

Nos. 18-1363, 18-1380, 18-1382, 18-1732

IN THE
United States Court of Appeals
FOR THE FEDERAL CIRCUIT

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED,
TCT MOBILE LIMITED, TCT MOBILE (US) INC.,

Plaintiffs-Appellees,

v.

TELEFONAKTIEBOLAGET LM ERICSSON, ERICSSON INC.,

Defendants-Appellants.

On Appeal from the United States District Court for the Central
District of California in No. 8:14-cv-00341-JVS-DFM

ERICSSON, INC., TELEFONAKTIEBOLAGET LM ERICSSON,

Plaintiffs-Appellants,

v.

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED,
TCT MOBILE LIMITED, TCT MOBILE (US) INC.,

Defendants-Appellees.

On Appeal from the United States District Court for the Central
District of California in No. 2:15-cv-02370-JVS-DFM

**CORRECTED BRIEF FOR PROF. PETER GEORG PICHT
AS AMICUS CURIAE IN SUPPORT OF APPELLANTS AND REVERSAL**

(Counsel Listed on Inside Cover)

Michael A. Bittner
WINSTON & STRAWN LLP
2121 N. Pearl Street, Suite 900
Dallas, TX 75201
Telephone: (214) 453-6500

*Attorney for Amicus Curiae
Prof. Peter Georg Picht*

August 3, 2018

CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rules 28(a)(1) and 47.4(a), counsel for *amicus curiae* state the following:

1. The full name of every party or amicus represented by me is:

Professor Peter Georg Picht

2. The names of the real party in interest represented by me is:

Not applicable

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None

4. The names of all law firms and the partners or associates that appeared for the party or amici now represented by me in the trial court or agency or are expected to appear in this court are:

Michael A. Bittner
Winston & Strawn, LLP
2121 N. Pearl Street, Suite 900
Dallas, TX 75201
Telephone: (214) 453-6500
mbittner@winston.com

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. See Fed. Cir. R. 47.4(a)(5) and 47.5(b).

None known.

Dated: August 3, 2018

By: /s/ Michael A. Bittner
Michael A. Bittner

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INTEREST OF THE AMICUS CURIAE

Peter Georg Picht is a law professor at Zurich University. He teaches and writes about competition law, intellectual property law, international procedural law (arbitration in particular), and conflict of laws. With SEP/FRAND issues being one focus of his academic work, he has an interest in the sound development of this area of law and business.

With this Brief, its author aims at contributing a European point of view to the resolution of the case at hand, drawing the Court's attention to a selection of relevant European case law and literature¹ and pointing out some issues which deserve a closer look at the legal situation in the EU. This may help to develop a coherent and appropriate cross-border framework for the determination of FRAND license conditions.

This brief is filed pursuant to the Court's Order dated July 27, 2018, granting *amicus* leave to file its brief. No counsel for a party authored this brief in whole or in part, and no party or counsel to a party made a monetary contribution intended to fund the preparation or submission of this brief. Otherwise, no person or entity other than the amicus curiae or his counsel has made a monetary contribution intended to fund the preparation or submission of this brief.

¹ Because of its European viewpoint, this Brief limits cited authorities to European case-law and literature, knowing full-well that many outstanding US scholars, such as, for instance, Professors Tom Cotter, Jorge Contreras, or Mark Lemley, have made very important contributions to the development of the law in this field.

SUMMARY OF ARGUMENT

Since many ICT standards are of global importance, there is a cross-jurisdictional need for organizing the licensing of patents included into these standards and much is to be gained if a coherent, appropriate framework evolves that guides the FRAND licensing of SEPs across various jurisdictions. This is particularly true given the risk that courts in different countries set multiple, contradictory global FRAND licenses. Therefore, courts ought to take into consideration what foreign jurisdictions – in this case: EU (Member State) law – have to say and see whether the persuasive power of foreign (case-)law and the court's opinion, based on domestic law and the facts at issue, converge towards a cross-border approach to FRAND.

The appealed decision diverges from EU (Member State) law regarding fundamentals of the FRAND concept. Based on an analysis of a FRAND declaration's legal nature under French law, this Brief discusses two important points of divergence: Firstly, Comparables loom larger in EU case-law than the Top-Down-Approach. Although the author of this Brief does not think that either a Comparables analysis or a Top-Down-Approach should become the exclusive FRAND determination method, the facts of this case suggest caution regarding Top-Down-results and an important role for Comparables in the overall analysis.

Secondly, regarding the non-discrimination prong of FRAND, EU case-law is still evolving. However, courts apparently agree that competition law establishes a “hard-edged” non-discrimination requirement to prevent conduct which would distort competition. Furthermore, the decision *Unwired Planet v. Huawei* deduces from the ETSI FRAND declaration a contractual, “soft-edged” non-discrimination requirement, obliging – broadly speaking – the SEP holder to offer benchmark license conditions to all licenses regardless of whether competition would otherwise be distorted. The appealed decision, in contrast, seems to establish a “hard-edged” contractual non-discrimination requirement without a built-in distortion of competition threshold.

Given the discrepancies in the treatment of ETSI FRAND declarations by EU (Member State) law and courts on the one hand and the appealed decision on the other hand, the Court should undertake a review based on a more comprehensive reading of foreign law and set an example of cross-border best practice in SEP/FRAND cases.

