

# NATIONAL FRAND RATE-SETTING LEGISLATION: A CURE FOR INTERNATIONAL JURISDICTIONAL COMPETITION IN STANDARDS-ESSENTIAL PATENT LITIGATION?



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## NATIONAL FRAND RATE-SETTING LEGISLATION: A CURE FOR INTERNATIONAL JURISDICTIONAL COMPETITION IN STANDARDS-ESSENTIAL PATENT LITIGATION?

By Jorge L. Contreras

The willingness of national courts to set global FRAND royalty rates for patents that are essential to key industry standards has led to international jurisdictional conflicts, competing anti-suit injunctions and a global race to the courthouse. This essay supports the adoption of legislation that repudiates global FRAND rates set unilaterally by courts in other countries and instead mandates the adjudication of FRAND royalty rates for national patents through a multi-party proceeding. It is hoped that such a system will eventually lead to a consolidated, international mechanism for global FRAND rate determination.

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Courts have increasingly been asked to adjudicate disputes over the level of fair, reasonable and nondiscriminatory (“FRAND”) royalty rates that holders of standards-essential patents (“SEPs”) are permitted to charge manufacturers of standardized products. Courts making these determinations may assess FRAND rates only as to SEPs issued in their own countries (the “national FRAND approach”) or as to all SEPs worldwide that would be included in a license had it been negotiated by the parties (the “global FRAND approach”). These competing approaches are discussed below, along with some of the international jurisdictional issues that they have raised and potential legislative solutions that could address these issues.

## I. NATIONAL FRAND APPROACH

Patents are instruments of national law and, as such, have legal effect only in the issuing jurisdiction. A court may thus adjudicate infringement, and remedies for infringement, solely as to patents within its jurisdiction. As one U.S. district court has explained, though “the dominant practice in the industry is to license [SEPs] on the basis of worldwide sales . . . the court may not impose a royalty on such a basis because the court’s powers do not extend beyond the United States.”<sup>2</sup> Thus, in *Ericsson v. D-Link*, which involved a dispute over three SEPs allegedly covering Wi-Fi standards, a jury in the Eastern District of Texas determined damages in the form of a royalty payable only with respect to those three U.S. patents.<sup>3</sup> And in *Optis v. Huawei*, the same district court dismissed a SEP holder’s demand for a determination that it complied with its FRAND obligation with respect to non-U.S. patents.<sup>4</sup>

The national FRAND approach has also been followed by courts outside of the U.S. For example, in *Huawei v. Conversant*, the Nanjing Intermediate People’s Court in China established a FRAND royalty for the three Chinese SEPs asserted by Conversant,<sup>5</sup> and in *Samsung v. Apple Japan*, the Intellectual Property High Court of Japan assessed FRAND royalties only for Samsung’s Japanese SEPs.<sup>6</sup>

## II. GLOBAL FRAND APPROACH

The parties to FRAND disputes are often multinational corporations with operations around the world, and many privately negotiated SEP licensing agreements have a worldwide scope. Even though a national court typically lacks the authority to adjudicate damages with respect to the *infringement* of foreign patents, the fact that a FRAND commitment is often a contractual undertaking gives the court jurisdiction to determine, as a contractual matter, a rate for all of the SEPs that would be licensed.<sup>7</sup>

The global FRAND approach was first adopted five years ago by the UK High Court (Patents) in *Unwired Planet v. Huawei*,<sup>8</sup> which determined the terms of a FRAND license covering not only two UK SEPs at issue, but also foreign patents. The court ruled that if Huawei did not accept a license on these terms, it would be enjoined from selling infringing products in the UK.<sup>9</sup> Courts in France are also reported to have indicated a willingness to set global FRAND royalty rates in this manner.<sup>10</sup>

<sup>2</sup> *Hynix Semiconductor Inc. v. Rambus Inc.*, 609 F. Supp. 2d 951, 987, n.30 (N.D. Cal. 2009).

