

UNFRIENDLY CHOICE OF LAW IN
FRAND

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Standards are technical specifications providing a common design for products or processes to function compatibly with others. Standards are pervasive in various communications and platform technologies since they facilitate interoperability between different products. These technical standards inevitably cover a large number of patented technologies standard implementers must use, which are referred to as standard-essential patents (SEPs). SEPs are normally subject to fair, reasonable, and non-discriminatory (FRAND) terms based on SEP holders' declarations made to voluntary associations known as standard-setting organizations (SSOs) or standards-development organizations (SDOs). In recent years, the increasing use of standards and SEPs has led to an increased number of lawsuits relevant to the interpretation and enforcement of FRAND terms. As a result, legal issues surrounding FRAND have become a subject of litigation and academic debate. This Article is an endeavor to fill the gap in academic literature on the choice-of-law issues relating to FRAND. It seeks to provide readers with a deeper understanding of the choice-of-law issues as revealed by key judicial precedents around the world. Ultimately, this research attempts to suggest practical solutions that may mitigate, if not resolve, the choice-of-law issues.

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I. INTRODUCTION

Standards are technical specifications providing a common design for products or processes to function compatibly with others.¹ Standards are pervasive in various communications and platform technologies since they facilitate interoperability between different products.² These technical standards inevitably cover a large number of patented technologies standard implementers must use, which are referred to as standard-essential patents (SEPs).³ SEPs are normally subject to fair, reasonable, and non-discriminatory (FRAND) terms based on SEP holders' declarations made to voluntary associations known as standard-setting organizations (SSOs)⁴ or standards-development organizations (SDOs).⁵ In recent years, the increasing use of standards and SEPs has led to an increased number of lawsuits relevant to the interpretation and enforcement of FRAND terms.⁶ As a result, legal issues surrounding FRAND have become a subject of litigation and academic debate.⁷

1. See Nayantara Ravichandran, *The Role of Competition Law in the Regulation of Intellectual Property Rights: Lessons from the US and the EU for India*, 26(10) INT'L CO. & COM. L. REV. 338, 339 (2015); J. Gregory Sidak, *Mandating Final-Offer Arbitration of FRAND Royalties for Standard-Essential Patents*, 18 STAN. TECH. L. REV. 1, 3-4 (2014); Valerio Torti, *IPRs, Competition and Standard Setting: In Search of A Model to Address Hold-up*, 39(9) EUR. COMPETITION L. REV. 387, 387 (2012); Lawrence A. Kogan, *Commercial High Technology Innovations Face Uncertain Future Amid Emerging "BRICS" Compulsory Licensing and IT Interoperability Frameworks*, 13 SAN DIEGO INT'L L.J. 201, 259-60 (2011); Mark A. Lemley, *Intellectual Property Rights and Standard-setting Organizations*, 90 CAL. L. REV. 1889, 1896 (2002).

2. See A. Douglas Melamed & Carl Shapiro, *How Antitrust Law Can Make FRAND Commitments More Effective*, 127 YALE L.J. 2110, 2111 (2018); Jorge L. Contreras, *From Private Ordering to Public Law: The Legal Frameworks Governing Standard-Essential Patents*, 30 HARV. J.L. & TECH. 211, 211 (2017) [hereinafter Contreras, *From Private Ordering to Public Law*]; Jyh-An Lee, *Implementing the FRAND Standard in China*, 19 VAND. J. ENT. & TECH. L. 37, 39, 42-43 (2016); Benjamin C. Li, *The Global Convergence of FRAND Licensing Practices: Towards "Interoperable" Legal Standards*, 31 BERKELEY TECH. L.J. 429, 430 (2016).

3. See Andrew Moir et al., *High Court Adopts Tough Stance on Party Unwilling to Take Worldwide Licence on FRAND Terms—Unwired Planet v Huawei*, 39(10) EUR. INTEL. PROP. REV. 658, 658 (2017); Contreras, *From Private Ordering to Public Law*, supra note 2, at 216; Lee, supra note 2, at 43; Li, supra note 2, at 431; Melamed & Shapiro, supra note 2, at 2113; see also JONATHAN D.C. TURNER, *INTELLECTUAL PROPERTY AND EU COMPETITION LAW* 287 (2d ed. 2015) (introducing standard-essential technologies as defined by the European Union Commission); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1992 (2007) (“[L]iterally thousands of patents have been identified as essential to the proposed new standards for 3G cellular telephone systems.”).

4. See Li, supra note 2, at 431.

5. Contreras, *From Private Ordering to Public Law*, supra note 2, at 215.

6. See Garry A. Gabison, *A Two-Dimensional Approach to Non-Discriminatory Terms in FRAND Licensing Agreement*, 24 B.U. J. SCI. & TECH. L. 100, 104 (2018).