ARGUMENT

I. US COURTS SHOULD CONSIDER EU (MEMBER STATE) LAW IN DECIDING FRAND CASES

While litigation over FRAND licenses for SEPs is keeping courts busy in many different jurisdictions, litigants and litigated technologies are oftentimes the same across the globe. This reflects the **global reach of many ICT standards** and

the fact that, consequently, there is a cross-jurisdictional need for organizing the licensing of patents included into these standards.

Much is to be **gained if a coherent, appropriate framework** evolves that guides the FRAND licensing of SEPs across various jurisdictions. Reductions in transaction costs, a decrease in resources spent on conflict resolution, solid incentives to invest one's technologies or other resources in standard-setting, and a greater readiness to implement innovative, standard-based products are only four of the beneficial effects such a framework is likely to foster.

In contrast, **contradictory FRAND rates can be detrimental** to business and innovation, especially when courts set FRAND license conditions with a global scope:² Since SEP portfolios oftentimes contain patents granted by various jurisdictions, parties may – and do – commence litigation in many different jurisdictions based on the respective patents granted by these jurisdictions. Litigants can then potentially petition each of the involved courts to determine global FRAND license conditions. Regardless of whether the setting of global FRAND conditions by national courts appears (dis)advantageous as such, **contradictions between multiple global FRAND rates** endanger effective conflict resolution, as well as the above-sketched benefits of a coherent cross-jurisdictional FRAND licensing system.

² This was the case, for instance, in the appealed decision and the UK decision *Unwired Planet v. Huawei*.

When parties fail to reach consensus and when there is – as at present – no overarching authority setting global FRAND conditions, **part of the responsibility for a coherent framework lies with the courts**. Addressing global tasks with the instruments of national law and dispute resolution is challenging. Courts must react to the particular facts and context of each case, they must obey the laws of their respective jurisdictions, and they cannot simply jettison these principles in search of a uniform FRAND framework. But they *can* take into consideration what foreign jurisdictions have to say – especially where they must apply foreign rules on the interpretation of contracts or other elements of a foreign jurisdictions anyway – and see whether the persuasive power of foreign (case-)law and the court’s opinion, based on domestic law and the facts at issue, converge towards a cross-border approach to FRAND. If this is the case, the benefits of such an approach advocate for the court to adopt a position coherent with and fostering a cross-jurisdictional FRAND framework. This is one, particularly important, reason why US courts, and the Court in this case, should consider what EU (Member State) law says on SEP FRAND licenses.

II. THE APPEALED DECISION AND EU (MEMBER STATE) LAW DIVERGE IN AT LEAST TWO IMPORTANT RESPECTS

There would be less reason for this Brief and its focus on a comprehensive consideration of EU (Member State) law if **divergences between this law and the appealed decision** were negligible or related merely to case-specific, fact-sensitive

issues on which a court must necessarily retain a broad margin of interpretation. This is, however, not the case. A comparison³ between the appealed decision and the UK FRAND case of *Unwired Planet v. Huawei* reveals that the two courts arrived at substantially differing conclusions although the facts before them were apparently quite similar and they both had to deduce FRAND license conditions from an ETSI FRAND declaration. Furthermore, these differences do relate not only to factual or economic details, interpretative exercises, or the license conditions the courts eventually set as FRAND, but to fundamentals of the FRAND concept. This section points to two examples,⁴ namely the treatment of

³ For a more extensive comparison, cf. Picht, FRAND Determination in *TCL v. Ericsson* and *Unwired Planet v. Huawei*: Same But Different?, Max Planck Institute for Innovation & Competition Research Paper No. 18-07, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3177975.

⁴ Another intricate Conflicts of Laws issue arises where the appealed decision states that expired patents must be discounted from Ericsson's portfolio, and the royalties based on them from the overall FRAND royalty rate, because US patent law forbids post-expiration royalties and "FRAND cannot permit what domestic patent law prohibits"; *TCL v Ericsson* (n 3) 36. Precedents like *Brulotte (Brulotte v Thys Co* (n 71) 32) and *Kimble (Kimble v Marvel Entertainment LLC, 576 US ___* (2015), 135 SCt 2401) lend support to this position as far as US-members of patent families are concerned. In the EU, though, the law is different and permits, in principle, post-expiration royalties; cf. e.g. Case C-567/14 *Genentech Inc v Hoechst GmbH*, EU:C:2016:526 [2016], para 40; Case C-320/87 *Kai Ottung v Klee & Weilbach A/S*, EU:C:1989:195 [1989], para 11. Discounting, without further analysis, entire patent families based on the expiration of the US-sibling only may, therefore, constitute too much of a shortcut. As a last example: The appealed decision perceived no need to decide whether a SEP holder is obliged to make an implementer a license offer that qualifies as FRAND since the answer to this question would not have had material consequences in the case at hand; *TCL v Ericsson* (n 3) 110–12. In discussing the issue, the Court cites party submissions

“Comparables” and the non-discrimination (“ND”) prong of the FRAND concept.

Before doing so, however, it must briefly examine the legal nature of an ETSI FRAND declaration and its interaction with competition law.