<sup>3</sup> *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1225–29 (Fed. Cir. 2014). See also *Microsoft v. Motorola*, 2013 U.S. Dist. LEXIS 60233 (W.D. Wash., 2013), *aff’d* 795 F.3d 1024 (9th Cir. 2015) (recognizing the existence of non-US patents, but focusing its analysis only on US patents), *In re. Innovatio IP Ventures LLC*, 2013 U.S. DIST. Lexis 144061 (N.D. Ill. 2013).

<sup>4</sup> *Optis Wireless Tech., LLC v. Huawei Device USA, Inc.*, No. 2:17-cv-123-JRG-RSP, Findings of Fact and Conclusions of Law, 2019 U.S. Dist. LEXIS 43489 \*20 (E.D. Tex., Mar. 18, 2019).

<sup>5</sup> *Huawei Technologies Ltd v Conversant Wireless Licensing SarL*, Nanjing Intermediate People’s Court of Jiangsu Province, Judgment dated 16 September 2019 in actions raised by Huawei ((2018) Su 01 Min Chu No 232, 233 and 234). See Jacob Schindler, *Nanjing Judge Sets Chinese SEP Rate in Dispute Between Conversant and Huawei*, INTELL. ASSET MGMT. (Sept. 23, 2019), <https://www.iam-media.com/frandseps/nanjing-judge-sets-chinese-sep-rate-in-dispute-between-conversant-and-huawei>.

<sup>6</sup> *Samsung Electronics Co Ltd v Apple Japan Godo Kaisha* (Case No 2013 (Ne) 10043) (16 May 2014).

<sup>7</sup> For a discussion of the differences between adjudication of patent damages and FRAND royalty rates, see Jorge L. Contreras, et al., *The Effect of FRAND Commitments on Patent Remedies*, in *PATENT REMEDIES AND COMPLEX PRODUCTS: TOWARD A GLOBAL CONSENSUS*, 160, 161-63 (C. Bradford Biddle et al., eds., 2019) [hereinafter INPRECOMP].

<sup>8</sup> *Unwired Planet Intl. Ltd. v. Huawei Techs. Co. Ltd.* [2017] EWHC (Pat) 711 (Eng.), *aff’d* [2020] UKSC 37.

<sup>9</sup> *Unwired Planet Intl. Ltd. v. Huawei Techs. Co. Ltd.* [2017] EWHC 1304 (Pat), *aff’d Unwired Planet Intl. Ltd. v. Huawei Techs. Co. Ltd.* [2020] UKSC 37. See also *Optis Cellular Tech. LLC v. Apple, Inc.* [2021] EWHC 2564 (Pat.) ¶¶ 86, 89 (adopting similar reasoning).

<sup>10</sup> See Matthieu Dhenne, *Overview of FRAND litigation in France: is a new era coming?* KLUWER PATENT BLOG, Nov. 19, 2020, [http://patentblog.kluweriplaw.com/2020/11/19/overview-of-frand-litigation-in-france-is-a-new-era-coming/#\\_ftn3](http://patentblog.kluweriplaw.com/2020/11/19/overview-of-frand-litigation-in-france-is-a-new-era-coming/#_ftn3) (discussing *TCL v Philips and ETSI*), and Matthieu Dhenne, *XIAOMI Case: Paris, the “New World” of FRAND*, KLUWER PATENT BLOG, Dec. 27, 2021 (discussing *Xiaomi v. Philips*).

