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

US Courts Should Adjudicate FRAND Rates On A Global Basis

By **Theodore Stevenson, Nicholas Mathews and Patrick Pijls**
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Theodore Stevenson

Nicholas Mathews

Patrick Pijls

Assume a phone is made in China, sold to a consumer in the U.K., and used in the U.S. while the consumer is on vacation. The phone practices multiple standard-essential patents from different jurisdictions.

Just how can an SEP licensor and licensee formulate licensing terms on a patent-by-patent or country-by-country basis? In short: They can't. The when, where and how of the practice cannot be logically allocated to any one jurisdiction.

And the administrative costs of devising rates for thousands of SEPs across dozens of jurisdictions is compounded by the fact the rate in one jurisdiction is unlikely to be the same as in another jurisdiction. After all, countries have unique product markets and unique patent laws, some stronger, some weaker, all of which lead to price differences for similar patents.

The market has devised a commonsense solution to this problem: global licenses. Rather than price out separate rates for each type of use for each jurisdiction in which an SEP is practiced, the parties blend the varying rates of all SEPs in the portfolio into a single, bottom-line number.

This solution has served the industry and consumers well. The overhead cost of licensing is kept low because technology innovators and implementers require less administration to price and track compliance with a single license than potentially more than one hundred.

An SEP holder often promises to license its SEPs on fair, reasonable and nondiscriminatory terms — the FRAND contract — and courts are increasingly asked to evaluate whether an SEP holder's license offers comply with the contract. Between an innovator with a global patent portfolio and an implementer with global sales, a global license is the only practical means on which to license SEPs and, indeed, has been the industry standard for nearly 25 years. It seems obvious, therefore, that courts must analyze FRAND compliance by looking to the global rate.

Nonetheless, commentators have yet to embrace this view en masse, with some suggesting the relevant

rate is that of the forum jurisdiction alone. Because patent infringement and validity must be determined on a country-by-country basis, the commentators wonder whether, and how, a domestic court can adjudicate whether a global rate is fair, reasonable and nondiscriminatory.

As explained below, however, these commentators confuse contract compliance with patent infringement. What's more, the post hoc construction of a jurisdiction-specific rate is an exercise divorced from reality: Not only did that rate never exist, but it is also difficult to ascertain, given the logical and financial impediments discussed above.

Courts routinely adjudicate performance under contracts concerning global subject matter without requiring the parties to file separate actions for breach in every country in which performance might be rendered. Fortunately, this general view of contract litigation is now prevailing in breach-of-FRAND litigation.

In a much-anticipated decision, the U.K. Supreme Court recently held in Unwired Planet International Ltd. v. Huawei Technologies (UK) Co. Ltd.[1] that a national court is perfectly free to assess a party's compliance with the FRAND contract by analyzing whether a global, portfoliowide rate complies with FRAND. Unwired Planet sued in the U.K. for infringement of European patents, and the implementer countersued for breach of the FRAND contract.[2]

To resolve the claims, the trial court undertook to determine what rate, based on the portfolio as a whole, would be in compliance with Unwired Planet's FRAND contract.[3] To determine the rate country-by-country, the court reasoned, would be "madness."[4] The court offered the implementer a choice: It could assent to a global license on FRAND terms, or it could discontinue infringement in the U.K. Unwired Planet begs the question: Can and should U.S. courts also analyze FRAND compliance by looking to the portfolio as a whole?

For starters, federal courts indisputably wield subject matter jurisdiction over breach-of-FRAND claims, whether under diversity jurisdiction or supplemental jurisdiction, the latter typically occurring when a breach-of-FRAND claim arises in the same action as a patent infringement claim. That federal courts can exercise jurisdiction over breach-of-FRAND claims is hardly surprising. A breach-of-FRAND claim is a breach-of-contract claim, and breach-of-contract claims are regularly brought in federal court. Indeed, in the 12-month period ending in March, federal courts entertained more than 25,000 actions sounding in contract.[5]

Further, federal courts clearly wield the remedial power to adjudicate whether a global–license offer complies with the FRAND contract. Under Article III, federal courts exercise the judicial power, which is the power to "redress an injury resulting from a specific dispute."[6] The specific dispute stems from the FRAND contract itself, which was written with the understanding "no rational business would seek to license products country by country if it could be avoided."[7]

The contract thus contemplates compliance on a portfoliowide basis, and, accordingly, the judicial role empowers courts to adjudicate whether a global license offer is FRAND and, upon finding a violation, to remedy the breach, just as courts would in any other breach-of-contract case. Said differently, the power to adjudicate a global license offer flows from interpretation of the contract itself. If these points are self-evident, though, why is Unwired Planet not a well-settled principle?

