

## SEP/FRAND Disputes: Arbitration or Litigation?

February 7, 2022

Disputes as to the licensing of standard-essential patents (SEP) and determination of fair, reasonable and non-discriminatory (FRAND) terms are typically resolved through either negotiation or litigation in national courts. However, international arbitration is increasingly being used as an alternative to litigation, a trend endorsed in recent statements by both the U.S. Patent and Trademark Office and the U.K. Government.

Depending on the circumstances, arbitration may have significant advantages – for example, it may reduce the likelihood of parallel proceedings in multiple jurisdictions and of extensive discovery, and may increase the likelihood of a suitably neutral and expert tribunal and of a swifter and cheaper route to a final determination. Equally, there may be benefits in referring some issues to arbitration and others to litigation (e.g. parties might agree to arbitrate disputes about whether the relevant technology is covered by SEPs and/or what the FRAND price/rate should be, leaving any issues around infringement and invalidity for subsequent litigation).

Both sides need to agree on arbitration in order for this route to be available. Therefore, when SEP/FRAND disputes arise it is important that patent owners and prospective licensees have in mind that there may be an option to litigate or arbitrate, be in a position to weigh-up which route or combination of routes is to be preferred and to engage the other side in discussion before litigation is commenced.

The purpose of this note is briefly to outline the headline considerations that should be taken into account, so that owners and prospective licensees are equipped to make an informed choice. A brief summary of publicly known SEP/FRAND arbitrations is set out at the end of this note.

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Considerations	Potential impact	Weighs toward Litigation or Arbitration?
<p><b>1. Single process to determine licensing terms across multiple jurisdictions</b></p> <p>Arbitration is often more likely than litigation to enable licensing terms to be determined in a single set of legal proceedings across multiple jurisdictions.</p> <p>Arbitral awards are typically enforceable in most jurisdictions worldwide through the 1958 New York Convention, with only very limited grounds for challenge. In contrast, there are few international treaties for the mutual recognition and enforcement of court judgments, therefore there is a heightened risk that litigation will be required in multiple jurisdictions.</p> <p>Some courts have sought to overcome the obstacles to cross-border recognition and enforcement of court judgments through the use of injunctions. In <i>Unwired Planet v Huawei</i><sup>1</sup>, the UK Supreme Court ruled that English courts have the power (a) to determine licensing terms for multinational patent portfolios under European telecommunications standards and (b) to grant an injunction restraining the infringement of a UK SEP unless the implementer agrees to enter into a global license on FRAND terms. In practice this can result in global licensing arrangements, but injunctions granted by national courts are typically not enforced internationally.</p>	Time and cost	Arbitration
<p><b>2. Single process to determine licensing terms for a portfolio of similar patents across multiple jurisdictions</b></p> <p>If the parties so agree, an arbitral tribunal in a single arbitration could determine licensing for similar patents from various jurisdictions that sit within the same portfolio. This may be time and cost-efficient and ensure consistency – especially when the patent family has technologically identical members that can sensibly be considered together.</p> <p>Some national courts have determined global licensing rates for multinational patent portfolios (e.g. the English court in <i>Unwired Planet</i>), but cross-border recognition and enforcement may not be straightforward.</p>	Time and cost	Arbitration
<p><b>3. Time taken to achieve a final decision</b></p> <p>Depending on which national courts are involved, litigation and arbitration can have similar time-frames through to a judgment/award. As a generalisation it often takes around 2 years to get an award in arbitration, which is about the same as the typical timescale in US and English litigation for a first instance judgment and perhaps a little longer than for a German first instance judgment. However, in arbitration there are typically only very narrow grounds on which an award can be challenged, whereas in litigation there is often the risk of appeals which can considerably lengthen the process; the <i>Unwired Planet</i> case went to the UK Supreme Court, taking over six years to reach a</p>	Time and cost	Arbitration

Considerations	Potential impact	Weighs toward Litigation or Arbitration?
<p>final judgment from the commencement of proceedings. Further, in arbitration, it is open to the parties to agree on an expedited or abbreviated procedure to reduce the time taken and/or work required; that is less likely to be available in litigation.</p>		
<p><b>4. Chance to appeal bad decisions</b></p> <p>The potential opportunity to appeal a decision in litigation provides some protection against bad decisions. As noted above, in arbitration there are typically only very narrow grounds on which an award can be challenged.</p>	<p><b>Reliability of outcome</b></p>	<p><b>Litigation</b></p>
<p><b>5. Limited discovery of documents</b></p> <p>In arbitration it is open to the parties to agree on the scope of discovery (i.e. document production), but even absent such agreement it is often more limited than in litigation in the U.S., England, Singapore, Hong Kong and other common law jurisdictions. In contrast, litigation in Germany and other civil law jurisdictions may involve similar or less discovery than in arbitration.</p> <p>Extensive discovery obligations may be negative for prospective licensees, in that it may be onerous and expensive and result in a longer timescale. However, it may result in increased reliability.</p>	<p><b>Time, cost, tactical advantage to prospective licensees</b></p>	<p><b>Depends on whether litigation would be in a common law or civil law jurisdiction, and on whether you are the patent owner or licensee</b></p>
<p><b>6. Early determination of weak claims/defences</b></p> <p>There may be SEP/FRAND disputes where part or all of the claim or the defence is manifestly weak. For example, this could apply to a dispute as to whether particular technology is covered by SEPs. Court rules can provide for abbreviated and early determination processes in such circumstances – such as ‘summary judgment’ or ‘motions to dismiss’. Such processes are often in principle available in arbitration, but in practice are rarely used.</p>	<p><b>Time and cost</b></p>	<p><b>Litigation</b></p>
<p><b>7. Neutrality and possible ‘home advantage’</b></p> <p>The ability of parties to select one out of a panel of three arbitrators provides some assurance of neutrality. Equally, it is common in arbitration for there to be a requirement that the Chair (i.e. third arbitrator) not have the same nationality as either party.</p> <p>In some jurisdictions, there may be a concern that national courts may not be entirely neutral: impartiality may be in question if one of the parties is a national of that jurisdiction and has a ‘home advantage’.</p>	<p><b>Reliability of outcome and potential advantage to one side</b></p>	<p><b>Depends on whether you may benefit from ‘home advantage’ in litigation</b></p>
<p><b>8. Sympathy toward patent owners or licensees</b></p> <p>The ability of parties to select one out of a panel of three arbitrators provides some assurance that any sympathy toward one side or the other will be balanced out. That may not always apply in litigation:</p>	<p><b>Reliability of outcome and potential advantage to one side</b></p>	<p><b>Depends on whether you may benefit from tribunal sympathy</b></p>