U.S. courts have set global FRAND rates, but only when both parties have requested that they do so.<sup>11</sup> Thus, in 2012, the court in *Motorola v. Microsoft* determined a FRAND rate for Motorola’s global portfolios of SEPs covering two standards based on worldwide licensing evidence introduced by both parties.<sup>12</sup> And in *TCL v. Ericsson*, a district court determined global FRAND rates for Ericsson’s SEP portfolio after the parties requested that the court make a global rate determination.<sup>13</sup>

But the country that has attracted the most recent attention for setting global FRAND rates is China. In June 2020, smartphone manufacturer Xiaomi asked the Intermediate People’s Court in Wuhan to establish a global FRAND rate for InterDigital’s SEPs covering the 3G and 4G standards.<sup>14</sup> The Wuhan court indicated its willingness to declare a global FRAND rate when it issued an anti-suit injunction ordering InterDigital to withdraw a parallel suit in India.<sup>15</sup> A similar request was made to the Shenzhen Intermediate People’s Court in *OPPO v. Sharp*, which indicated that its determination of a global FRAND rate could improve efficiency by avoiding litigation in multiple jurisdictions.<sup>16</sup> Then in December 2020, Samsung petitioned the Wuhan court to establish a global FRAND rate for SEPs held by Ericsson, resulting in the Wuhan court’s issuance of an anti-suit injunction against Ericsson.<sup>17</sup> At least three other recent complaints have sought the determination of global FRAND rates by Chinese courts.<sup>18</sup>

### III. JURISDICTIONAL RACES

As these cases demonstrate, a court in any country adjudicating a FRAND dispute can seek to claim jurisdictional authority to determine a global FRAND rate.<sup>19</sup> And a manufacturer will effectively be forced to accept a court’s global FRAND rate in any country where it has significant assets or market share, because refusing to sign a license on those terms could result in an injunction prohibiting sales in that country. This ability of one national court to determine FRAND rates for patents around the world can lead to two forms of legal “race.”

First is a “race to the bottom” among jurisdictions — a documented phenomenon in which jurisdictions intentionally adapt their rules, procedures, and doctrines to attract litigants.<sup>20</sup> Second, differences among jurisdictions encourage parties to initiate litigation in a favorable jurisdiction as quickly as possible, often to foreclose a later suit in a less favorable jurisdiction. This situation is referred to as a “race to judgment” or a “race to the courthouse,” and it may prematurely drive parties to litigation rather than negotiation or settlement.<sup>21</sup> As one UK court recently observed, “if SEP owners have unfettered freedom to select the jurisdiction in which to bring an action for infringement, it means that potentially they get to select the jurisdiction likely to settle FRAND terms most favourable to them. ... This cuts both ways. If implementers have unfettered freedom to bring a claim in any jurisdiction for the settlement of FRAND terms, they will select the country most favourable to them. A race to the bottom is no more attractive than a race to the top.”<sup>22</sup>

11 The unilateral determination of global FRAND rates had been requested by parties in U.S. cases, but the courts in those cases did not ultimately make such determinations. See e.g. *Lenovo (United States) Inc. v. ICom GmbH & Co. KG*, No. 5:19-cv-01389-EJD, 2019 WL 6771784 (N.D. Cal. Dec. 12, 2019) (Lenovo brought an action claiming that ICom breached its FRAND obligations and asking the court to determine a global FRAND royalty rate, but the case was resolved prior to a substantive ruling on the matter).

12 *Microsoft Corp. v. Motorola, Inc.*, 871 F. Supp. 2d 1089, 1097 (W.D. Wash. 2012), aff’d, 696 F.3d 872 (9th Cir. 2012).

13 *TCL Commun. Tech. Holdings Ltd. v. Telefonaktiebolaget LM Ericsson*, Case 8:14-cv-00341-JVS-DFM, Memorandum of Findings of Fact and Conclusions of Law at \*44 (C.D. Cal., Dec. 21, 2017), rev’d on other grounds 943 F.3d 1360 (Fed. Cir. 2019) (“the parties have requested a global adjudication”).

14 *Xiaomi Commc’n Tech. Co. v. InterDigital Tech. Corp.*, (2020) E 01 Zhi Min Chu No. 169-1 (Wuhan Intern. People’s Ct., Sept. 23, 2020), translated at <https://patentlyo.com/media/2020/10/Xiaomi-v.-InterDigital-decision-trans-10-17-2020.pdf>.

