Kluwer Arbitration Blog

Are we FRAND now?

Piergiuseppe Pusceddu (University of Tilburg) · Thursday, August 26th, 2021

Technology is crucial in the contemporary, knowledge-based economy. Over the past decade, technology-related, telecommunications, and now Internet of Things (IoT) disputes have gained momentum. An area of relevance has been 'Fair, Reasonable and Non-discriminatory' (FRAND) litigation. It relates to the licensing terms of patents essential to the implementation of a standard. While litigation is an established method to settle FRAND disputes, one may wonder about arbitration. This post aims at providing insight thereof.

Setting the Scene

A standard is a document setting out technical specifications, guidelines or rules for common and repeated use in order to ensure quality, safety and interoperability of products. Standards are pivotal in shaping markets and are crucial tools to achieve geopolitical and economic preponderance. In a nutshell, the adoption of standards is a prerogative of standard-setting organizations (SSOs). In the adoption process, SSOs pay attention to possible patents that may be embedded in the standard to be adopted. For this reason, SSOs require their members to declare whether they own any patent that is essential for the implementation of the standard to be adopted and to commit to its licensing according to FRAND terms (licensing declaration). The said patents are commonly referred to as standard-essential patents (SEPs).

Courts in several jurisdictions have dealt with the determination of FRAND licensing terms. A major drawback of multijurisdictional litigation is the peril of contradicting decisions, race to the bottom (eg, litigating in the country where the case law suits the patent owner or the implementer), and time and cost issues. As such, Alternative Dispute Resolution (ADR) mechanisms, and arbitration in particular, have been considered as an option for FRAND disputes. Arbitration for FRAND disputes has attracted interest in the European Union (EU), Japan, and the United States, among other countries.

An Opening for FRAND Arbitration

Scholarly debate on FRAND arbitration has focused on how to structure the proceedings to achieve an optimal outcome, for eg discussing 'mandatory' and 'final offer' arbitration, or suggesting the more progressive option of creating a global tribunal tasked with the setting of FRAND rates. These academic contributions go along with practice-related developments on FRAND arbitration, where a relevant case is the dispute between Samsung and Apple that, in 2014, led to an EU antitrust procedure. The antitrust procedure was closed after the European Commission accepted the binding commitments made by Samsung, including the determination of its SEPs licensing rate by arbitration.

FRAND Arbitration Guidelines – Salient Traits

Against this backdrop, in 2017, the World Intellectual Property Organization (WIPO) Arbitration and Mediation Center (the WIPO Center) developed a set of guidelines – 'Guidance on WIPO FRAND Alternative Dispute Resolution (ADR)' (WIPO Guidelines). The Guidelines aim to help parties, counsel and prospective arbitrators to navigate the steps of the FRAND arbitration process. In 2018, the WIPO guidelines were followed by an additional set of guidelines issued by the Munich IP Dispute Resolution Forum – 'FRAND ADR Case Management Guidelines' (IPDR Guidelines). While the WIPO guidelines focus closely on the services provided by the WIPO Center, the IPDR guidelines expand on FRAND ADR, and as such may work in synergy with the WIPO guidelines. While both WIPO and IPDR guidelines deal with ADR broadly, including e.g. mediation, in this post I will touch upon the key elements of FRAND Arbitration.

A first important feature is that the WIPO Center, through its good office's services, may assist the parties to commence proceedings. Referral to arbitration, in fact, may not always be part of a licensing agreement, or included in a SSO IPR policy (this is a very rare instance). As such, resorting to good offices can prove particularly useful if negotiations have reached a stalemate. The Center makes available tailored FRAND model submission agreements, which are based on the WIPO Arbitration (and Expedited Arbitration) Rules and adapted to FRAND disputes.

FRAND disputes are often complex, especially where large SEP portfolios are involved. Hence, both the WIPO and IPDR guidelines focus on the scope of the subject matter referred to arbitration, which can be divided into three sub-items.

1. *The number of patents*. Parties should carefully decide which SEPs to submit to arbitration: specific SEPs; a collection of SEPs; an entire portfolio and so forth.
2. *Claims and defences*. In view of time and cost-efficiency, parties can limit the claims/defences to be heard by the arbitral tribunal. Examples range from including/excluding a scrutiny of patent essentiality; patent validity; patent infringement; determination of royalties. A caveat applies to patent validity, which is generally seen as a 'core IPR issue'. Not all jurisdictions allow the arbitrability of patent validity. The reason lies in the fact that a patent is a state-granted monopoly, which validity can only be assessed by state courts or administrative organs. Nevertheless, the approach to arbitrability of patent validity varies depending on the jurisdiction. For example, Belgium, Switzerland, the US, the UK (with *inter partes*

effects), and Singapore generally allow arbitrability of patent validity, whilst Germany and China do not. It is further worth noting that there is no uniform, established, FRAND methodology for royalty rate calculation. As such, the parties may address this issue in the case management conference or may leave the determination to the arbitral tribunal. The WIPO and IPDR guidelines do not endorse any particular methodology, but the IPDR guidelines contain an Annex with an explanation of the methodologies applied in seminal cases across the globe.

3. *Geographical scope*. This issue concerns whether the determination of the FRAND licensing terms has, or not, a global reach. The issue has grown in importance, in the aftermath of decisions in the UK and China setting a global licensing rate.