7. See Jorge L. Contreras, *A Brief History of FRAND: Analyzing Current Debates in Standard Setting and Antitrust Through A Historical Lens*, 80 ANTITRUST L. J. 39, 39-40 (2015) [hereinafter Contreras, *Brief History of FRAND*]; see also Contreras, *From Private Ordering to Public Law*, supra note 2, at 211.

Although FRAND has received much attention from scholars over the past twenty years, no elaborate attempt has been made to analyze FRAND from the perspective of private international law.⁸ With FRAND forming the basis for licensing arrangements and setting worldwide standards, dispute resolutions relating to FRAND inevitably involve private international law considerations. Standards are adopted by implementers from all over the world and used to manufacture products to be sold internationally. On the other hand, patents are always territorial in nature and protected by the laws of the countries where they are granted. A corollary to the territorial nature of patents is that patentees may sue alleged infringers in multiple jurisdictions even if patents granted in different countries all relate to the same set of technologies. Since different national laws may interpret FRAND requirements differently, the national court must initially conduct a choice-of-law analysis to identify the applicable national law when faced with a FRAND-related dispute. This analysis is particularly important because SSOs have left the definition of FRAND to national courts to decide.⁹

As recent FRAND litigations in multiple jurisdictions have shown, the choice-of-law analysis has posed serious challenges to the national courts and, in turn, led to unsatisfactory results—in both a given case and the worldwide dispute resolutions between its litigants. Since 2012, different choice-of-law approaches have led to very different results in FRAND litigations across the world:

1. On the issue of whether the implementer holds a third-party right to receive a license from an SEP holder on FRAND terms, courts in the United States, England, Japan, and Korea applied French law while China applied Chinese law, despite these cases being involved in the same SSO (European Telecommunications Standards Institute, ETSI);¹⁰
2. Even among those four countries that have applied French law to the issue of enforceability regarding an implementer's claim that a SEP holder should license its SEP under FRAND terms, the U.S.

8. Jacques de Werra, *Can Exclusive Licenses Sue for Infringement of Licensed IP Rights? A Case Study Confirming the Need to Create Global IP Licensing Rules*, 30 HARV. J.L. & TECH. 189, 209 (highlighting the need for such analysis in FRAND).

9. See *infra* text accompanying note 31 (stating that FRAND terms are normally left undefined by SSOs).

10. *Unwired Planet v. Huawei* [2017] EWHC (Pat) 711 (Eng.); *Apple Inc. v. Samsung Electronics Co., Ltd.*, 2012 WL 1672493 (N.D. Cal. May 14, 2012); *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1 (Japan); Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.); *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi* (华为技术有限公司诉交互数字通信有限公司) [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China).

and England found such a third-party right under French law, while Japan and Korea found no such right under the same French law.¹¹ Cases in the U.S., Japan, and Korea also involved the same parties (Apple and Samsung) disputing over essentially the same set of technologies;

3. In a FRAND dispute involving FRAND commitment to another SSO (Institute of Electrical and Electronics Engineers, hereinafter “IEEE”), the German court applied German law and found no third-party right of the implementer, while the U.S. court applied Washington law and found an enforceable third-party right.¹² Again, this case occurred between the same parties (Motorola and Microsoft) disputing over the same set of technologies;

4. The U.S., England, Japan, and China all employ different calculation methods to assess FRAND royalties under their respective laws. Even within the U.S., the Court of Appeals for the Federal Circuit and state courts have used different methodologies;¹³ and

5. Each of the aforementioned countries has established rules on how the SEP and implementer shall negotiate the FRAND license, yet these rules are certainly not identical and, at times, even contradictory.¹⁴

This Article is an endeavor to fill the gap in academic

11. *See* *Unwired Planet v. Huawei* [2017] EWHC (Pat) 711 (Eng.); *Apple Inc. v. Samsung Electronics Co., Ltd.*, 2012 WL 1672493; *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1 (Japan); Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.).

12. *See* Regional Court of Mannheim, 2d Civil Division, Case 2:10-cv-01823-JLR, Document 324-326, filed 5/21/2012 (Ger.); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012).

13. *See* *Unwired Planet v. Huawei* [2017] EWHC (Pat) 711 (Eng.); *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013); *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201 (Fed. Cir. 2014); *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [saibansho web] 1 (Japan); *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi* (华为技术有限公司诉交互数字通信有限公司) [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People’s Ct. 2013) (China).

