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FACILITATING THE FAIR AND BALANCED SETTLEMENT OF DISPUTES ON SEPs

Synopsis

The fair and balanced settlement of disputes regarding SEP licensing on FRAND terms outside of litigation must provide for voluntary participation, neutral rules, decision-makers who consider the merits under the traditional rules concerning the burden of proof, and some degree of transparency to the public.

A party should not be considered “unwilling” to reach an agreement or to enter into mediation or arbitration proceedings because it does not agree to the proposed procedural rules governing such mediation or arbitration, or to a proposed mediator or arbitration tribunal.

Where a judicial decision is taken finding an infringement of a SEP, the judiciary should always consider the requirements of fairness, equity and proportionality before issuing an injunction against an infringer.

Introduction

During the past several years, the number of court actions concerning the licensing of Standard Essential Patents (SEPs) under Fair, Reasonable and Non Discriminatory (FRAND) terms has increased substantially¹.

In April 2016, the European Commission published a Communication on “ICT Standardisation Priorities for the Digital Single Market”², which states that:

“ICT standardisation requires a balanced IPR policy, based on FRAND licensing terms. Various debates at European and international level are currently taking place with varying approaches being considered... With the many technologies involved in implementing complete digital value chains, notably in the area of IoT, there is uncertainty

¹ See e.g. Competition Policy Brief, Issue 8, published by the European Commission, April 2014.

² Communication COM (2016) 176 on “ICT Standardisation Priorities for the Digital Single Market”, available at: http://ec.europa.eu/newsroom/dae/document.cfm?doc_id=15265

in particular in relation to: ... (iv) the regime regarding the settlement of disputes.”³

In the same Communication, the European Commission also announced an action on dispute resolution for SEPs, stating that:

“The Commission will work in collaboration with stakeholders including ESOs, EPO, industry and research, on the identification, by 2017, of possible measures ... to facilitate the efficient and balanced settlement of disputes.”⁴

The FSA welcomes this action.

In general, conflicts over SEP licenses under FRAND terms cannot be resolved by simply setting a FRAND rate based on an automatic assumption of essentiality, infringement, or validity of the SEPs the prospective licensor has asserted. Rather, as with any other infringement dispute, a SEP holder must prove its claims of validity, essentiality, and infringement if challenged by a prospective licensee. Such potential licensee must always have the right to employ the patent systems’ traditional mechanisms for challenging validity or infringement, and to raise any other relevant defenses. Permitting challenges to the merits of a given patent is pro-competitive, and ensures that only true innovators are rewarded with patent rights.⁵

In this paper, the FSA provides its position on fair and balanced settlement of SEP related disputes, either through negotiation, mediation or arbitration, or court litigation.

Upfront, it is important to highlight a key principle that is common to all alternative dispute resolution (ADR) mechanisms, namely that ADR must be voluntary. Mandating the use of ADR mechanisms is highly problematic, as ADR processes may short-circuit built-in safeguards against invalid or non-infringed patents and alter the traditional rules on burden of proof. Potential SEP licensees should not be forced to submit to ADR in the name of “licensing efficiency”, particularly where the applicable ADR procedures would not afford the traditional safeguards mentioned above. Each party must retain the freedom to choose to have a dispute resolved in a court or similar tribunal. This does not exclude, however, that both parties may agree to procedural rules of arbitration that an award decision of the agreed-upon procedure will be final.

In the following, the paper will discuss the different means of reaching a licensing agreement.

Negotiation

Negotiation is the customary way of resolving inter-party conflicts and should therefore be favored as the primary method to reach a license agreement.

In negotiations for the licensing of SEPs *under FRAND conditions*, specific conditions apply.

³ See Section 3.2, page 13.

⁴ See page 14.

⁵ As stated in the European Commission’s Guidelines on Technology Transfer Agreements, „*In the interest of undistorted competition and in accordance with the principles underlying the protection of intellectual property, invalid intellectual property rights should be eliminated. Invalid intellectual property stifles innovation rather than promoting it*” (Guidelines on the application of Article 101 TFEU to technology transfer agreements, [2014] OJ C89/03, para 134).

As a consequence of its FRAND commitment, when licensing its SEP portfolio to multiple licensees, a licensor must offer fair and reasonable license terms, including reasonable royalties, and not discriminate against any licensee.