A. ETSI FRAND declarations are of a contractual nature according to the – applicable – French law, (currently) providing the basis for both contract and competition law approaches

The FRAND declaration, i.e. a patentee’s binding promise⁵ to license its standard-essential patent(s) at fair, reasonable, and non-discriminatory terms,

relating to French (national) law but makes no mention of the CJEU’s *Huawei/ZTE* decision nor of any case-law building on that decision. This calls – again – for the remark that French national law, be it contract, patent or competition law, ought not to be applied to ETSI’s FRAND commitment without also taking EU competition law and the FRAND case-law based on it into consideration.

⁵ The term “binding promise” is used in a broad sense here. Arguments about the legal nature of FRAND declarations go on but these controversies seem not sufficiently crucial to the points made in this Brief to address them in detail. A mere reference is made, therefore, to some of the pertinent EU case-law and literature: LG Düsseldorf, 19 January 2016 – 4 b O 120/14/4 b O 122/14/4 b O 123/14; LG Düsseldorf, 24 April 2012 – 4 b O 273/10; LG Düsseldorf, 19 January 2016 – 4 b O 123/14; Chappatte, 5 E.C.J. 319, 330 (2009); Ullrich, in: Leistner (Hrsg.), *Europäische Perspektiven des Geistigen Eigentums*, 2010, p. 14, 20 et seq.; Fischmann, *GRUR Int* 2010, 185, 191; Schöler, in: Prinz zu Waldeck und Pyrmont/Adelmann/Brauneis/Drexl/Nack (Hrsg.), *Patents and Technological Progress*, 2009, p. 177, 181 et seq.; Geradin/Rato, 3 *Eur. Comp. J.* 101 (2007); Heinemann, *GRUR* 2015, 855, 857; Maume/Tapia, *GRUR Int* 2010, 923, 927; Hilty/Slowinski, *GRUR Int* 2015, 781, 786; Kühnen, *HdB d. Patentverletzung*, 10. Aufl. 2017, Kap E. Rn. 267; *Bourguet/Vivès-Albertini*, *Propriété Intellectuelle* 45/2012, 295 (298); *Caron*, *CCE* 2013, n° 7–8, étude 12 Rn. 5, 14 et seq.; Kesan/Hayes, *FRAND’s Forever: Standards, Patent Transfer, and Licensing Commitments*, 89 *Ind. L.J.* 252 (2014); *Merges/Kuhn*, *An Estoppel Doctrine for Patented Standards*, 97 *Cal. L. Rev.* 23 (2009); Li, *The Global Convergence of FRAND Licensing Practices: Towards « Interoperable » Legal Standards*, 31 *Berkeley Tech. L.J.* 437 (2016).

forms a main pillar of today's SEP licensing system. There are, however, various types of FRAND declarations, depending mainly on the SSO which sets the standard that the respective FRAND declaration addresses.⁶ SSOs and the FRAND declarations made under their regime can be subject to the law of different jurisdictions.⁷ According to a broad – although not entirely undisputed⁸ – consensus in case-law and scholarly literature,⁹ **French law applies to FRAND declarations¹⁰ made with regard to standards set by ETSI**, and the appealed decision concurs.¹¹

⁶ For an overview, see Bekkers and Updegrave, A Study of IPR Policies and Practices of a Representative Group of Standards Setting Organizations Worldwide (September 17, 2012), p. 71 et seq., <https://ssrn.com/abstract=2333445> or <http://dx.doi.org/10.2139/ssrn.2333445>; Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts, 2014, p. 189 et seq.

⁷ For SSOs in general, cf. MünchKomm BGB/Reuter, Vorbemerkung zu §§ 25 ff. BGB Rn. 157; Bamberger/Roth/Mäsch, BGB, 2008, Art. 12 Anh. EGBGB Rn. 29; Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts, 2014, p. 344. For FRAND declarations in general McGuire, GRUR 2018, 128, 131, 135.

⁸ LG Düsseldorf, 24 April 2012 –4 b O 273/10; Hauck, WRP 2013, 1446, 1448.

⁹ LG Mannheim, 23. October 2009 – 7 O 125/09; LG Mannheim, 18 February 2011 –7 O 100/10; McGuire, GRUR 2018, 128, 131, 135; Strauss, GRUR Int 2011, 469, 475 et seq.; Maaßen, Normung, Standardisierung und Immaterialgüterrechte, 2006, 269; Jacob, FRAND: A LEGAL ANALYSIS, p. 1, https://ec.europa.eu/jrc/sites/jrcsh/files/jrc_is_20141027_-_patentsws-04.frand_.robinjacob.pdf.

¹⁰ Application of French law to an ETSI FRAND *declaration* does not necessarily imply application of the same law to the license *contract* with a particular implementer resulting from the FRAND declaration. On the contrary, probably the majority of EU contributions (if they discuss the point at all) distinguishes between

Broadly speaking, French law accords to an ETSI FRAND declaration a **contractual nature** and derives from it some form of third party-beneficial promise, viz. a promise to license the respective SEPs to standard-implementers or (according to other sources) an offer to enter into an license contract.¹² It seems feasible, therefore, to resolve FRAND disputes via contract law, determining FRAND-compliant license conditions and FRAND-compliant party conduct by way of construing the contractual FRAND declaration. This is an approach supported by Justice Birss’s ruling in *Unwired Planet v. Huawei*,¹³ and which seems to correspond to the prominent role contract law plays in US FRAND decisions.¹⁴

these two elements and contends that license contracts regarding ETSI-SEPs can be subjected to other laws than French law; LG Mannheim, 23 October 2009 – 7 O 125/09; McGuire, GRUR 2018, 128, 133.

