FRAND, SEPs and SSOs

What is the state of play?

by Pat Treacy and Sophie Lawrance*

FRAND, SEPs, SSOs: these are acronyms that now trip off the tongue for many competition and patent lawyers, with FRAND even having made a foray onto a wider public stage with an article on the issue in The Guardian late in 2012. These issues have been hitting the headlines as a result of the smartphone wars and have also regularly featured in the context of various reports (for example, the OECD report on standardisation in 2010 and the DG Enterprise commissioned paper on the interplay of standards and IPRs in 2011) and “talking shops” (see, for instance, the ITU roundtable, October 2012, and the ETSI IPR special committee meeting, January 2013).

But for all this activity, has any progress really been made in reaching consensus as to the meaning of an obligation to license standard essential patents (SEPs – which may have been declared essential by a standard-setting organisation (SSO) such as the European Telecommunications Standards Institute – ETSI) on fair, reasonable and non-discriminatory (FRAND) terms? This article focuses on recent developments and picks out the trends.

Enforcing patents and alternative mechanisms

Perhaps the key focus in the past 18 months has been whether companies that have made a FRAND declaration should be entitled to seek injunctions against unlicensed implementers of their SEPs. Those in favour of such a limitation argue that the promise to license precludes seeking injunctions as royalties will always suffice. Some, such as the chief economist of DG Competition, suggest that the way forward lies in efforts by SSOs to provide alternatives to litigation, enabling speedier and less expensive resolution of licensing disputes.

Momentum was initially lent to the movement in favour of limitations on seeking injunctions by voluntary declarations made by Microsoft and Apple in late 2011. Although given voluntarily, these statements were made in the context of the companies’ bids to acquire certain portfolios of essential patents which were being auctioned. At around the same time, the European Commission’s merger decision on Google’s acquisition of Motorola Mobility’s patent portfolio noted that: “it may be that the threat of injunction, the seeking of an injunction or indeed the actual enforcement of an injunction granted against a good faith potential licensee, may significantly impede effective competition by, for example, forcing the potential licensee into agreeing to potentially onerous licensing terms which it would otherwise not have agreed to” (see para 107).

This idea that injunctions should not always be available to owners of SEPs has also gained traction among the US antitrust authorities. Representatives of the Department of Justice (DoJ) and the Federal Trade Commission (FTC) made statements in June/July 2012 (including before the US Senate judiciary committee) that it may be inappropriate for SEP holders to seek injunctive relief, at least in some situations. The European Commission has taken a similar stance. When it sent a statement of objections under article 102 TFEU to Samsung in December 2012, the press release (IP/12/1448) stated that “while recourse to injunctions is a possible remedy for patent infringements, such conduct may be abusive where SEPs are concerned and the potential licensee is willing to negotiate a licence on [FRAND] terms”.

The recent consent order between the FTC and Google about the use of Motorola’s SEP portfolio also provides an interesting perspective. The consent order – agreed following an investigation by the FTC – sets down rules that will in future govern when Google will be entitled to seek injunctions in the US for SEPs. In essence, the consent order provides that Google is not permitted to “obtain or enforce” injunctions (which includes US International Trade Commission exclusion orders) unless it has, in simplified summary:

- made an offer to license in accordance with the conditions in the consent order (including a minimum period for acceptance of six months); and
- made an offer to arbitrate, again on terms specified in the consent order; and/or
- provided a proposed licence to the potential licensee which is capable of acceptance by execution.

If, following these steps, the licensee has not entered into a licence, injunctive relief may then be sought (the consent order is unclear whether it is restricting the mere seeking of injunctions, or the circumstances in which injunctions can be obtained/enforced). Under the consent order, injunctions may be sought (by Google at least) only against “unwilling” licensees, and the order seeks to clarify the circumstances when a licensee may be considered to be unwilling.

One forum which may create particular difficulties in this context is the US International Trade Commission (ITC), which has seen a significant number of SEP cases and where the only remedy for proven patent infringement is exclusion from the US market. In recent US Senate hearings, however, DoJ and FTC representatives emphasised the public interest factors which the ITC is required to take into account when deciding whether an exclusion order should be issued, and suggested that in certain cases an exclusion order may be inappropriate – for example, “where a product implementing a standard has been determined to have infringed a valid F/RAND encumbered patent that is essential to that standard […] In an era where competition thrives on interconnected, interoperable network platforms, these considerations merit special attention”. This suggests that even an unusual legal forum such as the ITC might in future take into account the particular issues that may arise from the enforcement of SEPs, although this remains far from clear. The current review of the Enforcement Directive may provide a further opportunity for debate about the availability of injunctive relief for SEPs in the EU.