The specific circumstance of a licensing negotiation for FRAND-encumbered SEPs also has consequences from the prospective licensee's perspective, namely:

- The prospective licensee has no alternative to licensing the SEPs to comply with the relevant standard;
- The prospective licensee usually needs licenses to various portfolios of SEPs from many different patent owners in order to implement the standard; and
- The prospective licensee usually does not know under which terms and conditions a given licensor has previously granted licenses for the same SEP portfolio⁶.

Against this background, negotiations will only be fair and balanced when an SEP licensor provides a transparent explanation as regards its FRAND offer, including how the rate is calculated and why the terms are non-discriminatory. Although in many cases there may be pre-existing commercial or business relationships between the SEP licensor and prospective licensee, published license terms to the respective licenses may serve as a starting point for reaching an agreement containing fair, reasonable and non-discriminatory terms and hence be useful for creating a level playing field for all implementers of the standard.

Therefore, fostering public availability of license terms and conditions for respective SEPs can serve as a measure for fair and balanced dispute resolution. Such publication could be performed by the licensor, or through the licensing of SEPs through a patent pool which publishes such license terms and conditions.

Mediation

Mediation may be initiated after individual negotiations fail, or at any other time as voluntarily agreed by the parties. In a mediation process, parties typically agree on certain procedural rules relating to timing, cost, scope, etc. One or more mediators guide and facilitate the dispute in order for the parties to reach an agreement, but with the parties continuing to have control over the resolution. If the parties do not come to an agreement, the mediation ends without any further effect, since the mediator has no power of issuing an award to any of the parties.

Disputes in SEP cases can get very complex, particularly when many patents are involved, owned by different patent holders, when the validity and essentiality of the SEPs is disputed, and/or many geographic regions are involved. Mediation can thus be very resource-intensive – without there being any guarantee of a successful outcome.

Therefore, in order to enhance the efficiency of mediation in SEP-related disputes, it would be helpful to foster the formation of mediation entities that are highly specialized in specific standards (i.e., that have in-depth knowledge about the related technology, the SEPs of the standard and about usual licensing practices in the related industries of the parties, etc.).

⁶ See also our Position Paper “Transparently FRAND: The Use (and Misuse) of Confidentiality Obligations in FRAND Licensing Negotiations”.

Furthermore, because mediations are generally conducted under non-disclosure agreements, there is little transparency and guidance available for parties to resolve their disputes. For example, to the extent no explanations have been provided by the SEP holder, it remains impossible for potential licensees to determine whether the proposed terms are non-discriminatory. Therefore, measures that foster non-confidential, transparent mediation procedures can help to improve the efficient resolution of SEP licensing disputes.

Arbitration

As with mediation, parties may seek to enter into arbitration on a voluntarily basis. However, unlike mediation, arbitral tribunals generally have the power to issue enforceable awards, and arbitration awards can generally be enforced very efficiently in various jurisdictions.

In many arbitration proceedings, the agreed-upon procedural rules (e.g., with respect to term of the arbitration procedure, relevant evidences, place of arbitration, applicable law, extent of disclosure/discovery and scope of matters in dispute) play a key role. Several organizations offer standardized arbitration rules⁷, and individual procedural rules enable both parties to adapt to the needs of their individual case. However, in certain cases parties may not reach agreement on procedural rules and arbitration may fail. In such instances, a party should not be considered “unwilling” to find an agreement or to enter into arbitration proceedings simply because it does not agree to proposed rules of arbitration or a proposed arbitration tribunal.

Arbitration proceedings can be held at any place agreed to by the parties (e.g., in a specific country and under a law of the parties’ choice). This can serve as a means to arbitrate in a neutral framework which does not favor either party.

In order to foster the fair and balanced resolution of SEP related disputes by arbitration, the following principles should be promoted:

- Procedural rules adapted to circumstances of the SEP dispute at hand;
- Arbitration procedures that are cost-efficient, conducted in a competent and fair manner, and resulting in equitable and proportionate judgments;
- The reuse of expertise and skills of arbitrators in cases with overlapping subject matter (e.g. for the same standard or some same patents in dispute); and
- Transparency, including the disclosure of arbitration decisions.

As with mediation, the use of arbitration should require the agreement of both parties. If no agreement can be reached on conducting mediation and/or arbitration, it shall not take place and the parties shall be entitled to initiate court action, as appropriate.