¹¹ *TCL v. Ericsson*, p. 9, 107, 111.

¹² For further details, in particular regarding the question of whether the ETSI FRAND declaration is “merely” a third party-beneficial contract obliging the patentee to negotiate and conclude a license or whether it is, in itself, a license offer, see UK Patents Courts 5.4.2017, [2017] EWHC 711 (Pat) – *Unwired Planet/Huawei* paras. 98 et seq. ; Caron, CCE 2013, n° 7–8, étude 12 paras. 5, 14 et seq. ; Bourguet/Vivès-Albertini, *Propriété Intellectuelle* 45/2012, 295 (298); McGuire, GRUR 2018, 128, 131, 132.

¹³ For a more detailed discussion on this point, see Picht, *Journal of Intellectual Property Law & Practice*, Volume 12 (10), 1 October 2017, p. 867-880.

¹⁴ *In re Innovation IP Ventures, LLC Patent Litigation*, MDL Docket No. 2303 (N.D. III. 27 September 2013), para. 3, 4.

German courts,¹⁵ on the other hand, and potentially the EU Commission,¹⁶ **focus more on competition law**, in particular on Art. 102 TFEU, EU law's core provision against the abuse of dominance.¹⁷ From this provision, they deduce – at least where a FRAND declaration has been made – a claim to a competition law-based compulsory license entitling a standard-implementer to a FRAND license for its use of the standard-incorporated SEPs and providing, under certain conditions, a defense against the SEP holder's claim to an injunction.¹⁸

¹⁵ So far, most of the case-law on FRAND royalties – in particular for the time period after the CJEU's ruling in *Huawei/ZTE* – comes from German courts as Germany is one of the leading patent jurisdictions in Europe. For an overview, see Picht, FRAND wars 2.0, WuW 5/2018, 234, WuW 6/2018, 300, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2916544. On case-law previous to the CJEU's decision in *Huawei v. ZTE*, see e.g. Jakobs, NZKart 2014, 394; Körber, NZKart 2013, 87; Deichfuß, WuW 2012, 1156.

¹⁶ Cf. the very competition law-focused Commission decisions COMP/AT.39985 – *Motorola*, IP/14/489; COMP/AT.39939 – *Samsung*, vgl. IP/14/490; in a way also COMP/38.636, Rn. 38 – *Rambus*.

¹⁷ As case-law examples which are rather critical towards a contractual interpretation of the FRAND declaration, see LG Düsseldorf, 19 January 2016 – Case No. 4b O 120/14, para. 338; LG Düsseldorf, 19 January 2016 – Case No. 4b O 122/14, para. 354 et seq.; LG Düsseldorf, 19 January 2016 – Case No. 4b O 123/14, para. 323; LG Düsseldorf, 24 April 2012 – Case No. 4b O 273/10. Cf. further the recent *Sisvel v. Haier* decision which states that – regarding the ND prong of FRAND – the (contractual) FRAND declaration merely references to the competition law non-discrimination requirements, OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 177.

¹⁸ Cf., for instance, BGH, 6 May 2009 - KZR 39/06; OLG Karlsruhe, 23 January 2012 – 6 U 136/11; LG Mannheim, 27 November 2015 – 2 O 106/14; OLG Düsseldorf, 30 March 2017 – I-15 U 66/15.

The CJEU's decision in *Huawei/ZTE* does not categorically affirm or exclude either of these approaches as the court does not provide substantial guidance on the legal nature of a FRAND declaration or the appropriate content of FRAND conditions, derives its conduct requirements for FRAND license negotiations directly from Art. 102 TFEU and the pertinent provisions of the Charter of Fundamental Rights of the European Union, but refers, in doing so, to contract law concepts.¹⁹

Even a contractual approach to FRAND determination, however, cannot simply disregard EU competition law. The **competition law concept of FRAND does, arguably, affect the contractual interpretation** of a FRAND declaration. Furthermore, national contract law must not establish a FRAND concept that violates competition law-notions of FRAND, lest it be overridden by EU competition law.²⁰ Even where contract law awards a (contractual) claim to a

¹⁹ CJEU, C-170/13 – *Huawei v. ZTE*, ECLI:EU:C:2015:477, paras. 40 et seq., in particular para. 65 on the relevance of “recognised commercial practices in the field” and “good faith”.

²⁰ Since France is an EU Member State, an assessment of French (national) law must include pertinent EU law, in particular statutes set at the EU level and case-law generated by EU courts. In fact, EU law overrides conflicting Member State law and Member State law must be interpreted so as to be coherent with EU law. These principles apply to the law on FRAND declarations as well. Cf. on the relation between EU and Member State law CJEU, 6/64, *Costa/ENEL*, Slg. 1964, 1251; CJEU, 14/68, *Walt Wilhelm*, Slg. 1969, 1, 14; CJEU, 40/69, *Bollmann*, Slg. 1970, 69, 80; for an in-depth analysis, see Grabitz/Hilf/Nettesheim/Nettesheim AEUV Art. 1 Rn. 72 et seq.; Potacs, EuR 2009, 465.