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<ul style="list-style-type: none"> <li>- There is a perception that some national courts such as Germany and the UK appear to lean toward favouring patent owners in SEP/FRAND disputes which may be unattractive to prospective licensees;</li> <li>- There is a perception that some US courts (Western District of Washington and the Northern and Central Districts of California) and the Chinese courts tend to be more sympathetic to implementers.</li> </ul> <p>However, certain specialist arbitral institutions like the World Intellectual Property Organisation's (WIPO) Arbitration and Mediation Center has sometimes been criticised (perhaps unfairly) as an institution of IP holders.</p>		
<p><b>9. Relevant expertise</b></p> <p>The ability of parties to select one out of a panel of three arbitrators provides some assurance of suitable expertise.</p> <p>In some jurisdictions, there may be a concern that the assigned judge may not have suitable expertise.</p>	<p><b>Reliability of outcome</b></p>	<p><b>Arbitration</b></p>
<p><b>10. Confidentiality</b></p> <p>Typically, arbitration and arbitral awards are confidential, but litigation and court judgments are not.</p> <p>Patent owners may have an interest in confidentiality:</p> <ul style="list-style-type: none"> <li>- If it is determined that a patent is invalid or has not been infringed, then confidentiality may assist the owner to obtain a different result in a different case;</li> <li>- If decisions on the pricing of licences are confidential, that may assist the owner seek different pricing for different licensees.</li> </ul> <p>Prospective licensees may also have an interest in keeping decisions confidential, since that may assist in preserving bargaining power and negotiating positions in other cases.</p>	<p><b>Confidentiality may reduce the likelihood that one decision will establish a precedent</b></p>	<p><b>Depends on whether there is advantage to establishing a precedent</b></p>
<p><b>11. Increased likelihood of settlement</b></p> <p>Experience suggests that litigation cases are more likely to settle than arbitrations.</p>	<p><b>Time and cost</b></p>	<p><b>Litigation</b></p>
<p><b>12. Ability to define the issues to be determined</b></p> <p>Since arbitration is a creature of contract, it is open to the parties to agree that only particular issues are arbitrated – and that other issues are litigated. For example, parties might agree to arbitrate only whether the relevant technology is covered by SEPs and/or what the FRAND price/rate should be (to the extent a licence is required) – leaving issues such as infringement and invalidity to be litigated.</p>	<p><b>Time and cost</b></p>	<p><b>Arbitration</b></p>

Considerations	Potential impact	Weighs toward Litigation or Arbitration?
<p><b>13. Party control over methodology and factors to be taken into account</b></p> <p>In arbitration the parties can decide upon a range of factors, including: the methodology for determining the license conditions; whether certain objections e.g. to standard-essentiality are not admitted, considered implicitly or examined in full; whether a sample of patents can be relevant for determining the conditions for the whole portfolio and how the sampling exercise occurs, and so on.</p>	Time and cost	Arbitration
<p><b>14. Availability of third-party funding</b></p> <p>Third-party funding typically enables parties to pursue legal proceedings without incurring cost unless the case is ultimately won – so enabling parties to manage their balance sheets and exposure to risk. However, in general funders may be more inclined to fund arbitration than litigation. In particular, funders are often attracted by arbitral awards being subject to only limited rights of challenge and arbitration being potentially quicker and cheaper than litigation. From our discussions with funders, we are aware that there is appetite to fund SEP/FRAND cases, and whilst funding is usually provided to claimants (patent owners in this context) in principle it could be available to respondents (potential licensees).</p>	Cost	Arbitration

### SEP/FRAND Arbitrations

	Parties	Date	Description
1.	InterDigital Communications, Inc. v Huawei Investment & Holdings Co., Ltd.	2015	InterDigital and Huawei entered ICC arbitration to determine FRAND terms after years of negotiating and litigating a license to InterDigital's wireless technology patent portfolio.
2.	Ericsson v Huawei	2015	In an arbitration between Ericsson and Huawei, the tribunal found that some rates offered by Ericsson were discriminatory, considering the royalty rates paid by other licensees.
3.	Nokia v Samsung	2016	Nokia and Samsung were extending their mobile patent-licensing deal and entered into arbitration to determine the amount due the extension. The ICC issued its award for Nokia's five-year license extension to Samsung.
4.	Blackberry v Qualcomm	2017	Blackberry was awarded \$940 million in an arbitration concerning royalty payments under a 2010 license agreement.

<sup>1</sup> Unwired Planet International Ltd. v. Huawei Technologies (UK) Co Ltd [2020] UKSC 37