

The Year In FRAND: What To Know Heading Into 2024

By **Tom Millikan and Kevin Zeck** (December 20, 2023)

Many significant developments occurred in 2023 concerning the fair, reasonable and nondiscriminatory, or FRAND, patent licensing regime that undergirds technical standardization. Here, we recap this year's top items, and take a brief look at next year's potential developments.

A Short History of FRAND

Standardization presents multiple potential benefits but also opportunities for anti-competitive behavior. The potential benefits come from creating common ways of accomplishing activities and from creating standards for improving quality.

For example, cellular standards make it possible for someone to use a smartphone to communicate with pretty much any cellular network provider's base stations, in pretty much any country in the world, and thus to communicate with not only others on that network but also any network connected to the cellular provider's network — e.g., the internet. This enables activity that was not available before.

Standards specify a particular set of technologies used in the standardized process, i.e., by selecting some and excluding others. In this way, standards create new markets for technologies, including markets for downstream products that comply with the standards.

Additionally, because standards-setting organizations are composed of industry participants, because those participants collaborate on selection of the technologies into the standard, and because those participants obtain patents on technologies selected into the standard, this presents opportunities for the participants to exert power over the newly created markets.

These opportunities include efforts to exclude others from those markets through the use of patents on a selected technology, regardless of how important that technology is to the standard or how valuable that technology may be. Patents on technologies selected into a standard or covering a mandatory aspect of a standard are commonly called standard-essential patents, or SEPs.

In the 1988 *Allied Tube & Conduit Corp. v. Indian Head Inc.* decision, the U.S. Supreme Court recognized:

There is no doubt that the members of [standards-setting] associations often have economic incentives to restrain competition and that the product standards set by such associations have a serious potential for anticompetitive harm... . Agreement on a product standard is, after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products.[1]

Thus, "private standard-setting by associations comprising firms with horizontal and vertical business relations is permitted at all under the antitrust laws only on the understanding that



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it will be conducted in a nonpartisan manner offering procompetitive benefits." [2]

In the 1940s and 1950s, the U.S. Department of Justice sought consent orders that imposed reasonable and nondiscriminatory, or RAND, licensing of SEPs, in order to minimize anticompetitive effects of standardization.

That regime was later affirmed by U.S. federal courts in challenges to court awards in antitrust proceedings. [3] The basic purpose of this licensing scheme was to allow an SEP owner to obtain royalties in the amount of the value of the patented technology, but not to obtain value resulting from the selection of the technology into the standard — i.e., from the fact of inclusion of the technology in the standard — or value from unrelated technologies included in downstream, or end, products. [4]

This RAND regime was adopted into the American National Standards Institute's patent policy in 1970. Thereafter, standards-setting organizations around the world adopted RAND or FRAND [5] licensing policies. Those organizations included the Institute of Electrical and Electronics Engineers and the European Telecommunications Standards Institute.

Litigation on SEPs was rare before 2000, but it has formed the backdrop for some of the most significant patent battles recently. In the last 10 years, various constituencies in the standards-setting space have selected various fora in which to raise RAND licensing disputes and SEP assertions, in the hope that those fora will set precedent favorable to that constituency.

Broadly speaking, two main constituencies exist — SEP licensors and implementers — with the former attempting to maximize royalties from SEPs, and the latter attempting to restrain the power resulting from SEPs. The situation, in many cases, is more complicated, with many SEP licensors also being implementers.

Nonetheless, these oppositional forces have resulted in a fragmentation of FRAND-related legal authorities, often untethered from FRAND's core purpose — preventing SEPs from being used to restrain competition by ensuring that royalties on SEPs constitute the value of patented technology and nothing more.

Top Developments in 2023

IEEE patent policy amendments thought to be implementer-friendly took effect in January.

In 2015, the IEEE amended its patent policy to include greater specificity with respect to its RAND commitments, including by identifying factors that should be considered in determining a reasonable royalty, such as the "smallest saleable patent practicing unit," by implying that licensing agreements obtained under threat of a prohibitive order (i.e., injunction) were not indicative of a reasonable royalty, and by restricting when a licensor might seek an injunction. [6]

These amendments were considered controversial, with major SEP licensors strongly opposed. Some licensors went so far as to attempt to have the IEEE's accreditation as a standards-setting organization stripped, and many submitted what have been called "negative letters of assurance," i.e., letters of assurance not abiding by the amended RAND commitment. [7]

In late 2022, the IEEE's Board of Governors approved additional amendments intended to

unwind some, but not all, of the 2015 amendments. Those amendments became effective on Jan. 1, 2023,[8] and make reasonable royalty factors identified in the 2015 amendments optional, remove the implication that licenses obtained under threat of injunction are not valid comparables, and limit the restriction on seeking injunction relief against an implementer to only those implementers who are "willing to negotiate in good faith for a license." [9]

The English judiciary sought to establish more transparent conduct in SEP licensing negotiations.