15 *Xiaomi v. InterDigital*, *supra* note 4.

16 See also Guangdong *OPPO Mobile Telecommunications Co. Ltd v. Sharp Corp. OPPO*, CHINA JUST. OBSERVER (Oct. 16, 2020), <https://www.chinajusticeobserver.com/law/xi-guangdong-oppo-mobile-telecommunications-v-sharp-corp-20201016>.

17 See *Ericsson Inc. v. Samsung Elecs. Co.*, No. 20-CV-00380, 2021 WL 89980 (E.D. Tex. Jan. 11, 2021).

18 See Bing Zhao, *Coolpad files Chinese FRAND litigation against Pantech*, Intell. Asset Mgt., 22 Mar. 2022, <https://www.iam-media.com/frand/coolpad-files-chinese-frand-litigation-against-pantech> (discussing *Coolpad v. Pantech*, *Nokia v. Oppo* and *Nokia v. Vivo*).

19 To date, the principal countries involved in these disputes include the U.S., UK, France, Germany, Netherlands, Japan, China, Taiwan, South Korea, Brazil, Indonesia, and India.

20 See Jorge L. Contreras, *The New Extraterritoriality: FRAND Royalties, Anti-Suit Injunctions and the Global Race to the Bottom in Disputes over Standards-Essential Patents*, 25 B.U. J. Sci. TECH. L. 251, 280-83 (2019).

21 See *id.* at 283-86.

22 *Nokia Technologies OY v. Oneplus Technology (Shenzhen) Co., Ltd.*, [2021] EWHC 2952 ¶¶ 117-18.

Yet while the UK Supreme Court, in confirming the jurisdiction of UK courts to set global FRAND rates, expressly acknowledged that a single court's authority to set rates across the globe could result in forum shopping, it largely dismissed this concern, reasoning that it is up to SDOs and parties, rather than courts, to adopt policies to avoid this result.<sup>23</sup> Thus, despite calls that they do so,<sup>24</sup> courts, at least in the UK, seem disinclined to refrain from determining global FRAND rates.

## IV. ANTI-SUIT AND ANTI-ANTI-SUIT INJUNCTIONS IN FRAND CASES

To complicate matters further, in several of the cases noted above, one or both parties sought anti-suit injunctions ("ASI") or similar procedural orders to prohibit the other party from initiating or continuing litigation in another jurisdiction. The first such ASI in a FRAND case was granted by a U.S. district court in *Microsoft v. Motorola*,<sup>25</sup> which prohibited the SEP holder, Motorola, from enforcing an injunction that it had obtained in Germany during the pendency of a FRAND rate determination in the U.S. Other ASI requests followed in a half-dozen U.S. cases over the next several years.<sup>26</sup>

By 2018, international courts began to resist the imposition of ASIs in the U.S. with anti-anti-suit injunctions (AASIs). For example, in *IPCom v. Lenovo*,<sup>27</sup> after a U.S. district court granted Lenovo an ASI prohibiting IPCom from pursuing parallel SEP litigation outside the U.S., French and UK courts each issued AASIs prohibiting Lenovo from enforcing those ASIs in their jurisdictions.<sup>28</sup> A German court responded similarly in *Continental v. Avanci*, issuing an AASI to prevent the enforcement of a U.S. ASI that would have prevented several SEP holders from pursuing litigation in Germany.<sup>29</sup>

Though Chinese judicial actions have been the targets of ASI orders since at least 2015, it was not until 2020 that Chinese courts began to issue ASIs of their own. Then, during the course of that year, Chinese courts issued ASIs in four major FRAND cases, a development that has attracted significant international attention.<sup>30</sup>