FRAND license that stays within the boundaries set by competition law, it may be possible for an implementer to (additionally) base its claim to a FRAND license – and a defense in injunction proceedings – on a competition law-based claim to a compulsory FRAND license. In this view, the competition law-based entitlement and the contractual entitlement to a FRAND license do neither exclude one another nor are they identical, instead they co-exist.

B. In EU (Member State) Courts Comparables Loom Larger

One important instrument in the determination of FRAND license conditions is the assessment of licenses (“**Comparables**”) previously concluded under similar circumstances. This **approach rests on the assumption** that market participants know best what the fair conditions for a particular patent (portfolio) are and that they reflect this knowledge into the conditions of their real-world license transactions.²¹ On a more fundamental note, one may say that the FRAND conditions for a patent (portfolio) are not pre-ordained and independent from market developments. They ought to reflect the market value of the patent-protected technology as it is constituted by market participants contracting over the technology. In this sense, license transactions do not only discover but also set FRAND conditions.

²¹ Cf. Hauck/Kamlah, GRUR Int. 2016, 420, 422; Dorn, GRUR-Prax 2017, 497, 499.

Evidently, the **determinative value of Comparables depends on just how comparable** they really are. The greater the similarity in terms of involved parties, licensed technology, structure of the license (duration, royalty payment modalities), and other factors between a Comparable and the license the FRAND terms of which the court has to set, the greater the Comparable's value. Absence of distorting factors, such as the imminent threat of (infringement or validity) litigation or a substantial distorting impact of the patentee's dominant market position, matters as well.²² Courts will rarely²³ be able to rule out distorting factors with absolute certainty or to identify Comparables completely identical to the license they have to set. Where the structure of Comparables and of the license to-be-set diverge, Comparables need to be "unpacked",²⁴ an operation that harbors additional uncertainties. Because of these factors which tend to limit (evident) comparability, it seems, as a general rule, important to give the comparability analysis a broad scope, including rather more than less licenses.

If a substantial number of Comparables exists which were concluded by economically strong and experienced companies – i.e. by parties relatively unlikely

²² Cf. Hauck/Kamlah (n 21) 422.

²³ Assuming (and to the extent) that the pertinent facts in *Unwired Planet v. Huawei* were very similar to the facts addressed by the appealed decision, the license set by Justice Birss may actually come exceptionally close to a "perfect" Comparable, although not one negotiated between the parties.

²⁴ As an example, see *TCL v. Ericsson* (n 3) 54 et seq.

to succumb to distorting factors – the **indicative value of a Comparables analysis can be quite strong**, in spite of the aforementioned uncertainties. As contingencies tend to average out across a sizeable set of valid Comparables, the resulting “judgement of the market” on the value of a patent (portfolio) may well be more reliable than the – albeit neutral and informed – judgement of a single person or the result of calculatory exercises.

It is no surprise, therefore, that **Comparables loom large in EU (Member State) case-law**. In *Unwired Planet v. Huawei*, a Comparables analysis seems to have been the primary determination method.²⁵ In German case-law, Comparables analysis is – so far – almost the only determination method that courts discuss and apply in detail.²⁶

Correspondingly, the **“Top-Down-Approach”** plays **little or no role in German case-law and was used more as a cross-check** than as the primary determination method in *Unwired Planet v. Huawei*.²⁷ This approach sets out by determining an “aggregate royalty rate” (ARR), i.e. the appropriate total royalty burden from licensing all the intellectual property necessary to implement a

²⁵ *Unwired Plant v Huawei* (n 2) [170], [178 et seq.].

²⁶ OLG Düsseldorf, 30 March 2017 – I-15 U 66/15, para. 202 et seq.; LG Düsseldorf, 31 March 2016 – 4a O 73/14, para. 222 et seq.; LG Düsseldorf, 31 March 2016 – 4a O 126/14, para. 216 et seq.; LG Mannheim, 8 January 2016 – 7 O 96/14, para. 126 et seq.

²⁷ As to the critical view of Justice Birss on Top-Down-Methodology, see e.g. *Unwired Planet v Huawei* (n 2), [227].

standard. It then shares out this aggregate royalty across all licensors in proportion to the value of each licensor's patent portfolio based on assessing that value as a share of the total relevant patent portfolio essential to that standard.²⁸

One **advantage of top-down calculation** is its power to set an upper threshold limiting royalty stacking,²⁹ although Comparables assessment may equally establish an implicit royalty threshold as implementers – especially the strong and experienced ones – know the overall cost of the licenses they have taken and will try to resist excessive stacking.

Leaving aside the difficulties in identifying the appropriate ARR,³⁰ maybe the most significant **weakness** of the Top-Down-Approach is its dependency on accurate data regarding the number and relative value of truly standard-essential patents in the portfolio at issue. Lack of up-front checks for validity and standard-essentiality,³¹ extensive SEP declaration patterns,³² disputes over the breadth of patent claims,³³ relatively high invalidation rates,³⁴ and insufficient differentiation

²⁸ *Unwired Planet v Huawei* (n 2) [178].

²⁹ Hauck/Kamlah (n 21) 424 et seq.

³⁰ On the questionable interpretation of public royalty announcements as binding “pledges”, cf. Picht (n 21) 26 et seq.

³¹ Picht (n 4) 222 et seq.

³² Stitzing, Over-Declaration of Standard Essential Patents and Determinants of Essentiality, 7 et seq., https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2951617.