In March, the High Court of Justice of England and Wales issued a FRAND determination in InterDigital Technology Corp. v. Lenovo Group Ltd., a multipatent infringement litigation in the U.K.

The court primarily used a comparable license approach to derive a rate for InterDigital's worldwide portfolio of 2G, 3G, 4G, Wi-Fi, and high-efficiency video coding patents, and did not rely at all on a top-down approach,[10] even though this methodology had been used more extensively in prior U.K. decisions such as Unwired Planet International Ltd. v. Huawei Technologies Co. Ltd. as a cross-check.

The court also rejected InterDigital's use of a "hedonic price regression." [11] InterDigital had sought royalties of between \$1 and \$2 per device, but the court determined a rate of just \$0.175 per device.[12] That said, the court imposed this royalty rate over a 16-year period notwithstanding national statutes limiting patent damages.[13]

Additionally, the court made several notable comments lamenting the lack of transparency in SEP licensing discussions, including: "It is not FRAND nor is a licensor acting as a willing licensor if it refuses to provide the information necessary for a willing licensee to evaluate an offer which has been made." [14] In relation to this, the court noted that Lenovo was justified in seeking information about InterDigital's licenses with others, and that "it is clear to me that InterDigital's reliance on the confidentiality of the PLAs [patent license agreements] with companies like Samsung, Apple, Huawei and LG was less than helpful, let alone transparent." [15]

After the decision came down, InterDigital filed new patent infringement litigation on the video coding standards against Lenovo in multiple jurisdictions despite the U.K. judiciary's rate-setting determination. That litigation is ongoing, notwithstanding that InterDigital and Lenovo agreed to a multiyear license covering InterDigital's high-efficiency video coding patents.[16]

The EC released a legislative proposal that would radically alter European FRAND matters.

In April, the European Commission proposed a regulation regarding SEP FRAND licensing. Under the proposal, the European Union Intellectual Property Office would be given a role in regulating SEP licensing conduct.[17]

More specifically, the EUIPO would oversee a register for SEP holders, and SEP holders would be obliged to register their essential patents in order to collect royalties or past damages. The register would then be used for essentiality assessments and proportionate share determinations.

Additionally, the EUIPO would be responsible for overseeing what are effectively nonbinding

FRAND mediation, called "FRAND determinations" under the regulation. These mediations would be required before SEP infringement litigation could be commenced in a national EU court or before the Unified Patent Court.

The regulation has been criticized by both SEP licensors and implementers, but on the whole, SEP licensors have been more aggressive in attacking the proposal. The EC, however, has not changed course so far, although it has been reported that over 700 amendments have been submitted in the legislative process[18] and that a revised version of the proposal may issue early next year.[19]

The English judiciary relied on a "reverse" comparable license analysis.

In May, the High Court of Justice of England and Wales issued another FRAND determination in *Optis Cellular Technology LLC v. Apple Retail U.K. Ltd.*, a multipatent litigation in the U.K.

In this case, the court effectively did a "reverse" comparable license analysis combined with a "reverse" top-down analysis. That is, rather than looking to Optis' license agreements, which the court largely found unreliable for FRAND purposes, the court looked to Apple's license agreements, determined a proportionate share for Apple's licensors and Optis, and then derived a comparable and proportional FRAND royalty term for Optis.[20]

Ultimately, the court determined an annual royalty of between \$5.13 million and \$8.235 million,[21] which was far lower than what Optis had sought.[22]

The Unified Patent Court began operation and issued the first Europe-wide injunction.

The Unified Patent Court is a creation among most members of the European Union and covers the economies of some 300 million EU citizens.[23] It is a forum in which patent infringement actions may be commenced for unitary patents and any classic European patents that have not been opted out of the UPC system. Those patents opted out may continue to be enforced in the national courts of the EU member states.

The UPC can issue injunctions covering its 25 member states and can also award patent damages.

This makes it a significant jurisdiction, particularly with the historical tendency of European countries, such as Germany, to impose injunctions as the default remedy to patent infringement. That said, unlike in Germany, where separate proceedings take place for invalidity and infringement, the UPC may hear validity defenses with infringement claims.

The UPC commenced operation on June 1,[24] issued its first preliminary injunction (ex parte) on June 22,[25] and held its first in-person hearing on Sept. 6.[26]

National courts will protect their own jurisdiction in FRAND disputes.