## V. RESPONSES BY POLICY MAKERS

The increasing use of ASIs and AASIs in global FRAND disputes and the resulting jurisdictional competition have prompted policy makers around the world to take action. For example, in February 2022 the European Union lodged a complaint with the World Trade Organization ("WTO") alleging that China's use of ASIs impermissibly restricts SEP holders from exercising their rights and creates barriers to trade.<sup>31</sup> The United States, Canada and Japan have made requests to join the EU's case.<sup>32</sup>

Chinese ASI activity also prompted U.S. Senator Thom Tillis, in March 2022, to announce that "[t]he Chinese Communist Party's attempt to make Chinese courts the world arbiter of intellectual property must be stopped."<sup>33</sup> In doing so, he and four other senators introduced draft

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23 *Unwired Planet Intl. Ltd. v. Huawei Techs. Co. Ltd.* [2020] UKSC 37 ¶ 90.

24 See Jorge L. Contreras, *Anti-Suit Injunctions and Jurisdictional Competition in Global FRAND Litigation: The Case for Judicial Restraint*, 11(2) NYU J. IP & Ent L. 171 (2021) (urging courts voluntarily to refrain from setting global FRAND rates until a global solution is developed).

25 *Microsoft Corp. v. Motorola, Inc.*, 871 F. Supp. 2d 1089, 1097 (W.D. Wash. 2012), aff'd, 696 F.3d 872 (9th Cir. 2012).

26 For a summary and analysis of these cases, see Contreras, *Extraterritoriality*, *supra* note 20, at 265-78.

27 *Lenovo (United States) Inc. & Motorola Mobility, LLC v. IPCom GmbH & Co.*, No. 19-1389 (N.D. Cal., filed Mar. 19, 2019).

28 Tribunal de Grande Instance de Paris, Case No RG 19/59311, 8 November 2019, aff'd *IPCom v. Lenovo*, Court of Appeal of Paris – RG 19/21426, 3 March 2020 - Case No. 14/2020 (English trans. at <http://caselaw.4ipcouncil.com/french-court-decisions/ipcom-v-lenovo-court-appeal-paris-rg-1921426>), *IPCom v. Lenovo*, [2019] EWHC 3030 (Pat).

29 Landgericht München I, docket nos. 21 O 9333/19 and 21 O 9512/19.

30 For a detailed analysis of the issuance of ASIs by Chinese courts, see Peter K. Yu, Jorge L. Contreras, Yu Yang, *Transplanting Anti-Suit Injunctions*, 71 Am. U. L. Rev. 1537 (2022).

31 Request for Consultations by the European Union, China—Enforcement of Intellectual Property Rights, WTO Doc. WT/DS611/1 (Feb. 22, 2022).

32 See Mark Cohen, Three Countries Seek to Join the EU SEP Case, China IPR, Apr. 22, 2022, <https://chinaipr.com/2022/04/22/three-countries-seek-to-join-the-eu-sep-case/>.

33 Tillis, Coons, Cotton, Hirono, and Scott Introduce Bipartisan Bill to Prevent the Chinese Communist Party from Stealing American Intellectual Property, (Mar. 10, 2022), <https://www.tillis.senate.gov/2022/3/tillis-coons-cotton-hirono-and-scott-introduce-bipartisan-bill-to-prevent-the-chinese-communist-party-from-stealing-american-intellectual-property>.

legislation (the “Defending American Courts Act” or “DACA”) that would impose penalties on parties seeking to enforce foreign ASIs in U.S. patent suits.<sup>34</sup>

## VI. CONSISTENCY, TRANSPARENCY, AND COMPREHENSIVENESS IN FRAND RATE-SETTING

As I have previously observed, judicial FRAND rate determinations today suffer from a lack of *consistency* (as different courts are not bound to apply consistent methodologies in establishing FRAND rates, even for the same patents covering the same standards), *transparency* (as confidential licensing agreements are not open to review by parties in other cases or outside the litigation arena), and *comprehensiveness* (as bilateral litigation rarely takes into consideration the value of SEPs held by non-parties to the litigation).<sup>35</sup> These problems are exacerbated by international judicial competition, as there are few, if any, common procedures or methodologies for FRAND rate determination that are recognized across borders.<sup>36</sup> The combination of these factors places even greater pressure on parties to race to the jurisdiction that they deem most favorable to their own positions.

