

# Navigating the SEP landscape

Ryan C Richardson, Michael D Specht and Timothy L Tang review the key considerations for navigating the global standard essential patent landscape in 2021

## The standard essential patent (SEP) landscape evolved significantly during 2020.

Global court decisions and policy directives generally favoured SEP owners. In 2021, significant changes are likely to continue, with many commentators believing the pendulum may shift back in favour of implementers. To navigate the current SEP landscape, parties should understand the major developments from 2020 and prepare for 2021's changes. This article summarises the major cases and governmental developments that impacted SEPs in 2020. This article also discusses the current state of injunctions, global jurisdiction issues, and expected behaviour from both SEP owners and implementers in 2021. Based on 2020's key cases and developments, this article provides considerations for navigating the global SEP landscape in 2021.

## Developments in the US

### DOJ's updated business review letter

In September 2020, the US Department of Justice (DOJ) released a business review letter clarifying its support for SEP owners to potentially obtain injunctive relief.<sup>1</sup> The letter explained that denying injunctive relief would potentially harm incentives for future innovation, and that injunctive relief should be available when a licensee is unwilling to negotiate reasonable terms. The letter also encouraged flexibility in setting rates, which may include using end products as a royalty base. In 2021, SEP owners should be mindful about how they structure their licence offers, and implementers should carefully plan their negotiation strategy to avoid being labeled as an unwilling licensee.

## SEPs and antitrust

### FTC v Qualcomm Inc

In August 2020, the US Court of Appeals for the Ninth Circuit held that Qualcomm's SEP licensing practices did not violate antitrust law.<sup>2</sup> The Ninth Circuit reversed a worldwide injunction against Qualcomm, allowing

Qualcomm to license only to original equipment manufacturers (OEMs) and to sell only to customers taking a patent licence. While the Ninth Circuit did not find an antitrust violation, it commented that the proper remedy for fair, reasonable, and nondiscriminatory (FRAND) term disputes was in contract or tort law. Thus, parties are encouraged to resolve FRAND disputes without relying on antitrust law. SEP owners should develop licensing strategies that are supplier-neutral, such that no one supplier benefits more than another. In contrast, implementers should become familiar with the relevant standard-setting organisation (SSO) policies and the corresponding jurisdictional contract laws for dispute resolution.

## “Will US courts also issue global licences and set global FRAND rates?”

### Continental Automotive Systems, Inc v Avanci, LLC

In September 2020, a Texas district court dismissed a complaint filed by Continental against Avanci alleging violations of sections 1 and 2 of the Sherman Act.<sup>3</sup> Avanci's members pooled SEPs covering cellular technologies. Continental argued that the members agreed to only license to OEMs and that such licences had non-FRAND terms. The court held that Continental lacked standing because Avanci's downstream OEM strategy did not create an antitrust injury for upstream suppliers like Continental. Regarding section 1, the court held that Avanci's practice did not unreasonably restrain trade because it still allowed licensors to independently license the SEPs outside of the Avanci platform. Regarding section 2, the court held that Avanci's members did not create an unlawful monopoly by deceiving an SSO. This case signals that antitrust defences to SEP assertions may be limited to OEMs.

Non-OEM implementers should instead focus their efforts on contract, tort, and patent law-based defences.

## Global SEP developments

### Unwired Planet v Huawei Technologies (UK)

In August 2020, the UK Supreme Court held that English courts are able to determine global FRAND terms and royalty rates for multinational SEP licences.<sup>4</sup> Further, English courts may grant an injunction against implementers refusing to take a licence. Patent owners seeking an injunction without prior consultation with an alleged infringer, however, would be abusing a dominant market position. Regarding jurisdiction, the UK Supreme Court explained that English courts could adjust royalty rates based on SEP invalidation or non-infringement in another country. UK courts would therefore not intrude on the jurisdiction of foreign courts to determine validity or infringement. Looking forward, English courts have established themselves as a preferred destination for SEP holders. Implementers should identify more favourable jurisdictions, potentially those with higher market shares, and act fast to preserve defensive positions if licensing negotiations breakdown.

### Nokia v Daimler (Germany)

Avanci members – including Nokia – filed suit against automobile makers using 4G technology. In August 2020, a German court issued an injunction against Daimler for infringing one of Nokia's SEPs.<sup>5</sup> Daimler was declared an unwilling licensee because Daimler was unwilling to enter a licence agreement on FRAND terms. The case was then referred to the Court of Justice of the European Union (CJEU) to consider whether Nokia abused its dominant market position by refusing to issue a licence to Daimler's suppliers and instead seeking a licence from the end-manufacturer (Daimler). The CJEU will consider whether SEP owners may target any company in a supply

chain for patent infringement. Parties should pay close attention to these developments as they are likely to have major global implications.

### Recent developments in China

#### *Ericsson v Samsung*

In December 2020, Ericsson and Samsung became embroiled in an ongoing global SEP fight. Samsung filed a lawsuit against Ericsson in China. Ericsson responded by filing an infringement lawsuit in the US Eastern district of Texas.<sup>6</sup> Samsung then asked the Chinese court to issue an anti-suit injunction to prevent Ericsson from continuing its US case. The Chinese court granted this injunction and barred Ericsson from seeking injunctive relief anywhere in the world and requesting an anti anti-suit injunction. At Ericsson's request, EDTX issued an anti anti-suit injunction preventing Samsung from enforcing its anti-suit injunction against Ericsson in the US. Overall, this dispute illustrates the global reach of SEPs, and future jurisdictional disputes as more countries indicate a willingness to set global licence rates.

