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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

The Big SEP Victories Of Patent Owners In 2020

By **Michael Renaud, James Wodarski and Daniel Weinger**
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Michael Renaud

2020 was a banner year for developments in standard-essential patent jurisprudence — blink and you might have missed critical developments, each of which touches on core aspects of crafting SEP strategies, regardless of where on the patent spectrum your organization resides.

For some time, the worldwide jurisprudence related to SEPs tilted in favor of implementers. In 2020, we saw a correction, with nearly all of the legal developments favoring patent owners, restoring a much-needed balance between the interests of patent owners and implementers.

James Wodarski

The lack of balance did not benefit the patent market generally, but rather led to bitter disputes that inevitably led to litigation. And while litigation is sometimes inevitable, we are hopeful that with a more balanced approach, SEP litigation in 2021 will be reserved for true disputes rather than as a backstop for licensing discussions that should, under commercially reasonable circumstances, culminate in a license without litigation.

Global SEP Rates

Unwired Planet v. Huawei

Daniel Weinger

Perhaps the most important and impactful SEP development in 2020 was the U.K. Supreme Court's decision in Unwired Planet International Ltd. v. Huawei Technologies (UK) Co Ltd.

In a long and detailed decision that every SEP practitioner must read, the U.K. Supreme Court handed Unwired Planet a victory over Huawei, confirming that U.K. courts have the jurisdiction to set global license rates on fair, reasonable and nondiscriminatory terms for 4G SEPs due to contractual implications of ETSI membership.

The court concluded that because industry practice was to enter global licenses, and a country-by-country resolution would be "madness," setting global rates was appropriate. Additionally, the U.K.

Supreme Court confirmed that U.K. courts have jurisdiction to grant an injunction in the U.K. if an implementer rejects a FRAND offer.

This decision affects SEP practice going into 2021 for many reasons. Perhaps the strongest impact of the ruling is related to the rejection of the delay strategy utilized by implementers of requiring resolution of SEP applicability in each jurisdiction implicated by a portfolio.

In essence, Huawei was demanding that Unwired Planet chase it around globe. The U.K. Supreme Court recognized the folly in that approach, and further recognized that the ETSI membership agreement did not support Huawei. After Unwired Planet, this implementer tactic to delay licensing may no longer be available, as SEP holders will seek out significant economic jurisdictions that will follow Unwired Planet's approach.

In response to this eventuality, we have seen courts, like the Wuhan Intermediate Court, issue anti-injunction injunctions, to prevent SEP holders from going to courts that will issue global FRAND rates.[1] The effectiveness of this strategy from jurisdictions like China, which are currently net payers of licensing rates, is yet to be determined, but early indicators, such as responsive anti-anti-injunctions from India, are that such anti-injunctions will not be effective in preventing SEP holders from filing in favorable jurisdictions.

Revival of Injunctive Relief

Injunctive relief for SEP infringement appears to have made a revival in 2020. While the main focus on Unwired Planet has been the U.K. Supreme Court's endorsement of setting global FRAND rates, equally important is the Supreme Court's recognition that injunctive relief should be available for SEP holders, at least in the event of hold out, as a necessary tool for a level licensing playing field.

The German courts followed suit in at least two cases, and the U.S. Department of Justice revised its earlier 2015 business review letter to the Institute of Electrical and Electronics Engineers, also recognizing the appropriateness of injunctive relief as an available remedy for hold out.

Sisvel v. Haier and Nokia v. Daimler

On May 5, the German Federal Court of Justice issued a landmark decision in Sisvel v. Haier, recognizing that an SEP holder does not abuse its market position when seeking an injunction in the face of holdout from an implementer.[2] In doing so, the German court expressly acknowledged that efficient infringement, rather than SEP owner holdup, is a significant problem.

Sisvel, owner and manager of various SEPs, attempted to license Haier, a Chinese consumer manufacturer. Haier did not respond to Sisvel's overtures for over a year, and then only indicating a desire for a discussion. Sisvel filed suit, and the case ultimately reached the German Federal Court of Justice. The court promulgated a series of bright-line rules that SEP holders such as Sisvel and implementers such as Haier must follow during SEP licensing negotiations, to ensure one's conduct is not abusive.

While the entire decision in Sisvel v. Haier is notable, a key takeaway is the German court's conclusion that Sisvel did not abuse its market position by seeking an injunction in light of Haier's shocking delay tactics. The court concluded that Haier did not demonstrate that it was an actual willing licensee, and that being a willing licensee is equally important to the SEP licensing equation as the SEP holders' willingness to issue a license on FRAND terms.

Sisvel v. Haier was not an outlier in German SEP jurisprudence in 2020. Just a few months after the Federal Court of Justice issued Sisvel v. Haier, a second German court issued a significant SEP decision, this time against German car manufacturer Daimler.

