

## FRAND: A LEGAL ANALYSIS

The Rt. Hon. Professor Sir Robin Jacob

1. The ETSI FRAND declaration reads:

*6.1 When an ESSENTIAL IPR relating to a particular STANDARD OR TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions under such IPR to at least the following extent: [details omitted]*

2. It is generally accepted that this commitment, although given to ETSI, is enforceable by third parties. It is governed by French law which allows enforcement by a third party of a contract by which one of the parties agrees to confer a benefit on third parties. Actually most other laws do. And in practice no SEP holder would argue to the contrary.
3. The FRAND declaration is that the patentee will grant licences. As a practical matter that means to offer licences on FRAND terms – the patentee cannot compel anyone actually to take up the offer.
4. So the patentee has complied with his declaration to ETSI and contractual obligation to a third party if he makes a FRAND offer to that party.
5. What if the patentee sues on an SEP? As I see it, when the court comes to decide whether an injunction should be granted (and not before) the questions will be:
  - a. Is the defendant relying on the declaration to enforce his third party rights conferred by that declaration. If he does not, that is his choice, but there will be no "FRAND" defence.
  - b. Assuming the realistic situation that the defendant does rely on the declaration, the next question is whether the patentee has made what it considers to be a FRAND offer and what that offer is. If the patentee has not made such an offer, or the offer which it has made is clearly not FRAND (\$50 per phone for example) then there is a defence. The defence arises not as a matter of competition law but as a result of contract law. The defendant is contractually entitled to receive a FRAND licence and the patentee cannot rely upon his breach of contract to say there is no licence.
  - c. In the real world the most likely – almost certain - scenario is that the patentee will say he has made a FRAND offer and the defendant will say it is not. There is a FRAND dispute. The court (or arbitrators) would be adjudicating as a matter of contract law – one side (the defendant) says the

other (the patentee) is in breach of its contractual obligation to offer a FRAND licence. It is not a matter of competition law.

- d. There are now two questions: how the dispute should be resolved and what, if anything, should be done in the meantime.
  - e. As to resolution of the dispute, if the parties cannot agree on arbitration, then the court will have to adjudicate. In practice sensible parties will agree on arbitration for a variety of reasons (skill of the tribunal, international acceptance of the award, possibility of choosing arbitrators of appropriate skills).
  - f. As to what is to be done in the meantime, the court (if the patentee asks) could order the defendant to pay money in escrow – to remove the incentive for “reverse hold-up” while he stalls the resolution of the dispute. The court could even order the defendant to pay what he says is the appropriate amount direct to the patentee with the balance (or a proportion of it) going into escrow.
6. What if the defendant says the patents sued upon are invalid, or he is not using any of them? Firstly he is and must be at liberty so to contend – I side with competition law and public policy in saying that anyone must be at liberty to revoke a patent. Resolving these questions will take time – the court may be asked to grant an interim injunction meantime. If it is so-asked, then the sensible way forward is to put in place an interim regime as above with payments in escrow.
  7. Very probably in this case the defendant will also say the offer is not FRAND. In which case the FRAND dispute and the patent dispute will have to run in parallel.
  8. If the defendant wins the patent dispute that is the end of the case. But what if he loses? Can he just take the patentee’s original offer or contend in the FRAND dispute that he should pay the same as if he had not challenged the patent? No – for two good reasons:
    - a. Firstly, as a matter of business sense, a patent of established validity is worth more than one which has not been challenged. Any realistic notional negotiation for a licence will take into account the likelihood of the patent being held valid.
    - b. Secondly there is the patentee’s FRAND commitment itself to consider. In particular he will very probably have other licensees who have accepted his offers of a licence. They did not challenge validity. It would be wrong – discriminatory – to treat the party who unsuccessfully challenged just as if he had not. So the patentee is indeed obliged by his FRAND commitment to charge the unsuccessful challenger more.
  9. This is a good thing. It encourages third parties to consider carefully before challenging validity and thus prevents spurious litigation and reverse hold-up.

10. Next there is the important question of whether a patentee can comply with his FRAND obligation by offering his entire portfolio of patents or just his entire portfolio of SEPs for licence as a package. I think the answer here is that he can do the latter (all SEPs) but not the former (all SEPs with all non-SEPs):
  - a. Offering only a complete package of SEPs and non-SEPs is forcing the licensee to take more than the FRAND obligation (and duty) requires. Although this is a matter of French law, I doubt that any court would construe the duty as allowing an offer only with bundled non-SEPs.
  - b. Moreover there might be a competition law objection too. It has long been established, for instance, that a patentee may not use his monopoly to require a party to buy non-patented articles as a condition of sale of patented articles (“You can only have my patented boots if you buy socks from me too,” is the sort of thing). I do not think it matters whether there is also a competition law objection – the ETSI commitment itself prevents bundling.
  - c. But offering all a party’s SEPs is a different thing. The ETSI obligation requires this – a patentee could not comply with it by offering licences only on some of his SEPs. Furthermore it is standard industry practice to offer all a patentees’ SEPs and at the time the ETSI commitment was devised everyone would have known that.
11. Of course there is nothing to stop a patentee offering also his entire portfolio of patents (SEPs and non-SEPs). Many patentees do just that. But the licensee must have the option of SEPs only.
12. What is a court do to when the patentee says he has complied with the obligation by offering a package of all his SEPs? The answer is that it must go to a determination by arbitration or a court, as described above. What the court should not embark upon is an evaluation of the royalty merely of the patents sued upon:
  - a. That is not how it works in negotiated licenses and the court should follow the practice of commerce.
  - b. Moreover it is in truth impractical. The American decisions where courts have tried to apply American principles of patent damages (Georgia Pacific) show this. In any event the American principles of patent damages cannot be what the parties to an ETSI commitment governed by French law had in mind.
13. How is FRAND to be determined? Essentially this is a valuation exercise. And a far from easy one. Valuation exercises have to be carried out by tribunals in all sorts of circumstances – including IP cases. For instance tribunals may have to settle royalties (compulsory licences under patents, or copyright tribunals setting rates and so on). All these exercises are difficult and in their nature rather imprecise.

In the case of FRAND one would start by looking for comparables. If the patentee had a number of other licensees who had willingly paid what he is

seeking from this defendant that would be a good measure. In reality that may well not be so – for in the real world the patentees’ other licensees may be cross-licensors and the licences may well be for non-SEPs too.

The tribunal would want evidence from licensing experts and particularly from people with experience of FRAND licensing. In the end it will have to decide whether the patentee’s offer was or was not FRAND based on the evidence before it. That was what was happening in Australia before *Apple v Samsung* settled. It is happening in at least one ongoing arbitration.

14. Three final points:

- a. It does not matter whether the defendant is a “willing licensee”. That is an amorphous concept. It does not matter if he says he is “willing to negotiate”. For all that matters is whether or not the patentee has made a FRAND offer.
- b. All of this works as a matter of law without any need for competition law to intervene.
- c. And it remains the case that attempts by competition law authorities to penalise a patentee for even suing upon an SEP are wrong and probably unlawful for the reasons I set out in my article sent with this note. See also: <http://www.verfassungsblog.de/eu-commissions-contempt-national-courts/#.VDVcLb4kO9s>.

October 2014