The clear solution to these issues lies in the determination of FRAND rates for all SEPs covering a given standard in a single, consolidated proceeding, whether judicial<sup>37</sup> or arbitral.<sup>38</sup> Yet despite various calls for reform,<sup>39</sup> neither courts, SDOs nor parties have taken concrete steps toward such a solution. As a result, more targeted governmental intervention may be required.

## VII. LEGISLATIVE REPUDIATION OF FOREIGN GLOBAL FRAND RATES

As noted above, a group of U.S. senators recently proposed legislation (DACA) that would penalize parties that enforce foreign ASIs in U.S. patent suits. While DACA-type legislation addresses one symptom of the global race to set FRAND rates, it is not likely to be effective in addressing the root problem. Specifically, the penalties that it imposes will become moot as soon as a foreign court establishes a global FRAND rate that is incorporated into a SEP licensing agreement, as that agreement will render the U.S. litigation in which those penalties would have been imposed moot (i.e. an infringement suit cannot be maintained against a licensee).<sup>40</sup> Thus, even if legislation like DACA were enacted, parties to FRAND disputes will continue to race to favorable jurisdictions and national courts will respond accordingly.

A more effective legislative solution would instead reject the recognition of global FRAND rates that have unilaterally (i.e. without the consent of both parties) been set by foreign courts. For example, the U.S. Congress could enact a statute to repudiate FRAND royalty rates with respect to U.S. patents that have been set unilaterally by foreign courts.<sup>41</sup> Importantly, this repudiation would apply even to foreign FRAND rates that purport to be “global” and even those that are incorporated into licensing agreements that have been signed under threat of a foreign injunction.

<sup>34</sup> S. 3772, 117th Cong. § 2 (penalties include a presumption of willfulness, if infringement is found, a presumption of extraordinary circumstances, in connection with cost recovery claims, and the inability to challenge the litigated patents at the Patent Trial and Appeals Board (“PTAB”).

<sup>35</sup> Jorge L. Contreras, *Global Rate-Setting: A Solution for Standards Essential Patents?*, 94 WASH. L. REV. 701 (2019).

<sup>36</sup> See Thomas J. Cotter, *Is Global FRAND Litigation Spinning Out of Control?*, 2021 PATENTLY-O PATENT L.J. 1, 24 (2021) (suggesting that national governments seek to develop consensus, or at least best practices, around certain contentious FRAND calculation issues).

<sup>37</sup> Jason R. Bartlett & Jorge L. Contreras, *Rationalizing FRAND Royalties: Can Interpleader Save the Internet of Things?*, 36 REV. LITIG. 285 (2017).

<sup>38</sup> See Contreras, *Global Rate-Setting*, *supra* note 35 (proposing non-governmental, multilateral global rate-setting). This multilateral proposal differs from prior proposals for *bilateral* arbitration of FRAND disputes, which would facilitate the resolution of rate disputes between the parties, but would not establish FRAND rates applicable for all market participants. See Richard Arnold, *SEPs, FRAND and Mandatory Global Arbitration*, 2/2021 GRUR 123 (2021) (proposing global bilateral arbitration); Jorge L. Contreras & David Newman, *Developing a Framework for Arbitrating Standards-Essential Patent Disputes*, 2014 J. DISPUTE RESOL. 23 (2014) (considerations for bilateral FRAND arbitration); Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 BERKELEY TECH. L.J. 1135 (2013) (proposing bilateral “best offer” arbitration).