³³ Cf., as an example, LG Düsseldorf, 31 March 2016 – 4a O 95/13.

between “core” and “segmental” SEPs³⁵ are characteristic of today’s SEP/FRAND landscape in the ICT sector. These factors make it quite difficult to assess the number of true SEPs in a given portfolio. Even where thorough, unbiased portfolio analysis can identify this number with sufficient certitude, it must still establish the portfolio’s value relative to other portfolios in order to share out the ARR. Reverting, for this step, to a mere counting of the patents in the respective portfolios may, in some instances, present the only feasible approach. Nonetheless, it is a poor proxy for actually looking at patent quality³⁶ and the portfolio’s resulting market value.

The author of this Brief does **not think that either a Comparables analysis or a Top-Down-Approach should become the exclusive** FRAND determination method. Depending on the facts of the case, one or the other – or, for that matter, some additional – method may yield the best results. In the appealed case, as well

³⁴ Academic research on invalidation rates and the percentage of “vulnerable” patents – i.e. patents prone to invalidation – in a typical SEP portfolio has yielded a wide range of results, but certainly not that invalidation rates regarding SEPs are negligible. Cf., for instance, Henkel, Zischka, Why most patents are invalid – Extent, reasons, and potential remedies of patent invalidity, https://www.tim.wi.tum.de/fileadmin/w00bcy/www/Research/Publications/Henkel/Henkel_Zischka_Patent_Validity.pdf; Kühnen, Claessen, Die Durchsetzung von Patenten in der EU – Standortbestimmung vor Einführung des europäischen Patentgerichts, GRUR 2013, 592, 594; Hess, Müller-Stoy, Wintermeier, MitttdtPatA 2014, 439.

³⁵ Picht (n 4) 7.

³⁶ Meaning here: Likelihood for the patent to survive a challenge and the patent’s economic value.

as in the *Unwired Planet v. Huawei* case, the data available for a Top-Down-Analysis came from interested parties and it resulted in part on what seems to have been a rather superficial patent analysis.³⁷ This suggests caution regarding Top-Down-results and an important role for Comparables in the overall analysis. The fact that the high-quality data necessary for a truly convincing Top-Down-calculation is not easily available may partly explain the limited role this approach is currently playing in EU case-law.

C. Interpretations of the ND-Component in ETSI's FRAND Declaration Differ

The decision in *Unwired Planet v. Huawei* has introduced into EU case-law a **two-pronged concept of FRAND's non-discrimination component**. It distinguishes between a “general” or “soft-edged” non-discrimination obligation and a “hard-edged” one. “The general non-discrimination obligation is [...] part of an overall assessment of the inter-related concepts making up FRAND by which one can derive a royalty rate applicable as a benchmark. This rate is non-discriminatory because it is a measure of the intrinsic value of the portfolio being licensed but it does not depend on the licensee. The hard-edged non-discrimination obligation, to the extent it exists, is a distinct factor capable of applying to reduce a royalty rate (or adjust any licence term in any way) which would otherwise have

³⁷ Cf. *Unwired Planet v Huawei* (n 2) [286, 293]; *TCL v Ericsson* (n 3) 30 et seq.

been regarded as FRAND. This will take into account the nature of the particular licensee seeking to rely on it”.³⁸

Justice Birss’s argumentation regarding hard-edged non-discrimination is quite subtle.³⁹ In a nutshell, it considers, at the outset, what the competition law concept of non-discrimination is and whether a hard-edged element in the “ND” prong of ETSI’s FRAND commitment – assuming such an element exists – ought to be interpreted in the same way. Then, however, Justice Birss **rejects a hard-edged reading of ETSI’s “ND” commitment whilst reserving the application of EU competition law** in this respect. Nonetheless, the decision assesses – and denies – the violation of a hard-edged non-discrimination obligation by Unwired Planet, were one – unlike Justice Birss – to read such an obligation into the ETSI FRAND commitment.⁴⁰

As summarized by the court, **EU competition law requests non-discrimination** in the sense “that comparable situations must not be treated differently and different situations must not be treated alike unless such treatment

³⁸ *Unwired Planet v Huawei* (n 2) [177].

³⁹ On the following, see *Unwired Planet v Huawei* (n 2) [481] et seq.

⁴⁰ *Unwired Planet v Huawei* (n 2) [503]: “If, contrary to this view, the FRAND undertaking also includes a specific non-discrimination obligation whereby a licensee has the right to demand the very same rate as has been granted to another licensee which is lower than the benchmark rate, then that obligation only applies if the difference would distort competition between the two licensees”. *Unwired Planet v Huawei* (n 2) [520]-[521].

is objectively justified”.⁴¹ According to Article 102(c) TFEU, applying dissimilar conditions to equivalent transactions with other trading parties is unlawful “where it is shown that there are (a) equivalent/comparable transactions; (b) resulting in an actual or potential distortion of competition; and (c) absence of objective justification. [T]ransactions are comparable if (a) they are concluded with purchasers who compete with one another, or who produce the same or similar goods, or who carry out similar functions in distribution, (b) they involve the same or similar products, (c) in addition their other relevant commercial features do not essentially differ”.⁴²

Parties and their experts in the *Unwired Planet* case agreed that the ETSI FRAND commitment “means that licensors should treat similarly situated licensees similarly”⁴³ and that “concepts such as similarly situated parties, equivalent/comparable transactions, and objective justification, were the same under the non-discrimination limb of FRAND as they are in competition law [although] none of those concepts are mentioned expressly in the ETSI FRAND undertaking”.⁴⁴ They disagreed, however, on “whether distortion of competition is

⁴¹ *Unwired Planet v Huawei* (n 2) [486].

