-discrimination obligations arising out of European and German competition law are sufficient to achieve this goal. The FRAND obligation therefore does not add further, more stringent non-discrimination obligations to those generally applicable to firms holding a dominant position.

In its recent decision in *Unwired Planet v. Huawei*, the UK Supreme Court similarly rejected the notion that a SEP licensor is bound to offer the same or similar terms to all licensees. The court noted that a “most-favourable licence” requirement was included in the short-lived ETSI IPR Policy of 1993, but not included in the 1994 policy or any of its subsequent revisions. Interpreting the non-discrimination prong of FRAND to require an SEP holder to offer the most favorable licensing terms granted to any comparable licensee “would have the effect of reintroducing a ‘most-favourable licence’ term by the back door.” Instead, the Supreme Court followed Judge Birss’ preference for a “general” rather than a “hard-edged” interpretation of the non-discrimination prong of the FRAND obligation. Under such a “general” interpretation, fair and reasonable licensing terms and conditions are necessarily non-discriminatory, because they reflect the value of the license. Under a “hard-edged” non-discrimination obligation, even fair and reasonable licensing terms could be non-FRAND, if the licensor has granted more favorable terms to a similarly-situated licensee. The Supreme Court rejected such a “hard-edged” interpretation and instead adopted a unitary interpretation of FRAND, where the terms “fair,” “reasonable,” and “non-discriminatory” do not represent distinct obligations, but constitute a composite whole.

Both the UK Supreme Court and the German Federal Court of Justice thus reject the notion that FRAND requires unitary tariffs. More generally, both courts find that the non-discrimination prong of FRAND does not add distinct obligations to those of the “fair and reasonable” prongs of FRAND and competition law more generally. While the UK Supreme Court subsumes the non-discrimination obligation in a unitary FRAND obligation, the Federal Court of Justice finds that non-discrimination in FRAND means the same as non-discrimination in German and EU competition law more generally. In spite of these differences, both decisions preserve a significant margin for SEP holders to offer licensing terms reflecting the individual circumstances of each license.

### III. TWO FUNDAMENTALLY DIFFERENT APPROACHES TO FRAND

On at least some specific issues, there is therefore a clear trend towards convergence between the German and UK approaches to SEP licensing disputes. Nevertheless, behind these specific controversies there is a more fundamental and widening divergence between different approaches to FRAND.

According to one view, FRAND designates a relatively specific level of compensation for a license. Under this approach, a licensing offer is FRAND if the offered terms and conditions correspond to this compensation. A court must determine the FRAND value of a license to determine whether parties' licensing offers fulfill their respective obligations, and may otherwise stipulate the license's terms and conditions.

According to another view, there is a large range of licensing terms and conditions that may fulfill a SEP holder's FRAND obligations. The specific licensing terms and conditions of a SEP license must be determined through meaningful bilateral negotiations. A court must determine whether the parties' licensing offers, as well as their overall conduct throughout the bilateral negotiations, were conducive to the conclusion of an acceptable agreement. In other words, under this approach, FRAND characterizes a negotiation process rather than specific licensing terms and conditions.

The *Huawei v. ZTE* framework appears to give preference to the latter approach. The CJEU set out a choreography of steps to be undertaken by the different parties, where the SEP holder must first notify the standard implementer of the alleged infringement of its SEPs, and the implementer must respond by expressing its willingness to conclude a license on FRAND terms; it is then up to the SEP holder to make a FRAND licensing offer, to which the implementer must diligently respond, either by accepting the offer, or submitting a FRAND counter-offer. The court thus clarifies that the actual terms and conditions of a SEP license would generally be determined through a process of bilateral negotiations. This seems incompatible with a view of FRAND as defining specific terms and conditions independently of the negotiation process.

Nevertheless, over recent years, the application of the *Huawei v. ZTE* framework by national courts has been inconsistent, and at times has weakened the framework's emphasis on bilateral negotiations. The challenges to the framework have come from two different angles.