<sup>39</sup> See e.g. Group of Experts on Licensing and Valuation of Standard Essential Patents (E03600), *Contribution to the Debate on SEPs* (2021), Lemley & Shapiro, *supra* note 38; King Fung Tsang & Jyh-An Lee, *The Ping-Pong Olympics in Antisuit Injunction in FRAND*, Chinese University of Hong Kong Faculty Of Law Research Paper No. 2021-68 (28 Mich. Tech. L. Rev. forthcoming, 2022); Eli Greenbaum, *No Forum to Rule them All: Comity and Conflict in Transnational FRAND Disputes*, 94 WASH. L. REV. 1085 (2019); and various articles by the author cited throughout this essay.

<sup>40</sup> See Jorge L. Contreras, *A Statutory Anti-Anti-Suit Injunction for U.S. Patent Cases?*, PATENTLY-O (Mar. 18, 2022), <https://patentlyo.com/patent/2022/03/contreras-statutory-injunction.html>.

<sup>41</sup> A draft legislative proposal titled the “Standard Essential Royalty Act” (SERA) has been brought to the author’s attention. It embodies some of the recommendations contained in this essay.

With such a statute in place, parties operating in the U.S. would no longer be beholden to the rapid adjudication of U.S. FRAND rates in foreign courts, thereby reducing the need for a race to the courthouse. And if other countries enacted statutes repudiating foreign FRAND rates with respect to their own national patents, then the ability of courts in the UK, China, or any other country to dictate global FRAND rates would effectively vanish.

## VIII. AGGREGATED JUDICIAL RATE-SETTING

A statute that repudiates global FRAND rates that have unilaterally been set by a foreign court should also offer an alternative method for determining FRAND rates within the country in question. This function could simply be left to national courts without further elaboration. Yet such an approach would solve only half of the problem: while it would eliminate the international jurisdictional competition described above, it would not fully achieve the goals of consistency, transparency or comprehensiveness that are also needed for effective FRAND rate determinations around the world.

Thus, in order to rationalize FRAND rate determinations for multiple SEPs across the same standard and to ensure that all SEP holders are treated in a consistent and fair manner, FRAND rates should be set in multilateral proceedings that include all holders of SEPs applicable to a given standard. Moreover, in order to take into account evidence regarding the benefits and relative value of particular patented and non-patented technologies that are included in standardized products, the manufacturers of standardized products should also be permitted to participate in such proceedings. These proceedings would then determine, in an economically sound manner, both the aggregate royalty rate to be paid for all SEPs covering a standard, as well as the allocation of royalties among individual SEP holders.<sup>42</sup>

Such FRAND proceedings would resemble rate-setting hearings that are currently conducted with respect to utility rates and various forms of copyright licensing.<sup>43</sup> It could be structured as a judicial proceeding using existing interpleader mechanisms, a new judicial procedure created by statute, or a designated arbitral proceeding. In the end, the form and venue of the proceeding are less important than ensuring that they establish a single FRAND rate for all SEPs covering a particular standard. To promote fairness, audit and verification mechanisms could be implemented to ensure that over-declaration of SEPs does not distort the allocation of compensation among SEP holders.<sup>44</sup> And in addition to the rate determination body, a neutral agent could be designated to collect FRAND royalties from manufacturers and distribute royalty shares to SEP holders.<sup>45</sup>

The efficiency gains from such a consolidated proceeding are many and have been discussed at length elsewhere.<sup>46</sup> Most importantly, it would eliminate dozens of different adversarial proceedings pertaining to SEPs covering the same standards, result in consistent and transparent results, and enable all interested parties to have a voice in these critical rate determinations.

## IX. NATIONAL RATE-SETTING AS A PATHWAY TO GLOBAL RATES

The legislative solution described above would, by definition, be effective only in the country in which it was enacted. In that vein, both courts and commentators have worried that judicial determinations of FRAND rates that are limited to national patents could result in an inefficient multiplicity of judicial proceedings – one per country.<sup>47</sup> Yet even if this were the case, such country-by-country adjudication would only be conducted once for each standard, rather than multiple times for each SEP holder–implementer pair, as it is today. As such, significant efficiency gains would be achieved.