For one, inertia. Unwired Planet analyzed decisional law of five different jurisdictions, including the U.S. and the EU. Though the trial court went further than other courts, Unwired Planet explained, the court's

decision was consistent with several judgments in other jurisdictions and a natural extension of those judgments in a developing area of jurisprudence.[8]

Beyond inertia, though, lies a more deliberate reason why the rule announced in Unwired Planet has not come sooner. Some courts have analogized breach-of-FRAND claims to foreign patent infringement claims, which federal courts have generally declined to adjudicate.

As the U.S. Court of Appeals for the Federal Circuit explained in Voda v. Cordis Corp.,[9] a leading patent infringement decision, a court's review of another jurisdiction's patents for infringement implicates the jurisdiction's sovereignty: "[A] patent right to exclude only arises from the legal right granted and recognized by the sovereign within whose territory the right is located."[10]

Yet an infringement claim usually requires a court to analyze the validity and enforceability of that sovereign-issued property right. As the Voda court held: "It would be incongruent to allow the sovereign power of one to be infringed or limited by another sovereign's extension of its jurisdiction."[11] This comparison, however, is improper.

A breach-of-FRAND claim arises as a contract claim, not a patent infringement claim. A patent infringement claim, as a 1967 student-authored article in the Michigan Law Review argued, "assumes the appearance of an in rem proceeding since the court is then asked to rule on the validity of a grant of title by a foreign sovereign."[12]

A breach-of-FRAND claim requires no such thing. Whereas patent law confers a right and defines its parameters, contract law generally allows parties to define the right for themselves, subject perhaps to certain background rules. As the U.S. Court of Appeals for the Ninth Circuit has held in the FRAND context, "[w]hen [a] contract is enforced by a U.S. court, the U.S. court is not enforcing [foreign] patent law but, rather, the private law of the contract between the parties."[13]

Respecting the contractual nature of FRAND disputes, courts typically approach valuation the same way the market approaches valuation. The parties to a global licensing negotiation have neither the ability nor interest in testing the validity and infringement of all patents in a sizable portfolio[14] to the same extent such issues would be resolved in a full-on patent infringement dispute involving, at most, a handful of patents. They instead agree to a global license, the price of which accounts for what the Unwired Planet court terms the "untested nature of many patents in the portfolio."[15]

Put differently, as the Unwired Planet court held, the parties contract for "certainty,"[16] not for "the right to use technology only in patents which have been established as valid and infringed."[17] To resolve a FRAND dispute, then, a court must simply step into the parties' negotiating shoes.

But wait: Doesn't determining whether an offer is FRAND require determining whether individual patents are valid and infringed, which in turn triggers the Voda concerns? Not at all. Though courts might evaluate essentiality, and sometimes validity, in the course of valuing a portfolio,[18] they do so on a macro level without rendering a full infringement or validity ruling on individual claims.[19]

As do the parties, courts frequently account for, among other things, essentiality metrics, quality, comparable licenses and the overall market. As the U.S. District Court for the Northern District of Illinois in the 2013 In re: Innovatio IP Ventures LLC decision, the judicial inquiry thus centers on the "technical contribution of the patent portfolio as a whole."[20]

Recognizing this methodology, Unwired Planet rejected the implementers' jurisdictional challenge. "If the judgments of the English courts had purported to rule on the validity or infringement of a foreign patent," the court reasoned, "that would indeed be beyond their jurisdiction."[21] But the trial court issued no such ruling:

> [The judge] did not purport to determine the validity of any non-UK patent or to find that any such patent was or was not a SEP. What he sought to do was to value the portfolio as a whole, recognising that it was likely to include patents which were not valid and patents which although valid were not infringed and so were not SEPs.[22]

This point is at the heart of why global rate adjudication does not implicate any of the concerns raised in Voda. There, the Federal Circuit held the district court abused its discretion when it exercised supplemental subject matter jurisdiction over patent infringement claims arising under foreign law.[23]

The exercise of supplemental jurisdiction is discretionary, and the court reasoned the district court should not have exercised jurisdiction due to "considerations of comity, judicial economy, convenience, fairness, and other exceptional circumstances."[24] None of these four considerations applies to global–rate adjudication, however.

In Voda, comity leaps off the page as the court's principal worry. A patent infringement claim requires a court "to define the legal boundaries of a property right granted by another sovereign and then determine whether there has been a trespass to that right."[25]

Relatedly, the court reasoned mandatory application of the act-of-state doctrine, which requires courts to accept as valid acts of foreign sovereigns taken within their own jurisdictions, would be unfair to defendants.[26] The court would be required to adjudicate infringement without allowing the alleged infringer to raise validity or enforcement defenses. These concerns do not apply to FRAND litigation, however, which requires no inquiry into the validity or enforceability of any one patent.