Nokia and Oppo have waged a multijurisdictional battle since 2021 over licensing of Nokia's patents by Oppo.[27]

Nokia has obtained injunctions against Oppo in several countries, including Germany, the U.K. and Brazil, which has caused Oppo to stop selling phones in those markets, even as Oppo has obtained counter-victories in the form of invalidity rulings on several Nokia SEPs. Oppo has also filed a rate-setting action in China on only Nokia's SEPs, which should be

close to a FRAND determination.[28]

One of the jurisdictions in which Nokia commenced patent infringement actions is the U.K. In July, the High Court of Justice of England and Wales issued a road-mapping decision in which it rejected contentions that its FRAND rate-setting trial (Trial D) should be stayed or postponed in view of the parallel proceeding in China initiated by Oppo.[29]

In short, the U.K. court believed that it and the China court could independently proceed with their cases; it rejected that U.K. courts should give deference to China rate-setting proceedings; and it held that Nokia could choose between the FRAND determinations in the U.K. and China, if necessary.

This decision is important because it demonstrates that national courts will protect their jurisdiction in FRAND matters, regardless of proceedings elsewhere, and that multiple FRAND determinations may result in conflicting decisions between the courts of various nations.[30]

The U.S. government sought new input on standardization and RAND issues.

On Sept. 11, the U.S. Patent and Trademark Office, the National Institute of Standards and Technology and the International Trade Association sought "stakeholder input on the current state of U.S. firm participation in standard setting, and the ability of U.S. industry to readily adopt standards to grow and compete, especially as that relates to the standardization of critical and emerging technologies."

The announcement presages potential regulatory or policy-setting activity by one or more agencies of the U.S. with respect to standardization and RAND licensing issues.

A Chinese court issued its first global FRAND rate-setting decision.

In early December, a court in Chongqing, China, issued the first Chinese global rate-setting decision, in a lawsuit brought by Oppo against Nokia.[31]

Only redacted excerpts of the decision have been released, but those excerpts show the following FRAND rates for Nokia's patents: for 4G SEPs, \$.477 per phone (in China) and \$.777 per unit (in Zone 1 and 2 countries, likely Western economies); for 5G SEPs, \$.707 per unit (in China) and \$1.151 per unit (in Zone 1 and 2 countries) SEPs.[32] The 5G determined rates are much lower than Nokia's published rate of €3.[33]

The underlying reasoning for the decision has not yet been released. Nokia intends to appeal.[34]

Looking Forward

Next year is likely to include several further SEP and FRAND developments of interest including major SEP-related decisions from the Unified Patent Court, action on the EU's SEP regulation, FRAND decisions in India including in Nokia v. Oppo,[35] and the adoption of SEP regulations in China.

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[1] Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 500 (1988).

[2] Id. at 506–07.

[3] See Jorge Contreras, A Brief History of FRAND: Analyzing Current Debates in Standard-Setting and Antitrust through a Historical Lens, 80 Antitrust L.J. 39, 49-53 (2015), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2374983.

[4] See, e.g., Ericsson, Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1232 (Fed. Cir. 2014) ("When dealing with SEPs, there are two special apportionment issues that arise. First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, the patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology. These steps are necessary to ensure that the royalty award is based on the incremental value that the patented invention adds to the product, not any value added by the standardization of that technology.").

[5] FRAND is an acronym for "fair, reasonable, and non-discriminatory." Most commentators and judicial decisions have equated FRAND with RAND.

[6] E.g., Letter from Michael Lindsay to Hon. William J. Baer Regarding IEEE Request for Business Review Letter (Sept. 30, 2014), <https://www.justice.gov/sites/default/files/atr/legacy/2015/02/17/311483.pdf>.

[7] E.g., One Year on and the IEEE's controversial patent policy changes continue to divide technology companies, IAM-Media.com, <https://www.iam-media.com/article/one-year-and-the-ieeees-controversial-patent-policy-changes-continue-divide-technology-companies> (May 23, 2016).

[8] <https://standards.ieee.org/news/ieee-announces-decision-on-its-standards-related-patent-policy/>.

[9] <https://standards.ieee.org/wp-content/uploads/import/governance/bog/resolutions/september2022-updates-sasb-bylaws.pdf>.

[10] [2023] EWHC 539 (Pat) ¶ 945 (Mar. 16, 2023).

The top-down approach seeks to assess a reasonable royalty for a particular licensor by (1) determining an aggregate royalty for all patented technologies essential to a particular standard or standards; and (2) determining the licensor's share of the essential patented technologies.

[11] E.g., id. ¶ 880.

[12] Id. ¶ 814.

[13] Id., ¶¶ 431-438, 454-456, 528-532.

[14] Id., ¶ 202; see also ¶¶ 200-201, 454-456, 529, 923, 926-928.

[15] Id., ¶ 923.

[16] InterDigital signs HEVC license agreement with Lenovo, <https://ir.interdigital.com/news-events/press-releases/news-details/2023/InterDigital-signs-HEVC-license-agreement-with-Lenovo/default.aspx> (Nov. 2, 2023).