First, several courts, such as the Higher Regional Court in Duesseldorf in the *Sisvel v. Haier* case, have erected high hurdles at the beginning of the iterative negotiation process. The CJEU makes it clear that it is up to the SEP holder to initiate the negotiation process by submitting a FRAND licensing offer. In the interpretation of some courts, including the Higher Regional Court of Duesseldorf, this means that the terms and conditions of the SEP holder's initial licensing offer must be those of a FRAND license. The obligation for the implementer to respond and actively engage in a negotiation process only arises if the SEP holder has already offered a license on terms and conditions that fulfill the SEP holder's FRAND obligations. The SEP holder must thus figure out FRAND terms and conditions of a license before any negotiation, without any active contribution from the prospective licensee. This interpretation raises the question what role negotiations are supposed to play in the determination of FRAND licensing terms. After receiving a FRAND licensing offer, the implementer may respond to the offer with a FRAND counter-offer; but it is unclear what happens in the hypothetical scenario in which two fully compliant FRAND offers are on the table. Both parties are likely to insist on their preferred version of FRAND, and a third party may ultimately have to determine the license's terms and conditions.<sup>8</sup>

Second, while the UK courts have adopted a very different approach to the resolution of a SEP licensing dispute, they similarly discount the importance of bilateral negotiations. The High Court of England and Wales in *Unwired Planet v. Huawei* found that neither the SEP holder nor the implementer had made a FRAND licensing offer, but this fact alone should not subject the parties to competition law consequences. While the court held that there is only one single set of terms and conditions that is FRAND for a license, the obligation to offer licenses on such FRAND terms should be understood as "applicable primarily to the finally agreed terms rather than to the offers."<sup>9</sup> This approach is much less demanding of the parties' conduct during the negotiation process. In fact, it drastically reduces the importance of the parties' licensing offers, as the FRAND obligation merely consists in *accepting* a license on FRAND terms and conditions; and the court took it upon itself to determine such terms and conditions.

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8 Some argue that since the initial FRAND commitment was made by the patent holder, once the patent holder has met it, the implementer must accept that FRAND offer or be enjoined. This interpretation however is difficult to reconcile with the CJEU's framework, which explicitly provides for an implementer's counteroffer in response to the SEP licensor's FRAND licensing offer. If only an offer to a license on FRAND terms satisfies the SEP holder's obligation to initiate the licensing negotiations, and the prospective licensee must accept any such offer, the possibility for a prospective licensee to submit a counteroffer would become meaningless, and there would be no role for meaningful negotiations.

9 UK High Court in *Unwired Planet International Ltd. v. Huawei Technologies Co. Ltd.*, [2017] EWHC 711 (Pat), at 159

While the Appeal Court disagreed with Birss' contention that there can only be a single FRAND rate, both the Appeal Court and the Supreme Court validated his general approach to the resolution of the SEP licensing dispute. The Supreme Court stated that what defines a willing licensee is the willingness to accept a court-determined FRAND rate.<sup>10</sup> In determining willingness, the Supreme Court also found that it did not matter that the SEP holder applied for an injunction before submitting a licensing offer, as it did so in view of a court-determined FRAND license. In the interpretation of the UK Supreme Court, giving the implementer notice of infringement is the only step in the *Huawei v. ZTE* choreography that is mandatory for the SEP holder. It considers that the CJEU has provided the subsequent steps of exchange of offer and counter-offer merely as non-binding guidance. While discounting the importance of both parties' offers and their conduct during bilateral negotiations, these decisions establish third-party determination of licensing terms (contemplated by the CJEU as a possibility in the case of mutual agreement by the parties) as the usual resolution of a SEP licensing dispute.