The appointment procedure is another aspect considered in the guidelines. Qualified adjudicators are key to achieving optimal outcome, which means that the arbitration tribunal should possess experience in patent disputes, SEPs licensing and, more generally, pricing. Party appointment, and appointment in default thereof, is governed by the applicable institutional rules. For example, where a party fails to appoint an arbitrator itself, Article 19 of the WIPO Arbitration Rules contemplates the possibility that candidates be proposed to the parties from the WIPO Center list of neutrals for patents in standards.

Schedule of proceedings. A well-planned schedule of the proceedings serves the purpose of providing the parties with a realistic approximation of the duration of the proceedings. In the EU, this acquires additional relevance since the Court of Justice of the EU (CJEU) judgment in *Huawei v ZTE*, which set some prior procedural steps to follow when injunctive relief is sought under FRAND-committed SEPs. One of these steps is that a third-party (which may include the arbitration tribunal) determines the FRAND licensing conditions 'without delay'. Hence, dilatory tactics can be addressed by agreeing on a reasonably strict procedural schedule for the conduct of the proceedings. Adding to this, the WIPO FRAND ADR model arbitration agreement sets a detailed procedural schedule for the proceedings.

Applicable law. In FRAND disputes, a party's freedom to select the applicable law may be limited. For example, the construction of the licensing declaration is likely to be subject to the law of the place of incorporation of the SSO (for eg, France in the case of the *European Telecommunications Standards Institute* – ETSI). Likewise, 'core IP issues', conditions, and validity of a transfer and infringement are subject to the law of the state where the IP right has been granted (*lex loci protectionis*). On the other hand, contract formation and interpretation, mode of royalty payment, breach of obligations, and consequences of contract invalidity, may be submitted by the parties to a law of their choice.

Confidentiality. A cornerstone of the WIPO Arbitration Rules is that, unless otherwise agreed by the parties or required by law, (i) the existence of the arbitration, (ii) information on disclosures made during the arbitration, and (iii) the arbitral award enjoy high standards of confidentiality.

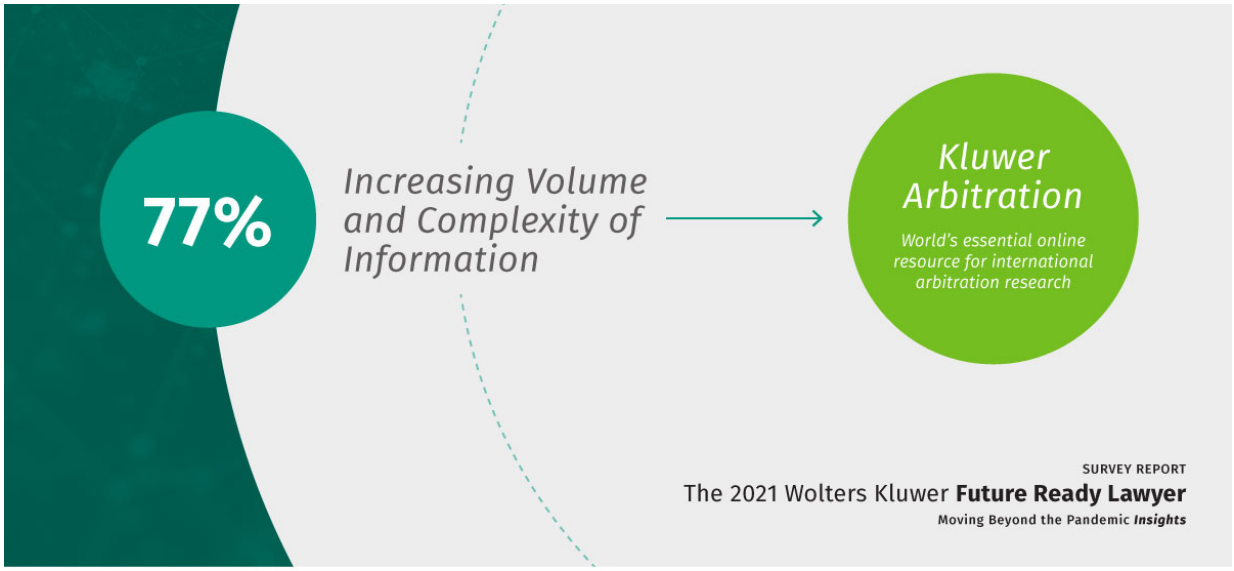
Nevertheless, standards, if not considered public goods *per se*, are crucial in the attainment of public goods, such as interoperability of devices. Additionally, access to FRAND licensing terms for standard essential patents may attract competition law-

based concerns. As such, FRAND dispute settlement is surrounded by pressing public and industry interest regarding access to royalties' calculation methodologies adopted by the arbitral tribunal. In this regard, parties may agree to disclose said methodology for calculation, and maintain confidentiality of the remaining part of the proceedings.

In any event, when applying the WIPO Arbitration Rules, an arbitral tribunal can disclose the award to the extent necessary to comply with a legal requirement imposed on a party, in connection with a court action relating to the award, or as otherwise required by the law.

Conclusion

Arbitrating technology disputes, such as those relating to the licensing of SEPs, is a matter of growing interest for practitioners and scholars alike. In this post, I provided an overview of the salient traits that need particular attention in planning FRAND arbitration proceedings, also covering the guidelines developed by WIPO and IPDR. These tools reflect an attempt to crystallise practices that may prove effective in FRAND arbitration and should be duly considered by those involved in SEPs-related arbitration.



This entry was posted on Thursday, August 26th, 2021 at 8:00 am and is filed under FRAND arbitration, Intellectual Property, Technology
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.