14. *See* *Unwired Planet v. Huawei* [2017] EWHC (Pat) 711 (Eng.); *Apple Inc.*, 2012 WL 1672493; *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1 (Japan); Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.); *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi* (华为技术有限公司诉交互数字通信有限公司) [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People’s Ct. 2013) (China); *Landgericht* [Regional Court] Düsseldorf Jul. 16, 2005, C-170/13, 2015 E.C.R. 477 (Ger.) [hereinafter *Huawei Techs. Co. Ltd. v. ZTE Corp.*].

literature on the choice-of-law issues relating to FRAND. It seeks to provide readers with a deeper understanding of the choice-of-law issues as revealed by key judicial precedents around the world. Ultimately, this research attempts to suggest practical solutions that may mitigate, if not resolve, the choice-of-law issues.

Part II introduces the concepts of SEPs and the function of FRAND. This study classifies the main legal issues in FRAND litigations into three categories—enforceability, licensing terms, and negotiation—each of which respectively could lead to complex issues in patent law, contract law, and competition law. This classification also provides a structure for analyzing choice-of-law practices in six different jurisdictions in Part IV. Part III illustrates the significance and complications accompanying choice of law in FRAND disputes. Part IV reviews judicial practices concerning choice of law in the context of FRAND in the United Kingdom, Germany, the U.S., Japan, Korea, and China. Part V summarizes the findings of the comparative study of these six jurisdictions. We found that characterization¹⁵ plays a vital role in solving transnational FRAND disputes. Part VI argues that courts should treat FRAND issues as incidental questions and characterize them separately as contractual so that consistent solutions based on sound analysis can be enforced on an international level. We also suggest that SSOs adopt a choice-of-law clause to reduce uncertainties for both SEP holders and standard implementers. As a result, FRAND issues will be governed by the same national law regardless of contexts or countries in which they arise. Social welfare will improve if more certain parameters for choice-of-law disputes in FRAND litigations are established. Part VII concludes.

I. CONCEPTUALIZING FRAND AND FRAND DISPUTES

A. *FRAND and FRAND-Encumbered SEPs*

Standards encourage interoperability between technologies, and the resulting positive network effects benefit consumers.¹⁶ Normally, standards are developed collaboratively by technology innovators within SSOs.¹⁷ Patents covering

15. Characterization or classification means the allocation of the question raised by the factual situation before the court to its correct legal category. *See* CHESHIRE, NORTH & FAWCETT'S PRIVATE INTERNATIONAL LAW 42 (J.J. Fawcett & Janeen M. Carruthers eds., 14th ed. 2008) [hereinafter CHESHIRE, NORTH & FAWCETT].

16. *See* Panagiotis Delimatsis, Global Standard-Setting 2.0: How the WTO Spotlights ISO and Impacts the Transnational Standard-Setting Process, 28 DUKE J. COMP. & INT'L L. 273, 275 (2018); Richard H. Stern, Who Should Own the Benefits of Standardization and the Value It Creates?, 19 MINN. J.L. SCI. & TECH. 107, 108, 113, 115-16 (2018); Lee, *supra* note 2, at 42-43; Li, *supra* note 2, at 430.

17. *See* Contreras, *Brief History of FRAND*, *supra* note 7, at 42; Gabison, *supra* note 6, at 101; Contreras, *From Private Ordering to Public Law*, *supra* note 2, at 222; Melamed & Shapiro, *supra* note 2, at 2111-13; *see also* Herbert Hovenkamp, *Standards Ownership and Competition Policy*, 48 B.C. L. REV. 87, 88 (2007).

technologies essential for implementing certain standards are referred to as standard-essential patents.¹⁸ By having their patented technologies incorporated into the essential part of standards, patentees will enjoy substantially enhanced market powers otherwise unavailable to them if alternative technologies exist that serve the same functions.¹⁹ This is because “[a] standard, by definition, eliminates alternative technologies.”²⁰ Consequently, by demanding excessive license fees, an SEP holder can prevent implementers from enjoying the interoperability and other benefits of using the standard.²¹ In other words, the enhanced market power might be exploited by the SEP holders at the expense of the implementers of the standard (e.g., by charging manufacturers of products excessive royalties for the patents). This, in turn, drives up the price of the products to the consumers.²² Standard implementers are forced to either accept excessive licensing fees or surrender huge investments in developing interoperable products based on the subject standards.²³ The abuse of enhanced market positions by the SEP holders is known as “hold-up,” where these SEP holders withhold licenses or charge other implementers excessive licensing fees.²⁴

In order to decrease the risk of patent hold-up and royalty stacking, most SSOs require their members to sign documents to license their SEPs under FRAND terms.²⁵ On one hand,

18. See *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014); Gabison, *supra* note 6, at 101.

19. See *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *5 (W.D. Wash. Apr. 25, 2013) (“Industry participants in the standard-setting process enjoy significant potential benefits to having their technology incorporated into a standard independent of potential royalty income from licensing patents they own. These non-income benefits can include increased demand for participants’ products, advantages flowing from familiarity with the contributed technology potentially leading to shorter development lead times, and improved compatibility with proprietary products using the standard.”); see also Gabison, *supra* note 6, at 102-103; Li, *supra* note 2, at 431.