As different as these approaches otherwise seem, they do share a fundamental common understanding of what FRAND means. In that understanding, FRAND describes a set of licensing terms and conditions, including a royalty rate. This royalty rate reflects an objectively given FRAND value. The different courts differ in their degree of leniency with parties. While for the Higher Regional Court in Duesseldorf, it is the SEP holder's responsibility to figure out the FRAND value of the license, and to offer corresponding FRAND terms and conditions, UK courts are more sympathetic with parties that miss the mark in their offers. Nevertheless, both approaches agree that FRAND, at its core, objectively and specifically defines the terms and conditions of an acceptable SEP license, and they share a high degree of confidence in the ability of a court or other third party to find and stipulate such terms and conditions if needed.

The Federal Court of Justice in *Sisvel v. Haier* takes a very different approach. Based on the important insight that "appropriate conditions for a contractual relationship, in particular an appropriate price [are] regularly not objectively determined but can only be determined as the result of negotiated market processes," the court emphasizes the parties' obligations to engage in bilateral negotiations.<sup>11</sup> In this particular case, it found that Haier had failed to sufficiently express its willingness to accept a license on FRAND terms. Not only had the infringer dragged its feet in responding to the SEP holder's notice of infringement, but it also made its willingness to accept a FRAND license conditional on further steps by the SEP holder. It was thus no longer relevant whether Sisvel's offer was FRAND, as Haier had not made sufficiently clear that it would accept any offer that actually is FRAND.

Formally, this approach raises a hurdle at an even earlier stage of the iterative negotiation process. While the Higher Regional Court had found that Sisvel's offer failed to fulfill the SEP holder's FRAND obligations, thus absolving the implementer of the obligation to actively engage in bilateral negotiations, the Federal Court of Justice found that Haier had failed to meet its own obligations even before Sisvel had an obligation to make a FRAND offer. Nevertheless, which step needs to come first is not of primary importance. The fact that Haier's statement of willingness to license fell short is not due to a clerical error in the wording of the response to the notice of infringement; rather, the shortcomings of Haier's statements were indicative of Haier's general unwillingness to negotiate in a constructive and goal-oriented fashion. Further indications of this unwillingness were Haier's insistence on its own counter-offer, and its unwillingness to amend this offer unless Sisvel provided further explanations that the court held Sisvel was not obliged to provide. Fundamentally, the court's criticism is aimed at how Haier engaged with Sisvel's licensing offer. In light of its insufficient engagement with Sisvel's offer, Haier's expression of willingness to license must be seen as insufficient.

The Federal Court of Justice thus considerably narrows the circumstances under which a court must assess whether the terms and conditions of a SEP holder's licensing offer are FRAND. Whether the SEP holder has made a FRAND licensing offer is relevant only when the implementer, through its conduct throughout the negotiation process, has demonstrated that it was willing to accept any licensing offer on FRAND terms. This does not rule out that the Federal Court of Justice will determine whether the terms and conditions of licensing offers are FRAND in future cases, where the circumstances are different. Nevertheless, the evidence suggests that when both the SEP holder and the prospective licensee are genuinely willing to conclude a license on FRAND terms, they usually do not need a court to determine for them what these terms are.

The Federal Court of Justice's approach is in line with the positions of major European SDOs. While the IEEE-SA revised its patent policy to provide a narrower definition of what licensing terms are reasonable under its policy and how such reasonable terms should be determined, no major European SDO has taken similar steps. By contrast, CEN and CENELEC, two of the three European Standards Organizations formally recognized by the EU, stated that "FRAND has no precise pricing content, but instead is a 'comity device' designed to promote good faith nego-

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<sup>10</sup> "What mattered on the facts of this case was that Unwired had shown itself willing to license Huawei on whatever terms the court determined were FRAND, whereas Huawei, in contrast, had only been prepared to take a licence with a scope determined by it."