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42 This approach has sometimes been referred to as a “top down” approach to royalty determination. It is distinguished from a “bottom up” approach, in which the “value” of individual patents is assessed in an uncoordinated fashion. See Bartlett & Contreras, *supra* note 37, at 293-309.

43 See Contreras, *Global Rate Setting*, *supra* note 35, at 733-37.

44 See e.g. Jorge L. Contreras, *Fixing FRAND: A Pseudo-Pool Approach to Standards-Based Patent Licensing*, 79 ANTITRUST L.J. 47, 82-83 (2013) (proposing an “over-declaration penalty” when aggregated royalties are allocated among SEP holders).

45 This agent could operate in a manner similar to the “nonprofit collective” authorized under the U.S. Copyright Act to assess and collect royalties for certain digital sound recording transmissions. See 17 U.S.C. § 114(g).

46 See e.g. Contreras, *Global Rate Setting*, *supra* note 35; Bartlett & Contreras, *supra* note 37.

47 See e.g. Tsang & Lee, *supra* note 39, at 59 (noting inefficiencies of country-by-country adjudication). But see Eli Greenbaum, *No Forum to Rule them All: Comity and Conflict in Transnational FRAND Disputes*, 94 WASH. L. REV. 1085, 1124 (2019) (collecting, then rejecting, arguments against country-by-country adjudication).



But more importantly, country-by-country rate adjudication need not be the end game for global FRAND rate setting. Ultimately, a single global tribunal (but not a self-appointed national court) would produce the most efficient and fair adjudication of FRAND rates. This much has been acknowledged by the UK courts, one of which recently acknowledged that a potential solution to “[t]he current unevolved framework for the settlement of a global licence between owners of SEPs and implementers . . . would be the establishment of an internationally recognised tribunal to which patentees and implementers must refer their disputes.”<sup>48</sup>

Admittedly, a single tribunal, judicial or arbitral, for the determination of global FRAND rates could emerge organically through the voluntary efforts of SDOs and industry participants, or through some form of top-down international agreement. Yet this has not yet occurred, and few expect that it will.

The national legislation described above, however, could encourage countries to increase cooperation in making FRAND determinations. Thus, if a first country establishes a legitimate and respected forum for FRAND rate determinations, other countries could look to the determinations of that forum as informative in their own proceedings. Private parties could also benchmark negotiated FRAND royalty rates in other countries against the rates set by that forum. Better still, other countries could be permitted to join the adjudicative process established by the first country under appropriate conditions (e.g. some form of representation on, or input to, the adjudicatory body).

Given the inherent inefficiency of country-by-country rate determinations, it is hoped that parties and institutions will gravitate toward more consolidated decision-making structures, yet do so in way that is fair, procedurally sound, and not dependent on the outcome of a jurisdictional race to the bottom.

## X. CONCLUSION

The willingness of national courts to determine global FRAND royalty rates and the resulting proliferation of international jurisdictional conflicts has motivated both private races to the courthouse and jurisdictional races to the bottom. This situation has raised legitimate concerns among policy makers and fueled international tension. Prior legislative proposals fail to address the root of this problem: the inherent inconsistency, non-transparency, and non-comprehensiveness of current judicial and arbitral FRAND rate determinations. A better solution could be effected through the adoption of national legislation that repudiates global FRAND rates set unilaterally by courts in other countries and instead mandates the adjudication of FRAND royalty rates for national patents through a multi-party domestic proceeding. Eventually, such a system could lead to the ideal resolution: a consolidated, international mechanism for global FRAND rate determinations.

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<sup>48</sup> *Nokia Technologies OY v. Oneplus Technology (Shenzhen) Co., Ltd.*, [2021] EWHC 2952 ¶ 116 (citing *Unwired Planet Intl. Ltd. v. Huawei Techs. Co. Ltd.*, [2020] UKSC 37 ¶ 90).





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