

# U.S. Courts Have Limited Ability To Set FRAND Rates Globally

By **Timothy Syrett** (January 22, 2021)

A recent Law360 guest article calls for U.S. courts to adjudicate global fair, reasonable and nondiscriminatory rates for standard-essential-patent licenses more frequently.

The article describes the U.K. Supreme Court's decision in *Unwired Planet International Ltd. v. Huawei Technologies (UK) Co. Ltd.* as an example for U.S. courts to follow. The article also argues that the tendency for parties to negotiate global licenses for claimed SEPs should encourage U.S. courts to emulate this market outcome by adjudicating FRAND disputes as a matter of contract law.



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But missing from the article is a critical point: an explanation of how U.S. courts would have the authority to engage in FRAND rate-setting for global portfolios of SEPs if the potential licensee does not agree to be bound by the court's determination.

U.S. courts have correctly recognized that, absent the agreement of the potential licensee to be bound by a portfolio-wide determination, they lack authority to resolve global FRAND disputes because they cannot compel a party to license patents it has not been found to infringe, and, moreover, they cannot determine liability for foreign patents. As one U.S. court has observed, "there exists no legal basis upon which [a potential licensee] may be compelled to take a license for [an SEP owner's] patents on a portfolio-wide basis."<sup>[1]</sup>

The basic structure of the U.S. legal system is incompatible with the notion that a patent owner can unilaterally demand that a U.S. court set and enforce payments for that party's global portfolio. U.S. courts should continue to acknowledge the limits on their authority and leave global rate-setting only to the rare circumstances when the parties agree to such a procedure. U.S. courts should decline to follow the lead of the *Unwired Planet* case in the U.K.

In the *Unwired Planet* litigation, after *Unwired Planet* prevailed at trial on two SEPs, the trial court held a FRAND trial. At the FRAND trial, the court assessed the parties' competing licensing offers and, finding none of them to be FRAND, set what it concluded were FRAND terms for a worldwide license.

Further, while the trial court recognized that "[c]ertainly the implementer could not be ... compelled" to agree to a FRAND license, the court nonetheless held that the availability of an injunction should turn on the defendant's willingness to license, where the court concluded that "a licensor and licensee acting reasonably and on a willing basis would agree on a worldwide licence."<sup>[2]</sup>

Accordingly, the court settled on imposing what it termed a FRAND injunction:

A FRAND injunction should be in normal form to restrain infringement of the relevant patent(s) but ought to include a proviso that it will cease to have effect if the defendant enters into that FRAND licence.<sup>[3]</sup>

And while, as the article observes, the *Unwired Planet* court termed "madness" the prospect that an SEP holder would need to sue on a country-by-country basis, the court was content

to invert the traditional burdens of patent litigation and put the onus on the defendant to go country by country to invalidate patents it was forced to license to reduce the global portfolio royalty rate imposed by the U.K. court.[4]

The article asks: Why is Unwired Planet not a well-settled principle? One answer in the U.S. is that a court adjudicating infringement of FRAND-committed SEPs would not be in the same position as the Unwired Planet court. While injunctions for patent infringement are often issued as a matter of course in the U.K., to obtain an injunction in the U.S., a patent holder has to meet the four-part standard set out by the U.S. Supreme Court in *eBay Inc. v. MercExchange LLC*. [5]

The U.S. Court of Appeals for the Federal Circuit has applied the *eBay* standard to a FRAND-committed patent and concluded that the SEP holder was not entitled to an injunction, including because the patent holder's "FRAND commitments, which have yielded many license agreements encompassing the [asserted patent], strongly suggest that money damages are adequate to fully compensate ... for any infringement." [6]

Thus, it is critical in assessing the applicability of Unwired Planet's rationale in the U.S. to consider the procedural context in which it arose and the differences between U.S. and U.K. patent law.

Absent exceptional circumstances, a U.S. court is unlikely to find itself in the position of the U.K. court in Unwired Planet, putting to a defendant the choice of agreeing to a global license set by the court or being enjoined on an SEP. To the contrary, U.S. courts have set portfolio FRAND rates only when the SEP licensor and the potential licensee have agreed to it.

A potential licensee is most likely to agree to a court's adjudication of a FRAND portfolio rate when a potential licensee sues an SEP holder for breach of contract for failure to offer FRAND terms and wants the court's assistance in reaching a final agreement.

For example, when Microsoft Corp. brought a breach of contract claim against Motorola Inc. in the U.S. Court of Appeals for the Ninth Circuit in 2015, alleging that Motorola had failed to adhere to its commitments to license on reasonable and nondiscriminatory terms, the parties agreed that the court would set a RAND rate for Motorola's SEP portfolios to resolve that claim. [7]

Similarly, although *In re: Innovatio IP Ventures LLC* in the U.S. District Court for the Northern District of Illinois in 2013 was an infringement case, there:

the parties and the court agreed that the best course toward resolving the parties' disputes would be to pause and evaluate the potential damages available to Innovatio if the Defendants are found to infringe the claims of Innovatio's patents. [8]

Accordingly, the court undertook a determination of a RAND rate for Innovatio's SEP portfolio — but one that would be relevant only upon a finding of infringement.

The article does not recognize the narrow circumstances in which U.S. courts have undertaken portfolio rate-setting. Instead, it focuses on calling for U.S. courts to reject the applicability to FRAND disputes of the Federal Circuit's 2007 decision in *Voda v. Cordis Corp.* [9] But that focus is misplaced: Only a few reported decisions have considered Voda's applicability to FRAND disputes.

Moreover, those decisions have been in cases where an SEP holder was seeking a declaratory judgment that it has abided by its FRAND commitments in negotiating with a potential licensee for a global portfolio, not where the parties had agreed to be bound by the court's FRAND determination.