⁴² *Unwired Planet v Huawei* (n 2) [486].

⁴³ *Unwired Planet v Huawei* (n 2) [485].

⁴⁴ *Unwired Planet v Huawei* (n 2) [487].

part of the non-discrimination limb of FRAND”.⁴⁵ Observing a lack of case-law authority⁴⁶ and conducting a thorough analysis of the issue,⁴⁷ Justice Birss finds that a **hard-edged non-discrimination obligation – if read into ETSI’s FRAND commitment – should encompass a distortion of competition** requirement, so as not to exercise too rigid a control on price differentiation.⁴⁸ However, the decision jettisons hard-edged non-discrimination altogether as far as ETSI’s FRAND declaration is concerned: “[I]t is not necessary to read this hard-edged nondiscrimination obligation into the ETSI FRAND undertaking at all provided one takes a benchmark rate approach to assessing a royalty under the ETSI FRAND undertaking”.⁴⁹ Parties can arguably bring the hard-edged non-discrimination issue as a matter of competition law, though, because “[c]ompetition law will always be available in an appropriate case”.⁵⁰

The Higher Regional Court (*Oberlandesgericht*) of Düsseldorf handed down, in *Sisvel v. Haier*,⁵¹ what is to date⁵² maybe the most prominent

⁴⁵ *Unwired Planet v Huawei* (n 2) [495].

⁴⁶ *Unwired Planet v Huawei* (n 2) [496].

⁴⁷ *Unwired Planet v Huawei* (n 2) [495]–[503].

⁴⁸ *Unwired Planet v Huawei* (n 2) [501].

⁴⁹ *Unwired Planet v Huawei* (n 2) [502].

⁵⁰ *Unwired Planet v Huawei* (n 2) [502].

⁵¹ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15.

⁵² The case has been appealed to the German Federal Court of Justice (*Bundesgerichtshof*) where it is still pending.

SEP/FRAND decision focusing specifically on the non-discrimination component. The decision does not differentiate between soft-edged and hard-edged discrimination. Instead, it applies a **strictly competition law-based test**. In particular, the court held that Art. 102(2)(c) TFEU prohibits dominant undertakings from inflicting on their transaction partners a competitive disadvantage by imposing different conditions although the affected transactions are similar.⁵³ This does, however, not amount to an obligation to schematically treat all business partners exactly the same way.⁵⁴ Unequal treatment can (and must) be objectively justified by the particularities of the situation.⁵⁵ In the context of transactions over IP rights, the IP right owner has, in principle, more leeway for differentiating the conditions of its transactions.⁵⁶ Conversely, a standard-setting context raises the bar for an objective justification in case the use of the SEP over which the parties transact is necessary for accessing the standard-based market or for offering competitive products on this market.⁵⁷ In assessing whether unequal conditions are objectively justified, the court has to consider all relevant facts of the case and to balance the interests involved, with a view to Art. 102 TFEU's goal

⁵³ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 173.

⁵⁴ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 174.

⁵⁵ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 174.

⁵⁶ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 175.

⁵⁷ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 175.

of protecting effective, undistorted competition.⁵⁸ In particular, the court must look at the form and extent of the unequal treatment⁵⁹ and ask whether it constitutes normal competitive behavior or whether it appears arbitrary or contrary to reasonable business conduct.⁶⁰ Given that a patent owner has an increased margin of discretion regarding transactions over the patent, unequal license conditions are abusive only where the differences are substantial.⁶¹ Interestingly, the court seems to consider these principles applicable regardless of whether a SEP owner has made a FRAND declaration or not.⁶² As to the **“ND-content” of such a declaration**, the court states that it does not go beyond the non-discrimination requirements imposed by Art. 102 TFEU since the SEP owner merely expresses, with the declaration, that it holds itself bound by these requirements.⁶³

Applying the afore-explained test, the **court found discrimination** because the claimant had treated the defendants significantly different from transactions with some of their competitors and could not show a sufficient objective

⁵⁸ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 176.

⁵⁹ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 176.

⁶⁰ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 176.

⁶¹ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 176.

⁶² OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 177.

⁶³ OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 177.

justification.⁶⁴ In particular, royalties requested from the defendants were much higher and the claimant could not prove that discounts given to a competitor were common in the industry or resulting from particularities (first mover-advantage, quick contracting, down payments) of the case.

In the **appealed decision**, the court finds, with regard to the concept of non-discrimination, that “**harm to the competitor firm** offered discriminatory rates is **sufficient**. [...] Ericsson would [like to] engraft into the FRAND analysis the distinction which American antitrust law makes between the harm to competition, which is actionable, and mere harm to a competitor which is not. [But t]he Sherman Act and its long history provide no guide to understanding ETSI's non-discrimination under FRAND“.⁶⁵ After stating that “[n]o American cases have definitively addressed the non-discrimination requirement”, Judge Selna relies on the testimony of French law experts for his finding that “**different rates offered to different licensees may well be FRAND** given the economics of the specific license”.⁶⁶ Given the parties’ agreement that the non-discrimination aspect requires similarly situated firms to be offered like, or close to like rates, the court then goes

⁶⁴ On the following, see OLG Düsseldorf, 30 March 2017 - I-15 U 66/15, para. 179 et seq.