<sup>11</sup> BGH KZR 36/17, at 81. Cited from the English translation provided by the law firm Arnold Ruess, *supra* 2.

tiation between patent owners and prospective licensees.”<sup>12</sup> In line with this general view of FRAND, courts in continental Europe have consistently steered away from determining specific FRAND licensing terms of a SEP license. While courts in the U.S., Asia, and the UK have produced extensive analysis to derive FRAND terms from “objective” external data, courts in continental Europe have left it up to the parties to determine appropriate FRAND licensing terms through bilateral negotiations.<sup>13</sup>

In spite of the Federal Court of Justice's backing of this approach, ongoing evolutions may still result in setbacks that undermine bilateral negotiations as the primary locus for the determination of appropriate terms and conditions for each SEP license. A determination of licensing terms through bilateral negotiations in a market process is only possible if patent holders have access to injunctive relief against unwilling licensees. In the U.S., the Supreme Court decision in *eBay v. MercExchange* and the ruling of the Court of Appeals for the Federal Circuit in *Apple v. Motorola* have made it difficult for SEP holders to successfully obtain an injunction against a standard implementer, and, for those who chose to make a licensing assurance under it, the IEEE's patent policy explicitly compels a patent holder to surrender the determination of FRAND licensing terms to an adjudicator up to the appellate level before seeking an injunction.<sup>14</sup> This situation inevitably leads to an increasing number of court determinations of SEP licensing terms (but not to an increasing consensus on how such a determination should be carried out). Such rules do not preclude that licensing terms are determined through bilateral negotiations. Nevertheless, even those licensing terms determined by common agreement without third party intervention are negotiated *in the shadow* of a third-party determination; i.e. the willingness to pay and the willingness to accept of the parties of bilateral licensing negotiations are ultimately determined by parties' expectations regarding the outcome of a third-party determination.

The fact that German courts are still able and willing to grant injunctive relief against unwilling licensees is thus of the utmost importance. The German court system does not substitute for the market to provide licensing terms on demand. The ongoing revision of the German patent law may result in expanding existing exceptions to patent holders' rights to injunctive relief against infringers. It remains to be seen how far these exceptions will reach in practice, but introducing a broad criterion of “proportionality” between the interests of the patent owner and the consequences of an injunction for the infringer risks creating a German equivalent to *eBay v. MercExchange*. In that case, implementers' incentives to actively engage in bilateral negotiations will be weakened, and German courts – like their counterparts in the U.S. – may regularly have to determine FRAND licensing terms and conditions on the behalf of parties insufficiently incentivized to reach an acceptable agreement through negotiations.

A potential obligation for SEP holders to provide a mandatory “license to all,” i.e. to offer exhaustive licenses to their SEPs at any level of the supply chain, presents another threat to the determination of FRAND licensing terms through bilateral negotiations. If producers of small components in which patented wireless telecommunication technologies are physically embedded (such as chips or chipsets) were allowed to insist on being offered an exhaustive license, component makers and not patent holders would get to negotiate the terms and conditions under which different end product makers access the patented technology. This would represent a big step towards unitary tariffs across a large range of different uses. It would also represent an unprecedented ban on licensing field-of-use features, that have been affirmed by competition agencies to be legitimate for decades. If the Düsseldorf Regional Court's decision from November 26 to seek clarifications from the CJEU on a SEP holders obligation to offer licenses at all levels in the value chain is upheld on appeal, it must be hoped that the CJEU recognizes the importance of licensing terms that reflect the specific value that the patented technology adds to each implementation.<sup>15</sup> Such licensing terms can only be determined through bilateral negotiations between patent holders and those implementers that capture most of the patented technology's value.

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12 CEN and CENELEC: “CEN and CENELEC position on: Standard Essential Patents and Fair, Reasonable and Non-Discriminatory (FRAND) Commitments,” September 2016, available at [https://www.cencenelec.eu/News/Policy\\_Opinions/PolicyOpinions/EssentialPatents.pdf](https://www.cencenelec.eu/News/Policy_Opinions/PolicyOpinions/EssentialPatents.pdf).

13 For an overview of earlier cases, see Pentheroudakis, C. and Baron, J. “Licensing terms of standard essential patents: A comprehensive analysis of cases.” European Commission Joint Research Centre Science for Policy Report (2017).