In the 2018 U.S. District Court for the Eastern District of Texas case *Optis Wireless Technology LLC v. Huawei Technologies Co.*, for example, the court addressed Optis' claim for a declaration that it "has complied with its obligations arising from declaring its patents essential to various standards, and any applicable laws, during ... negotiations with Huawei concerning a worldwide license."<sup>[10]</sup>

The court dismissed the claim as to foreign SEPs, concluding that the concerns expressed in *Voda* about international comity were applicable to adjudicating FRAND disputes involving foreign SEPs: "Courts in other countries apply their own law governing FRAND compliance and royalty rate determinations, and this law, like foreign infringement law, can be very different from United States law."<sup>[11]</sup>

The court, in addition, considered and rejected arguments it characterized "as less about what the law is and more about fairness," including the contention that "foreign courts are increasingly making global FRAND determinations, and it would be unfair if United States courts did not follow that trend" and that it would be "unfair to require PanOptis to litigate their FRAND disputes all over the world."<sup>[12]</sup>

Even if a court heeded the article's urging to find *Voda* inapplicable to a declaratory judgment claim about FRAND compliance, that would not confer authority on the court to require the defendant to agree to court-determined license terms. U.S. courts have properly recognized that they lack the authority to compel parties to agree to portfolio licenses.

One court confronted with a request by defendants to set a FRAND rate for the SEP holders' portfolio found such a ruling would be futile because "even if the Court were to determine a FRAND rate, I am unclear as to how I could actually enforce such a ruling."<sup>[13]</sup>

Accordingly, it observed that "[a]ll the Court's determination of a FRAND rate would accomplish would be to give a data point from which the parties could continue negotiations."<sup>[14]</sup>

And, as noted above, when another court faced the argument that an SEP holder's claim for a declaration that it had complied with its FRAND obligations would resolve a FRAND dispute, it disagreed because "there exists no legal basis upon which [a potential licensee] may be compelled to take a license for [an SEP owner's] patents on a portfolio-wide basis."<sup>[15]</sup>

SEP owners that have valid, infringed and enforceable patents should, like all patent holders, be appropriately compensated for their patents by those who use them. But merely because a party has a portfolio of SEPs subject to FRAND commitments does not entitle it to a shortcut unavailable to other patent holders of not having to prove the merits of its patents by having a court force a defendant to accept a license.

As the *Innovatio* court observed:

Although the court is aware that alleged infringers may force RAND-obligated patent holders into court to enforce their patents ... this reality does not present significant concerns unique to the RAND context. The court will therefore not give the ability of

alleged infringers to force a lawsuit any special consideration in the RAND analysis beyond what it receives in a typical patent case.[16]

Predictably, the leverage that the Unwired Planet decision bestows on SEP holders to force potential licensees into global licenses without proving the merits of their portfolios has already made the U.K. an increasingly attractive forum for SEP holders to litigate. Equally predictably, there are already signs that other countries will engage in competing rate-setting adjudications. A Chinese court, for example, recently declared its authority to determine a FRAND rate for a global SEP portfolio.


U.S. courts should resist invitations to engage in a race to the bottom by competing with these jurisdictions to enhance their desirability as destinations for SEP litigations; instead, U.S. courts should continue to respect the limits on their authority and jurisdiction.


The more courts that seek to adjudicate FRAND rights on a global basis, the more complicated FRAND negotiations will become. How will parties navigate different determinations for FRAND rates for the same portfolio from competing jurisdictions? How much time will parties devote to meaningful negotiation if the risk of doing so is that their counterparty will beat them to the courthouse in order to have a first-filed case in a favorable jurisdiction?

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[1] Apple Inc. v. Telefonaktiebolaget LM Ericsson, Inc. , No. 15-cv-00154-JD, 2015 WL 1802467, at \*2 (N.D. Cal. Apr. 20, 2015).


[2] Unwired Planet International Ltd v Huawei Technologies Co. Ltd  [2017] EWHC 711 (Pat) ¶¶142, 543.

[3] Unwired Planet International Ltd v Huawei Technologies Co. Ltd [2017] EWHC 1304 (Pat) ¶20.

[4] EWHC 711 (Pat) ¶¶ 543, 588.

[5] 547 U.S. 388 (2006).

[6] Apple Inc. v. Motorola, Inc. , 757 F.3d 1286, 1332 (Fed. Cir. 2014), overruled on other grounds by Williamson v. Citrix Online, LLC , 792 F.3d 1339 (Fed. Cir. 2015).

[7] Microsoft Corp. v. Motorola, Inc. , 795 F.3d 1024, 1038 (9th Cir. 2015). The Ninth Circuit observed that "FRAND and RAND have the same meaning in the world of SEP licensing and in this opinion." *Id.* 1031 & n.2.

[8] *In re Innovatio IP Ventures, LLC Patent Litig.* , No. 11 C 9308, 2013 WL 5593609, at \*1 (N.D. Ill. Oct. 3, 2013).

[9] 476 F.3d 887 (Fed. Cir. 2007).

[10] No. 217CV00123JRGRSP, 2018 WL 3375192, at \*7 (E.D. Tex. July 11, 2018)

[11] *Id.* at \*8.

[12] *Id.*

[13] *InterDigital Communications, Inc. v. ZTE Corp.*, No. 1:13-CV-00009-RGA, 2014 WL 2206218, at \*3 (D. Del. May 28, 2014)

[14] *Id.*

[15] *Apple Inc. v. Telefonaktiebolaget LM Ericsson, Inc.*, No. 15-cv-00154-JD, 2015 WL 1802467, at \*2 (N.D. Cal. Apr. 20, 2015).

[16] 2013 WL 5593609, at \*11.