⁶⁵ *TCL v Ericsson* (n 3) 91.

⁶⁶ *TCL v Ericsson* (n 3) 109.

on to identify “the relevant firms, and then [analyze] their rates to test [the conditions offered by Ericsson] for discrimination”.⁶⁷

A **comparison** of these decision shows consensus on the point that the “ND”-prong of FRAND **does not categorically require all concluded FRAND licenses to look the same** since there ought to be room for treating similar settings alike and differing ones differently. This position can be said to have evolved into established law on FRAND licenses.⁶⁸ In two other respects, however, the decisions differ substantially.

First, *TCL v Ericsson* contains no mention of a two-pronged concept of non-discrimination similar to the soft-edged/hard-edged framework in *Unwired Planet v. Huawei*. Instead, the US decision **focuses, as it were, on the hard-edged component**, looking mainly at whether the license offered to TCL is similar to those concluded with similarly situated companies. A soft-edged criterion would ask instead whether Ericsson offered to TCL the “benchmark” conditions to which, in principal, all implementers of the respective standard are entitled. *TCL’s* focus on the hard-edged prong stands all the more in contrast to *Unwired Planet v. Huawei* as Justice Birss ultimately rejects a hard-edged component altogether.

⁶⁷ *TCL v Ericsson* (n 3) 54.

⁶⁸ See, for instance, LG Düsseldorf 31 March 2016 Case No 4a O 73/14, paras 256–60; LG Düsseldorf 31 March 2016 Case No 4a O 126/14, paras 250–55; LG Mannheim 29 January 2016 Case No 7 O 66/15, para 72.

Second, only *Unwired Planet v. Huawei* requires **harm to competition** as a prerequisite for finding hard-edged discrimination in the FRAND sense, provided one reads a hard-edged component into the “ND“-prong of ETSI’s FRAND declaration at all. This creates something like a threshold, treating dissimilar conditions only as a FRAND violation if the unequal treatment is grave enough to distort competition in the respective market.

All judges **come to their conclusions interpreting the same type of French law-governed ETSI FRAND declaration.** It is important that the differences in these conclusions do not result from a different construction of the respective patentee’s individual declaration. None of the decisions suggests that it is for the patentee to choose whether it submits to soft-edged and/or hard-edged discrimination. Instead, it is the underlying concept of FRAND that dictates which type of ND component to apply.

The **divergence between *Sisvel v. Haier* and *Unwired Planet v. Huawei*** arguably results (at least in part) from the differing focus of the two courts: While *Unwired Planet v. Huawei* assessed a distinct, contractual side of the FRAND declaration, *Sisvel v. Haier* focussed on competition law-notions of non-discrimination. In fact, **both courts seem to concur that competition law can establish a hard-edged non-discrimination requirement.**

The **divergence between *Unwired Planet v. Huawei* and the appealed decision**, however, is more disturbing as both courts look at the contractual side of FRAND. Assuming, on the one hand, that the *contractual* “ND”-prong of ETSI’s FRAND commitment, as governed by French law in compliance with EU competition law, contains either no hard-edged component at all (as is Justice Birss’s view) or a hard-edged component that requires harm to competition (a reading Justice Birss apparently finds conceivable) and presuming, on the other hand, that a US court’s application of the ETSI FRAND commitment must be coherent with the interpretation of the commitment as instructed by French law in compliance with EU competition law (this seems to be the view held by the appealed decision), the contradiction becomes apparent: If the **appealed decision reads into the (contractual) “ND”-prong of ETSI’s FRAND commitment a hard-edged component without a harm-to-competition-requirement** it is **either at odds with the law governing the commitment** (namely French law as impacted by EU competition law) or Justice Birss has misinterpreted EU and French law on his part.

III. IN CONSEQUENCE, THE COURT SHOULD REVIEW THE CASE WITH A VIEW TO PERTINENT EU (MEMBER STATE) LAW

This Brief has argued – by way of two main examples – that the appealed decision diverges, in its interpretation of an ETSI FRAND declaration, from leading trends in current EU case-law and literature, although it is partly EU

(Member State) law that ought to govern such declarations. A review of the case based on a more comprehensive reading of EU (Member State) law could resolve the resulting discrepancies and it could, thereby, help to develop a coherent, cross-jurisdictional approach for the determination of FRAND license conditions. The Court should therefore undertake such a review and set an example of cross-border best practice in SEP/FRAND cases, not least for EU courts that oftentimes show too narrow a field of view when it comes to foreign SEP/FRAND case-law.

Dated: July 31, 2018

By: /s/ Michael A. Bittner
Michael A. Bittner

CERTIFICATE OF SERVICE

I hereby certify that today, August 3, 2018, I filed the foregoing with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system, which will send notice of such filing to all registered CM/ECF users.

Dated: August 3, 2018

/s/ Michael A. Bittner
Michael A. Bittner

CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(a)(7)(C), the undersigned hereby certifies that this brief complies with the type-volume limitation of Fed. R. App. P. 29(d), 32(a)(7)(B) and Circuit Rule 32(b).

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