[17] <https://patentblog.kluweriplaw.com/2023/04/05/a-short-summary-of-the-recently-leaked-eu-regulation-proposal-on-standard-essential-patents/>.

[18] https://www.linkedin.com/posts/ipfray_in-total-a-whopping-780-seven-hundred-and-activity-7127641867176792066-GqiF?utm_source=share&utm_medium=member_desktop (Nov. 2023).

[19] Adam Houldsworth, Radical SEP regulation amendments sought by several European Parliament Groups, <https://www.iam-media.com/article/radical-sep-regulation-amendments-sought-several-european-parliament-groups> (Nov. 20, 2023) ("It has been reported that Walsmann intends to submit a final proposal for a plenary vote by February 2024, prior to next year's European elections.").

[20] [2023] EWHC 1095 (Ch) ¶¶ 456, 460, 466, 470, 482 (May 10, 2023).

[21] Id., ¶ 494.

[22] See, e.g., id., ¶ 326 (Optis seeking \$1.50 per unit royalty, which would, for example, translate to approximately \$337 million in 2022).

[23] <https://www.unified-patent-court.org/en>.

[24] <https://www.unified-patent-court.org/en/news/unified-patent-court-opens-its-doors>.

[25] <https://www.finnegan.com/en/insights/blogs/european-ip-blog/first-upc-preliminary-injunction-issued-ex-parte-despite-protective-brief.html>.

[26] <http://www.fosspatents.com/2023/09/first-ever-upc-preliminary-injunction.html>.

[27] Nokia Techs. Oy v. OnePlus Technology (Shenzhen) Co., Ltd., [2023] EWHC 1912 (Pat) ¶¶ 27-30.

[28] Id., ¶¶ 16, 39 (suggesting a conclusion in October 2023).

[29] See id., ¶¶ 271-72, 313-314, 334.

[30] The court noted the drawbacks to this outcome: "I do not shrink from the fact that these are difficult issues and that there is no clear or fully satisfactory solution. In large part that is because the current system, lacking a central dispute resolution mechanism for global FRAND, is, as Arnold LJ said, dysfunctional." Id., ¶ 310.

[31] Ding Wen, News: Chongqing No. 1 Intermediate People's Court issued the first instance judgment in the Oppo v. Nokia global tariff

case, https://mp.weixin.qq.com/s/NkIKuAB5bwJrB1wxUfIhwQ?poc_token=HNf0bWWjEVQ8oIbuaWXeJ1-rOfFWnQsZLjjVKwGQ (Dec. 3, 2023); Olivia Rafferty, Chinese court issues FRAND determination in Nokia-Oppo dispute, <https://www.iam-media.com/article/chinese-court-issues-frand-determination-in-nokia-oppo-dispute> (Dec. 4, 2023) ("In a statement today, Nokia told IAM that the issuance of the Chongqing judgement shows Oppo 'has an obligation to pay Nokia' and that the Chinese implementer needs to make payments for the whole unlicensed period."); Oppo's Statement Regarding the Chongqing First Intermediate People's Court's Judgment on Global Royalty Rates for Nokia's Patents, <https://www.oppo.com/en/newsroom/ip/statement-on-global-royalty-rates-for-nokias-patents/> (Dec. 4, 2023) ("OPPO welcomes the recent judgment by the Chongqing First Intermediate People's Court in the dispute over FRAND royalties for Nokia's standard essential patents (Case No.: (2021) Yu Min Chu 1232). OPPO is willing to comply with and execute the court's decision regarding the global FRAND licensing fees for Nokia's patents, hoping to actively resolve the patent licensing fee dispute with Nokia.").

[32] https://mp.weixin.qq.com/s/NKqx4vm_MZRTRGRcH_rdIA.

[33] Nokia licensing rate expectations for 5G/NR mobile phones (Aug. 21, 2018), <https://www.nokia.com/about-us/news/releases/2018/08/21/nokia-licensing-rate-expectations-for-5gnr-mobile-phones/> ("Nokia expects that for mobile phones, its licensing rate for the Nokia 5G SEP portfolio will be capped at €3 per device."

[34] Olivia Rafferty, Nokia to appeal Chinese global FRAND determination in Oppo dispute, IAM, <https://www.iam-media.com/article/nokia-appeal-chinese-global-frand-determination-in-oppo-dispute> (Dec. 14, 2023).

[35] On October 30, 2023, the High Court of Delhi issued an opinion that stated it would be amendable to a global FRAND rate setting decision, so long as the parties rate setting proceedings in the U.K. and China were withdrawn. <https://indiankanoon.org/doc/122795586/>. Nokia assented to the proposal; Oppo took the decision under consideration.