14 *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

15 While the Mannheim Regional Court in its August 18 decision in *Nokia v. Daimler* has declined the Cartel Office's request and granted an injunction because neither Daimler nor its suppliers had acted as a willing licensee, other cases are still pending, and Daimler has announced that it will appeal the Mannheim Regional Court decision.



## IV. GEOPOLITICAL CHALLENGES TO THE EUROPEAN SEP LICENSING LANDSCAPE

Underneath their agreements on specific issues such as portfolio licensing and non-discrimination, the German Federal Court of Justice and UK Supreme Court thus apply a fundamentally different concept of what a FRAND obligation entails. On an even more general level, however, their decisions reflect similar geopolitical challenges to the European SEP licensing landscape. Many current SEP licensing controversies take place in the context of rising Chinese ambitions to shape mobile telecommunication standards. Chinese courts and government authorities are increasingly involved in the resolution of global licensing disputes. Even though this is a natural consequence of the increasingly important Chinese contribution to global mobile telecommunications technology, this evolution represents a challenge for European decision-makers. International comparisons consistently rank China much lower than the U.S., Japan, and major European countries in terms of the strength of Intellectual Property protection.<sup>16</sup> Furthermore, empirical research indicates that SEP protection in China is biased against foreign inventors.<sup>17</sup> These findings suggest that European and other Western SEP holders are rightly concerned about the protection of their patent rights when Chinese courts and government authorities are put in the position of adjudicating global SEP licensing disputes.<sup>18</sup>

Most SEP licensing disputes are global disputes. The underlying inventions are patented in many different countries, and the infringing products are sold around the World. Both SEP holders and implementers may thus invoke the laws and the courts of different countries to resolve their licensing disputes. For large disputes, it is common for companies to litigate in multiple venues at once. A single settlement may then put an end to multiple lawsuits in different jurisdictions. This overlap of multiple national courts' jurisdictions is not necessarily a cause for concern, so long as the different legal systems share common traits such as rule of law, international reciprocity, and a market-based approach to patents and standardization. Nevertheless, if the standards of patent protection differ significantly across jurisdictions, forum shopping by either patent owners or implementers may undermine the balance between different interests. In many of the recent European disputes, the potential for a spillover of insufficient patent protection in China is a significant aspect.

In the two cases jointly before the UK Supreme Court, Chinese infringers were appealing the UK High Court's and Appeal Court's decisions regarding their disputes with Western SEP holders. In both cases, the appellants challenged the UK courts' jurisdiction to determine the licensing terms for global SEP portfolio licenses. Evidently, the defendants hoped to achieve more favorable terms for country-specific licenses in other jurisdictions. In *Unwired Planet v. Huawei*, the High Court found that "comparable licenses show that rates are often lower in China than for the rest of the world." Even though the court accepted to discount the FRAND value for licenses in China by 50 percent, Huawei still objected on appeal that the court did not have standing to determine rates outside the UK. The goal of the appeal is easy to understand. Chinese courts, such as the Guangdong High People's Court in *Huawei v. InterDigital*, have set very low licensing rates in SEP licensing disputes involving Chinese implementers and foreign inventors.

Nevertheless, the claim of UK courts to be the legitimate forum for the determination of global licensing terms in these disputes appears precarious also on objective grounds. In one of the disputes, 60 percent of the implementer's ("ZTE") turnover was generated in China, as compared to 0.07 percent in the UK. It is thus evident that the value of a global SEP license in this case largely depends on the validity and enforceability of the SEP holder's Chinese patents, which only Chinese courts can determine. The UK Supreme Court's contention that UK courts nevertheless are an appropriate forum for the determination of global licensing terms rests in no small part on the court's finding that "the Chinese courts do not, at present, have jurisdiction to determine the terms of a global FRAND licence." The court currently only sees a "speculative possibility that the Chinese courts might accept jurisdiction to settle a global FRAND licence by consent." In light of the increasing role of Chinese companies in the development and implementation of wireless communication standards and the increasing number of national courts around the world that have embarked on setting global licensing terms, it seems plausible that Chinese courts will soon see themselves compelled and justified to do the same.