In Nokia v. Daimler, the Regional Court of Mannheim issued a nationwide, permanent injunction prohibiting Daimler from using technology covered by a Nokia-held SEP. The Nokia/Daimler case also addresses the question of whether a SEP holder is allowed to license only certain parts of the supply chain, as Daimler's refusal to engage with Nokia was predicated on its desire that Nokia license its suppliers.

Rather than ignoring the SEP holder completely like Haier, Daimler refused a Nokia license and indicated that, rather than car manufacturers, the suppliers of communication modules were Nokia's appropriate licensees as they were providers of the smallest saleable unit. Nokia approached these suppliers, but discussions failed.

After Nokia reapproached Daimler for a license, Daimler's suppliers filed a request with the German Federal Cartel Office to investigate Nokia for abusing its dominant market position by refusing to license willing licensees (the suppliers). The German Federal Cartel Office sought a stay of the Mannheim court proceedings and asked the court to seek clarity from the Court of Justice of the European Union on whether is it an abuse of a dominant position under Article 102 of the Treaty on the Functioning of the European Union if an SEP holder with a FRAND commitment, refuses to license a willing supplier, while seeking an injunction against end-product manufacturers.

The request for clarity was denied by the Regional Court of Mannheim, which then issued the injunction, finding that Daimler was "unwilling to license on FRAND terms" as required under the CJEU's 2015 Huawei v. ZTE decision. However, despite this ruling from Mannheim, the Regional Court of Dusseldorf did agree to refer the question to the CJEU. The issue is now before the CJEU.

These cases are notable going into 2021 because they recognize the real problem of implementer holdout, and that SEP licensing discussions are not one-sided affairs where the burden is all on the SEP holder. The threat of injunctive relief in the case of holdout should help move the needle to more balanced approaches to licensing from implementers, even though implementers will continue to test the limits courts are willing to go to when considering injunctions.

Regardless of where the CJEU comes out on the question of licensing the supply chain, at least German courts appear willing to find that implementers have engaged in holdout, justifying injunctive relief.

We will also be watching whether European courts' willingness to issue injunctions affects the approach U.S. courts take in 2021 and forward. The DOJ's recent business review letter update to the IEEE certainly does indicate, at least from the view of the federal government, that injunctive relief for SEPs should be available in the U.S. even under the U.S. Supreme Court's 2006 decision in eBay Inc. v. MercExchange LLC.[3]

Jury Trials

In 2020, the U.S. Court of Appeals for the Federal Circuit effectively closed the door to the implementer strategy of filing declaratory judgment actions seeking to avoid jury trials on past damages. Revisiting an issue from a 2019 case, the Federal Circuit found that a jury trial is required under the Seventh Amendment for when past damages are at issue.

In Godo Kaisha IP Bridge 1 v. TCL Communication Technology, the Federal Circuit affirmed the district court's ruling that the Seventh Amendment entitled an SEP holder to a jury verdict on back damages.[4] In the lower court, TCL argued that the claim of back damages should give way to the court setting a royalty rate for future ongoing sales. But TCL's argument was rejected, with the district court finding that the issue of back damages required a jury trial under the Seventh Amendment. This ruling was consistent with the Federal Circuit's ruling in TCL Communication Technology Holdings Ltd. v. Ericsson Inc., which rejected a district court finding that had characterized a "release" payment as something other than damages for past patent infringement.[5]

The TCL rulings were huge victories for SEP holders, who generally prefer juries to calculate royalty rates rather than judges, who may, like U.S. District Judge James Selna of the U.S. District Court for the Central District of California did in the TCL v. Ericsson case, adopt their own royalty rate methodology that devalues SEPs.

Going forward into 2021, we expect to see SEP holders rely on trials for past damages so juries set royalty rates that can then be used to establish appropriate royalty rates for future infringement. These verdicts will also tie into how FRAND rates for portfolio wide licenses are determined.

Antitrust

One of the major SEP developments in 2020 is undoubtedly the U.S.' rejection of applying antitrust and unfair competition law to SEP licensing disputes. Implementers have been testing the theory that SEP holdup constitutes antitrust violations. This approach appears to have been soundly rejected, at least in the U.S.

The most important example of this comes from the Federal Trade Commission v. Qualcomm Corp. case, where a unanimous panel of the U.S. Court of Appeals for the Ninth Circuit reversed and vacated the U.S. District Court for the Northern District of California's decision granting a worldwide, permanent injunction that had prohibited several of Qualcomm's SEP licensing practices covering cellular technology.[6]

In January 2017, the FTC brought suit against Qualcomm, alleging that Qualcomm used its monopoly power in aggressive and strategic ways to force SEP licenses that violated anti-trust law. While the district court decision is expansive, as the decision relates to SEPs it found that Qualcomm violated federal antitrust laws by (1) refusing to license its SEPs to its direct competitors in the modern chips markets; and (2) imposing an anti-competitive surcharge on rival chip manufacturers' chip sales through its patent licensing and "no license, no chips" policies to original equipment manufacturers.