The other Voda concerns are likewise inapplicable. In a foreign–patent infringement claim, domestic courts lack "institutional competence in the foreign patent regimes at issue."[27] Accordingly, "more judicial resources could be consumed by the district court than the courts of the foreign patent grants."[28] Yet adjudicating a global rate requires some court — whether in the U.K., the EU, the U.S. or elsewhere — to evaluate the global license offer. Though expertise in foreign law is not required, black-letter principles of patent law — validity, infringement and claim construction — will apply across jurisdictions.

In short, none of Voda's reasoning counsels against global rate adjudication. Quite the opposite. As the U.S. Supreme Court said in the 1976 case Colorado River Water Conservation District v. U.S., federal courts have a "virtually unflagging obligation ... to exercise the jurisdiction given them."[29] And though declaratory relief is discretionary, discretion is guided: The declaratory judgment remedy is an all-purpose remedy and, accordingly, must be "liberally construed to achieve its wholesome and salutary purpose."[30]

By adjudicating a global rate, courts do nothing more than analyze FRAND compliance on the terms anticipated by the contract itself. The ink in Unwired Planet still drying, everything weighs in favor of federal courts' applying the same approach here at home.

Plaintiffs sue in federal court in the U.S. part because of the widespread admiration of federal judges.

That respect stems not just from the plaintiffs' belief in getting a fair shake but from their understanding of the judges' intellectual prowess, work ethic, reasoned decision making, and — importantly — independence. For similar reasons, federal judicial decisions are cited by foreign courts, as shown by Unwired Planet.

If federal courts decline to adjudicate global license offers on a portfolio-wide basis, however, litigants will likely be forced to go elsewhere. At this moment, courts around the world have or are open to adjudicating breach-of-FRAND claims in a manner consistent with longstanding industry practice and remedying the breach accordingly.

Even if litigants still preferred federal court, a court that requires proof of a jurisdiction-specific rate requires proof of something that never existed, cannot be easily reconstructed, and is divorced from the reality of today's sophisticated global licensing market.

Because a well-functioning SEP licensing regime is essential to the development of standards, the outcome of global FRAND disputes will shape the direction of standards for years to come. The time for our federal courts to weigh in on this critical area of the law is now.

Theodore Stevenson III and Nicholas Mathews are principals, and Patrick Pijls is an associate, at McKool Smith PC.

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[1] Unwired Planet v. Huawei [2020] UKSC 37 (appeal taken from Eng.).

[2] Id. at [19], [25].

[3] Id. at [25].

[4] Id.

[5] Cases Filed by Jurisdiction and Nature of Suit, U.S. Cts., https://www.uscourts.gov/statistics/table/c-2/federal-judicial-caseload-statistics/2020/03/31 (last visited Nov. 17, 2020).

[6] Ariz. Christian Sch. Tuition Org. v. Winn, 563 U.S. 125, 132 (2011).

[7] Unwired Planet [2020] UKSC at [15].

[8] Id. at [67].

[9] Voda v. Cordis Corp., 476 F.3d 887 (Fed. Cir. 2007).

[10] Id. at 902.

[11] Id.

[12] Note, Jurisdiction over Foreign Patent Claims, 66 Mich. L. Rev. 358, 363 (1967).

[13] Microsoft Corp. v. Motorola, Inc., 696 F.3d 872, 884 (9th Cir. 2012).

[14] Unwired Planet [2020] UKSC at [60].

[15] Id.

[16] Id.

[17] Id. at [61].

[18] Compare Microsoft Corp. v. Motorola, Inc., No. 10-cv-1823, 2013 WL 2111217, at *20 (W.D. Wash. Apr. 25, 2013) (accounting for pre-litigation uncertainty over essentiality), with In re Innovatio IP Ventures, LLC Patent Litig., No. 11-cv-9308, 2013 WL 5593609, at *7 (N.D. Ill. Oct. 3, 2013) (not accounting for the same).

[19] See In re Innovatio, 2013 WL 5593609, at *6 (considering the "technical contribution of the patent portfolio as a whole to the standard" (emphasis added)); Ericsson Inc. v. D-Link Sys., Inc., No. 10-cv-473, 2013 WL 4046225, at *15 (E.D. Tex. Aug. 6, 2013), aff'd in part, vacated and rev'd in part on other grounds, 773 F.3d 1201 (Fed. Cir. 2014).

[20] In re Innovatio, 2013 WL 5593609, at *6.

[21] Unwired Planet [2020] UKSC at [63].

[22] Id. at [42].

[23] 476 F.3d at 904.

[24] Id. at 898.

[25] Id. at 900.

[26] Id. at 904.

[27] Id. at 903.

[28] Id.

[29] Colo. River Water Conservation Dist. v. United States, 424 U.S. 800, 817 (1976).

[30] Allstate Ins. Co. v. Emp'rs Liab. Assur. Corp., 445 F.2d 1278, 1280 (5th Cir. 1971).