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<sup>16</sup> See e.g. [https://tcdata360.worldbank.org/indicators/entrp.ip?country=CHN&indicator=3375&countries=USA,JPN,DEU,FRA,GBR&viz=line\\_chart&years=2012,2016](https://tcdata360.worldbank.org/indicators/entrp.ip?country=CHN&indicator=3375&countries=USA,JPN,DEU,FRA,GBR&viz=line_chart&years=2012,2016); <https://www.statista.com/statistics/257583/gipc-international-intellectual-property-index/>; and <https://www.internationalpropertyrightsindex.org/countries>.

<sup>17</sup> Gaetan de Rassenfosse, Emilio Raiteri: Technology protectionism and the patent system: Strategic technologies in China, Working paper.

<sup>18</sup> The European Commission staff working document "Report on the protection and enforcement of intellectual property rights in third countries" lists protection of SEP among the most prominent concerns with IPR protection in China: "Chinese competition authorities are reported to often impose heavy fines on foreign holders of SEPs, setting unreasonably low royalty rates, or using 'informal' investigations to influence business to business negotiations. The applicable rules and guidelines do not ensure sufficient legal certainty." [https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc\\_158561.pdf](https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158561.pdf).

In the ongoing disputes between Nokia and Daimler, two large European companies, the major issue in contention is Daimler's insistence that its suppliers should be entitled to exhaustive SEP licenses. Nokia would thus need to approach the suppliers instead of Daimler with a FRAND licensing offer. A number of Daimler's direct ("Tier 1") suppliers, such as Continental, Valeo, and Gemalto, joined the lawsuit. These component makers supply carmakers such as Daimler with telematics control units ("TCU"), which enable several connectivity functions in a car. Neither the carmakers nor most of the Tier 1 suppliers play a significant role in the development of the underlying cellular communication technology. Rather, they source cellular communication modules from "Tier 2" suppliers, and most prominently Huawei. In late 2019, Huawei sued Nokia for an exhaustive SEP license; and according to recent media reports, Sharp (another SEP holder, and a fellow member of the Avanci pool) granted Huawei an exhaustive SEP license, and accordingly limited its pending infringement lawsuit against Daimler to only those implementations not involving Huawei components.<sup>19</sup> If car makers succeed in enforcing a new license-to-all rule for SEPs, European SEP holders may thus ultimately need to negotiate the terms on which European car makers access advanced cellular communication technology with Huawei and other, mostly Asian, Tier 2 suppliers.

In *Sisvel v. Haier*, the Higher Regional Court of Duesseldorf in its decision now overturned by the Federal Court of Justice had – as mentioned above – found that Sisvel's licensing offer to Haier was discriminatory, because Sisvel had granted more favorable licensing terms to another licensee. What made this approach particularly problematic in this case was that this licensee in question is a state-owned Chinese company that allegedly benefited from direct Chinese government intervention on its behalf. The Higher Regional Court did not think such government intervention could possibly constitute a valid reason justifying differential treatment. This was a very concerning stance. In light of the difficult conditions for enforcing Intellectual Property Rights in some countries, SEP licensors find themselves between a rock and a hard place: if they decide to vigorously pursue their rights against infringers protected by foreign governments, they may face serious adverse consequences, such as being excluded from important markets. If they however tolerate the infringement by these actors, they place their own licensees at a competitive disadvantage. In this context, accepting an inadequate compensation for a SEP license may well be the least bad choice available to a licensor. This choice however would become unviable if European courts then required the licensor to apply these inadequate terms, reflecting the direct influence of Chinese government, to their entire licensing program.

As exemplified by these recent controversies, the prominent role of Chinese actors and the insufficient protection of foreign Intellectual Property in China raises difficult questions with few good answers. The *Sisvel v. Haier* decision effectively validates an unfair competitive advantage enjoyed by foreign state-owned companies. More worryingly, the willingness of UK courts to determine global portfolio licensing terms may legitimize the ambitions of Chinese courts to do the same. Nevertheless, UK and German courts have at least provided a temporary relief to SEP holders against far-reaching consequences from Chinese efforts to devalue foreign-owned Intellectual Property.