On review the Ninth Circuit rejected the FTC's theory, and reversed. While Qualcomm's strategic licensing policies may be aggressive, the Ninth Circuit concluded that Qualcomm acted well within its rights as the owner of valuable intellectual property and that Qualcomm's "no license, no chips" policy did not raise prices against its rivals in the relevant market.[7]

Not only that, but the Ninth Circuit effectively foreclosed antitrust law as an avenue to seek relief for breach of a standard-setting organization commitment. Instead, the court emphatically noted that the remedy for such a breach lies in contract and patent law, not antitrust. Accordingly, the court vacated the injunction relating to Qualcomm's patent licensing practices.

Similarly, an antitrust claim in the U.S. District Court for the Northern District of Texas against the Avanci LLC patent pool was dismissed.[8] There, Continental Automotive Systems Inc. claimed that Avanci's practice of only licensing original equipment manufacturers violated the Sherman Act.

There are two key takeaways from the decision. First, Continental lacked standing. The original equipment manufacturers were the entities that suffered harm, if any, necessary for standing.[9] Second, the court dismissed Continental's Sherman Act claims, because Continental admitted that certain Avanci members responded to its requests for individual SEP licenses. Therefore, the court determined that any refusal to negotiate with Continental or agreement to license at the same price as original equipment manufacturers alleges — at best — "parallel conduct and the possibility of concerted action, which are insufficient to state a claim of an unlawful agreement to restrain trade."[10]

These cases, taken together with the DOJ's updated business review letter, demonstrate that U.S. antitrust law is not the appropriate mechanism for resolving disputes over SEP licensing. Contract law and patent law are the appropriate avenues. Going forward into 2021 and beyond, we are expecting that implementers will no longer have this quiver in their bow. Though, as mentioned previously, other jurisdictions, especially in Europe, are currently struggling with one of the core questions from Continental v. Avanci: whether SEP holders must license any willing licensee or if they can pick and choose parts of the supply chain to focus on. As the CJEU mulls this question over into 2021, SEP practitioners will be keeping an eye out.

Looking Ahead

While the coronavirus pandemic captured the world's attention, SEP holders experienced victories across the globe.

Landmark decisions in Germany and the U.K. setting global FRAND rates and issuing injunctions prove that Europe is a preferred location for SEP litigation. However, in 2020, the U.S. also took impressive steps to balance the world's stage for SEP litigation.

The TCL v. Ericsson, FTC v. Qualcomm, and Continental v. Avanci decisions illustrate that the United States is not as implementer friendly as it once was. However, if the United States wants to maintain pace with Europe as a desired venue for SEP litigation, the U.S. stance on injunctions under eBay must change, as the current application of eBay effectively eliminates injunctive relief for SEP holders. In 2021, we will be looking to see if U.S. courts and policymakers provide the appropriate balance between patent rights and implementer needs.

Michael Renaud is a member at Mintz Levin Cohn Ferris Glovsky and Popeo PC and chairs the firm's intellectual property division.

James Wodarski is a member at the firm.

Daniel Weinger is a member at the firm.

Mintz associate Kara Grogan contributed to this article.

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[1] After this article was drafted, the Shenzhen Intermediate People's Court ruled that it had the authority to set a global FRAND rate in a dispute between Sharp and Oppo for 3G, 4G, and WLAN SEPs held by Sharp. We do not yet know the result of this endeavor, and is yet another development to watch for in 2021, as we await the approach Chinese courts will take with this endeavor.

[2] Sisvel Int'l S.A., v. Haier Deutschland GmbH, KZR 36/17 (BGH May 5, 2020).

[3] eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).

[4] Godo Kaisha IP Bridge 1 v. TCL Commc'n Tech. Holdings Ltd., 967 F.3d 1380, 1382 (Fed. Cir. 2020) (holding that the question of essentiality must be resolved by the trier of fact in the context of an infringement trial).

[5] TCL Commc'n Tech. Holdings Ltd. v. Telefonaktiebolaget LM Ericsson, 943 F.3d 1360, 1364 (Fed. Cir. 2019), cert. denied, No. 19-1269, 2020 WL 5882244 (U.S. Oct. 5, 2020).

[6] Fed. Trade Comm'n v. Qualcomm Inc., 969 F.3d 974 (9th Cir. 2020).

[7] Id. at 1001-03.

[8] Cont'l Auto. Sys., Inc. v. Avanci, LLC, No. 3:19-CV-02933-M, 2020 WL 5627224 (N.D. Tex. Sept. 10, 2020).

[9] Id. at *8.

[10] Id. at *10 (citing Bell Atl. Corp. v. Twombly, 550 U.S. 544, 557 (2007)).