Actions at Court or Other Public Tribunals

In litigated SEP licensing disputes (as opposed to other patent disputes), procedures may be rather short due to the fact that the patent owner can reuse many relevant facts and evidentiary

⁷ E.g. UNICITRAL Arbitration Rules, published by the United Nations Commission on International Trade Law, available at http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/2010Arbitration_rules.html , or WIPO Arbitration Rules, published by the World Intellectual Property Organization Arbitration and Mediation Center, available at <http://www.wipo.int/amc/en/arbitration/rules/> .

statements such as essentiality claim-charts for different litigations. However, time constraints placed on the procedure usually redound to the advantage of the patent holder. While such short court proceedings may be considered “efficient”, they also may risk jeopardizing a fair and balanced dispute resolution procedure. In addition, reusability of many relevant facts and evidentiary statements should not mean that the patent holder does not have to provide evidence of infringement of an accused product, i.e. more than just by a reference to the standard.

Furthermore, injunctions are treated in a disparate manner throughout the EU – automatic in certain jurisdictions, and subject to principles of fairness, equity and proportionality in other. To facilitate the fair and balanced settlement of disputes, where a judicial decision is taken finding an infringement of a SEP, the judiciary should always consider the requirements of fairness, equity and proportionality before issuing an injunction against an infringer⁸.

When deciding on injunctive relief based on infringed SEPs, courts may also take into account if a party is willing to accept a third party determination of the FRAND licensing terms, e.g. by an arbitration tribunal.

Measures to foster fair and balanced court actions should also consider harmonizing laws and case law in different regions and countries. The number of court actions, in particular parallel court actions regarding the same patent portfolio (if the same or different patents of the portfolio are asserted) and forum shopping could thereby be reduced.

Conclusions

It is essential to provide incentives to both licensors and licensees to negotiate in good faith on FRAND terms rather than to litigate. However, in case parties do not come to an agreement, and need to resort to other means in order to solve their disputes, it is important that measures are in place to facilitate the fair and balanced settlement of SEP licensing disputes. The fact that those disputes occur on the basis of a specific FRAND commitment means that those measures may be different than those applicable to other litigation cases.

In instances where parties pursue ADR for resolving SEP licensing disputes, the parties should each be entitled to employ at least the following FRAND principles in the procedural rules of the mediation/arbitration procedure:

- *Voluntary nature*: Both parties must be able to freely agree whether to arbitrate/mediate the FRAND dispute (including on the rules of those proceedings) instead of litigating in courts;
- *Consideration of the merits under the traditional rules concerning the burden of proof*: The potential licensee’s rights under patent laws to challenge the validity, essentiality, or infringement of the alleged SEP cannot be compromised in the name of licensing efficiency. The SEP holder should have the burden of proving its entitlement to FRAND royalties through a showing that it owns infringed patents actually essential to the standard (and whether the used features of the standard are mandatory or optional) and withstanding any challenges to validity, enforceability, or any other defenses. ADR should not simply be a matter of setting a rate if the licensee contests the SEP holder’s claims;

⁸ See also our Position Paper "Re. EC’s public consultation on the evaluation and modernization of the legal framework for the enforcement of intellectual property rights...", available at http://www.fair-standards.org/wp-content/uploads/2016/09/FSA_Position_Paper_IPR_Enforcement_Directive.pdf

- *Ability to appeal*: All aspects of arbitral findings are appealable to a court;
- *Appropriate Openness*: While there are certainly aspects of an arbitration that should be confidential, or that parties should be able to keep private, in order to provide transparency and allow potential licensees to verify claims of fairness and non-discrimination, some aspects of a FRAND arbitration must be made public, including findings of validity, infringement, and the FRAND terms and conditions. The more data points regarding FRAND terms that are publicly available, the less often parties need to resort to litigation as both will have a better understanding of the likely outcomes;
- *Balanced Composition and Process*: The composition of the panel should favor neither the SEP holder nor the potential licensee.

Regarding proceedings at court or similar tribunals, measures to reinforce the principles of fairness, equity and proportionality by law as well as harmonizing law and case law will facilitate fairness and balance of dispute resolution. Lawmakers and courts should make sure that these principles are applied in any decision concerning injunctive relief, provisional remedies, potential alternative measures, damages and rights of information as addressed e.g. in Articles 8, 9, 11, 12 and 13 of the European IPR Enforcement Directive^{8,9}.

Note: the positions and statements in this paper do not necessarily reflect the detailed individual corporate positions of each member.

⁹ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.