In the long run, national courts alone cannot satisfactorily address the challenges that foreign government interference pose for the standardization ecosystem. Rather, these challenges call for policy action. Policy makers such as the European Commission have given significant leeway to SDOs and other private actors to develop the rules applicable to SEP licensing. Nevertheless, they also have shown a willingness to intervene when warranted by the circumstances. In the past, most of these interventions had the aim of protecting European implementers against abuses by SEP holders. In its November 2017 communication, the Commission prominently recognizes the importance for European SMEs to receive FRAND access to SEP-protected technology standards. These goals have lost nothing of their importance. At the same time, the Commission should recognize that the SEP licensing landscape has undergone profound transformations over recent years. Perhaps the most consequential of these transformations is the rapid ascension of foreign actors who have an economic interest in devaluing the Intellectual Property of incumbent innovators, and whose aspirations benefit from direct and indirect interventions by their national governments. Finding an appropriate response to this challenge is not only in the interest of the small number of European companies that still participate in a leading role in the development of mobile communication technologies. It is also vital to preserving the rule-based and market-driven European approach to standardization, which has been a global success through the successive generations of mobile telecommunication standards from 2G to 5G and beyond.

Especially in light of this international dimension of SEP licensing disputes, the Federal Court of Justice's emphasis on bilateral negotiations may provide a more promising approach to the resolution of SEP licensing disputes. Bilateral negotiations (possibly assisted by an arbitration in an international forum) are better suited to the resolution of global disputes than the determination of licensing terms by national courts. Ultimately, increasing the number of national courts willing to determine global licensing rates may lead to forum shopping and reduced predictability of SEP licensing terms. Under the approach of the Federal Court of Justice, a national court may use the prospect of an injunction against unwilling licensees or a finding of an abuse of a dominant position by a SEP holder to compel both parties to engage in serious licensing negotiations, which would typically be global in scope. The actual determination of licensing terms would thus take place outside the judicial systems of different countries with their national specificities.

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<sup>19</sup> <http://www.fosspatents.com/2020/07/breaking-sharp-grants-automotive.html>.  
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## V. CONCLUSION

In this paper, I have tried to highlight some of the key take-aways and implications of the German Federal Court of Justice's decision in *Sisvel v. Haier* and the UK Supreme Court judgment in *Unwired Planet v. Huawei* as well as *Huawei and ZTE v. Conversant Wireless*. Most immediately, these important rulings have the potential to unify European courts' approaches to important aspects of SEP licensing disputes, such as portfolio licensing and non-discrimination. Both judgments provide important clarifications on these issues, which will strengthen the position of SEP holders against the litigation tactics of unwilling licensees in pending as well as future disputes.

At the same time, the judgments fundamentally diverge in their interpretation of what FRAND means. The German Federal Court of Justice's decision corroborates and strengthens the *Huawei v. ZTE* framework' emphasis on parties' conduct throughout the negotiation process. By contrast, the UK Supreme Court judgment reduces the importance of the *Huawei v. ZTE* framework and parties' conduct during the negotiation process more generally. Under this approach, the primary responsibility of a willing licensee and licensor is to accept whatever terms a court determines are FRAND.

I have argued that the approach of the German Federal Court of Justice is better suited to the resolution of global licensing disputes, especially in view of increasing geopolitical challenges to the SEP licensing ecosystem. By giving priority to bilateral negotiations between parties as the primary means of determining FRAND licensing terms, the decision provides a template for a market-driven European approach to the resolution of SEP licensing disputes. Nevertheless, this is only the first in a series of important decisions expected in Germany and other European countries. It is important for future decisions to continue to prioritize bilateral negotiations as the primary means of determining SEP licensing terms and conditions, and find longer-lasting responses to some of the emerging challenges in the SEP licensing landscape.



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