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Setting a FRAND rate

Given that disputes about what constitute FRAND terms have arisen in litigation for many years, it could be thought surprising that there remains no definitive case law setting out the principles for assessing a FRAND royalty. A number of possible methods of calculation have been proposed in various fora, but industry consensus has proved elusive, unsurprisingly given that different stakeholders have different interests according to whether they are pure licensor, pure licensee or fall into both camps.

A couple of recent developments are, however, worth noting. First, competition authorities in both the EU and the US appear increasingly attracted to the notion that “fair and reasonable” value for SEPs should be calculated on the basis of an assessment of the ex ante value of the technology – ie its value before it was incorporated into the standard in question. This is an approach suggested in the European Commission’s 2010 guidelines on horizontal co-operation agreements (see para 289). It has recently been impliedly endorsed by a joint statement of the US DoJ and Patent and Trademark Office (January 2013) in which the risk of hold-up was noted. “Hold-up” is a patentee’s ability to generate “unwarranted higher royalties” by denying a licencee access to a market until such royalties are agreed. This in turn arguably leads to higher prices for consumers.

Courts also seem to be coming closer to reaching decisions on FRAND. In October, Justice Crabb of the US District Court (Wisconsin) appeared ready to rule on FRAND in Apple v Motorola, initially ruling that specific performance may be an appropriate remedy to compel a SEP holder to honour its FRAND declaration. However, in early November, the judge declined to do so, as Apple was prepared to take a licence only if the FRAND rate determined by the Court was $1 per handset or less. Justice Crabb indicated that she was not prepared to rule if her judgment was only going to be used as a bargaining chip between the parties and would not (necessarily) bring the dispute to an end.

While the EU and US authorities rarely (if ever) fix an actual FRAND rate (in particular for a whole portfolio), a Chinese court appears to have had no such qualms. On 21 February 2013, reports indicate that the Shenzhen Intermediate People’s Court set a rate of 0.019% for a licence to Huawei of Interdigital’s 2G, 2.5G and 3G Chinese SEPs. This rate may appear rather low to many SEP holders and perfectly reasonable to many licensees. It is also unclear quite how it was calculated. The case is unusual as the rate has apparently been determined for a portfolio of patents. Although as a matter of industry practice SEPs are almost invariably licensed as portfolios, court cases in the EU to date have started life as patent infringement actions and have therefore focused on the FRAND rate for a limited number of patents. Any judicial determination of a FRAND rate in that context seems likely to relate to a licence for those particular technologies rather than the portfolio as a whole.

At present, one such case is scheduled to come to trial in the United Kingdom in 2013. This case will be closely watched, but it is likely to be the approach taken by the court to FRAND, rather than the actual rate, which will have the most relevance for future cases.

Other trends

The FTC Google consent order also provides an indication of other issues of concern to the competition authorities. One is the treatment of SEPs on a change of ownership. The competition authorities are interested in closing possible routes to circumvention of FRAND obligations by ensuring that SEPs remain subject to any FRAND obligation when they are transferred. This was the basis for the European Commission’s approach to IPCom’s acquisition of the Bosch SEP portfolio (MEMO/09/549) and the DoJ reviews of the portfolio acquisitions in late 2011/early 2012 by companies including Microsoft, Apple and RIM. With an increasing trend for patent portfolios to be transferred, the issue appears to be rising up the agenda.

For example, Google is required under the FTC consent order to ensure that any assignee of its SEPs agrees to be bound by the FRAND undertakings, although the consent order goes further than the cases referred to above and requires Google to obtain any transferee’s agreement to abide by the terms of the consent order in relation to the seeking of injunctions. The Google consent order does not, of course, have direct application to any other companies (although a similar consent order was also agreed by Bosch). However, it is indicative of an approach that appears to find favour with the competition authorities. This reflects an apparent desire to see a move away from litigation and the seeking of injunctions as the “normal” way for resolving disputes about SEP licensing. In a further similar step, in early March 2013, a number of current and former heads of the economics divisions of the European Commission, the FTC and the DoJ have called on SSOs to take proactive steps to clarify FRAND licensing obligations, to incorporate alternative dispute resolution in preference to litigation and to set in place a process to be followed by licensors before injunctive relief can be sought.

The last three years have seen significant debate about all of these matters, which seems set to continue for some time, given the variety of interests involved. These issues are also raised by a reference made by the German court to the CJEU on 21 March 2013 (Huawei v HTC). It remains to be seen how the Commission will react.

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