Chinese courts expressed a desire to preside over FRAND issues and cross-border SEP licences in other 2020 cases as well. In *Huawei v Conversant*, the PRC Supreme Court issued its first anti-suit injunction.<sup>7</sup> This injunction prevented Conversant from enforcing a German injunction. The decision also provided Chinese courts with jurisdiction to decide Chinese royalty rates regardless of global rates determined in other countries. Another Chinese court also issued an anti-suit injunction against InterDigital on behalf of Xiaomi.<sup>8</sup> This injunction prevented InterDigital from enforcing an SEP injunction against Xiaomi during the pendency of the case. Based on these developments, parties should recognise the willingness of Chinese courts to preside over global SEP issues.

### Looking forward to 2021

Overall, 2020 was favourable for SEP owners, but 2021 may swing the pendulum back in favour of implementers. The global definition of an "implementer" may change as supply chain questions and end-user targeting still persist. Depending on the upcoming decisions from the CJEU, component-level licences may become more common. If so, implementers may raise patent exhaustion defences, arguing that SEP rights have been exhausted after a component sale. End-users may also continue to raise breach of FRAND defences. For example, end-users may argue for calculating FRAND rates using component pricing rather than end-product pricing, which may lower the royalty base.

Additionally, the European Commission's (EC) Action plan on IP has requested more

transparency and certainty when determining FRAND rates.<sup>9</sup> The Commission identified concerns with small and medium-sized businesses implementing SEPs. To reduce SEP litigation, the Commission plans to encourage industry-led initiatives with possible regulatory reforms. Parties should be mindful of future guidance that may streamline the FRAND negotiation process. Also, on 10 February 2021, the EC published the long awaited SEPs Expert Group report.<sup>10</sup> The report does not provide solutions to the highly-debated SEP topics, but instead details some observations that parties should consider in future negotiations.

If global courts follow the precedent set in Europe, implementers will need to show a clear willingness to license on FRAND terms prior to challenging validity or infringement. 2020 has shown the increasing strength of a worldwide SEP portfolio, and implementers should be aware that litigations could occur in multiple countries.

US courts are still grappling with 2020's international precedent. Will US courts also issue global licences and set global FRAND rates? Conflicts may arise if international courts determine different global FRAND rates. While no official international arbitration tribunal exists for setting licensing rates, this may change based on calls from practitioners. Additionally, while US courts in 2020 have generally disfavoured antitrust arguments, OEMs may still be able to allege a sufficient injury to bring successful antitrust actions.

How will the Biden administration impact US SEP policies? Will the US Patent and Trademark Office and DOJ change policy positions that currently allow for injunctive relief? Former director Andrei Iancu, who generally led the USPTO in a more pro-patent owner direction, has departed. Looking to 2021, practitioners should monitor the new director's views on patents and SEPs. Additionally, the DOJ's antitrust division head, Makan Delrahim, has also stepped down. Delrahim focused on implementer hold out and refusals to pay demanded licensing rates. With Delrahim's departure, the DOJ's antitrust division may take a different view in balancing the interests of SEP parties.

Overall, while 2020 was a favourable year for SEP owners, 2021 may bring about change. At a minimum, 2021 will likely bring additional clarity to pending SEP issues, which will ultimately benefit both patent owners and implementers.

#### Footnotes

1. DOJ – antitrust division, update to the 2015 business review letter to the Institute of Electrical and Electronics Engineers, Incorporated (IEEE) (10 September 2020), available at <https://www.justice.gov/atr/page/file/1315291/download>.

2. *Federal Trade Commission v Qualcomm Inc*, 969 F.3d 974 (9th Cir 2020).
3. *Continental Automotive Systems, Inc v Avanci, LLC*, order dismissing with prejudice, 3:19-cv-02933 (ND Tex 10 September 2020).
4. *Unwired Planet v Huawei*, [2020] UKSC 37, 26 August 2020.
5. *Nokia v Daimler*, Docket no2 O 34/19, District Court of Mannheim (18 Aug 2020).
6. *Ericsson Inc v Samsung Elec's Co*, memorandum opinion and preliminary injunction, 2:20-CV-00380-JRG (ED Tex 11 Jan 2021).
7. *Huawei v Conversant*, opinion, Supreme People's Court of the People's Republic of China (28 Aug 2020).
8. *Interdigital v Xiaomi*, opinion, Hubei Province Wuhan Intermediate People's Court of the People's Republic of China (23 Sept 2020).
9. European Commission's Action plan on IP (25 November 2020) available at <https://eur-lex.europa.eu/legal-content/EN/ALL?uri=CELEX:52020DC0760>.
10. European Commission – SEPs expert group, "Group of experts on licensing and valuation of standard essential patents (24 January 2021) available at <https://ec.europa.eu/docsroom/documents/44733>.

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