20. *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007); see also Li, *supra* note 2, at 434 (“[The] value [of SEPs] is derived from an industry-wide agreement to adopt the patented technology as part of the interoperable standard.”).

21. See Gabison, *supra* note 6, at 102-03; Lee, *supra* note 2, at 45; Li, *supra* note 2, 429.

22. See Li, *supra* note 2, at 439; Melamed & Shapiro, *supra* note 2, at 2111.

23. See Contreras, *From Private Ordering to Public Law*, *supra* note 2, at 216; Lee, *supra* note 2, at 44-45; Li, *supra* note 2, at 435; Melamed & Shapiro, *supra* note 2, at 2113-14; Stern, *supra* note 16, at 121-22.

24. Masabumi Suzuki, *Enforcement of FRAND-Encumbered SEPs*, in ANNOTATED LEADING PATENT CASES IN MAJOR ASIAN JURISDICTIONS 241, 255 (Kung-Chung Liu ed., 2017); Contreras, *Brief History of FRAND*, *supra* note 7, at 42; Lemley & Shapiro, *supra* note 3, at 1992-93; Contreras, *From Private Ordering to Public Law*, *supra* note 2, at 216; Li, *supra* note 2, at 437; Melamed & Shapiro, *supra* note 2, at 2115; Lee, *supra* note 2, at 44-45.

25. See Jorge L. Contreras, *Global Markets, Competition, and FRAND Royalties: The Many Implications of Unwired Planet v. Huawei*, THE ANTITRUST SOURCE (Aug. 2017) [hereinafter Contreras, *Many Implications of Unwired Planet*], https://www.americanbar.org/content/dam/aba/publishing/antitrust_source/aug17_contreras_8_2f.authcheckdam.pdf; Contreras, *Brief History of FRAND*, *supra* note 7,

FRAND is designed to induce market players to implement standards with SEPs;²⁶ on the other hand, FRAND ensures fair compensation to the SEP holder who makes their technologies accessible to implementers.²⁷ As one court put it, the FRAND commitment is the *quid pro quo* for being included in the standards.²⁸ Without FRAND and its effective enforcement, SEP holders could charge excessive royalties, tie non-SEPs to SEPs, and engage in other anti-competitive conduct against the implementers.²⁹

Although FRAND is designed to balance various interests associated with the innovation of standardized technologies and their widespread adaptation,³⁰ SSOs do not define FRAND.³¹ As a result, if the SEP holder and the implementer fail to reach an agreement on what terms will be fair, reasonable, and non-discriminatory, they will have to ask the court to determine FRAND terms.³² In this sense, FRAND is no more than a placeholder in the licensing agreement between SEP holders and future implementers. When SEP holders and future implementers fail to determine fair terms through private negotiation, litigations on FRAND ensue.

at 42; Gabison, *supra* note 6, at 102; Lee, *supra* note 2, at 39, 43-44; Li, *supra* note 2, at 431-32, 434-35, 437; Melamed & Shapiro, *supra* note 2, at 2113, 2115; Contreras, *From Private Ordering to Public Law*, *supra* note 2, at 217; *see also* Microsoft Corp. v. Motorola, Inc., 795 F.3d 1024, 1052 (9th Cir. 2015) (“The very purpose of the RAND agreement [was] to promote adoption of a standard by decreasing the risk of hold-up.”); *Unwired Planet v. Huawei* [2017] EWHC (Pat) 711 [89] (Eng.) (“In the US it is sometimes called ‘RAND’ rather than FRAND but there is no material difference between the two. The idea of FRAND licenses for patents essential to standards is not unique to ETSI. It is something other international SSOs require as well.”); Kristen Jakobsen Osenga, *Ignorance Over Innovation: Why Misunderstanding Standard Setting Organizations Will Hinder Technological Progress*, 56 U. LOUISVILLE L. REV. 159, 160 (2018); Stern, *supra* note 16, 130; Suzuki, *supra* note 24, at 255.

26. *See* Contreras, *Brief History of FRAND*, *supra* note 7, at 42; Gabison, *supra* note 6, at 114-16; Lee, *supra* note 2, at 44.

27. Kristian Henningsson, *Injunctions for Standard Essential Patents Under FRAND Commitment: A Balanced, Royalty-Oriented Approach*, 47 INT’L REV. INTEL. PROP. & COMPETITION L. 438, 439 (2016); Lee, *supra* note 2, at 44; Melamed & Shapiro, *supra* note 2, at 2118; Osenga, *supra* note 25, at 160, 208.

28. *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012); *see also* Melamed & Shapiro, *supra* note 2, at 2118 (“When patent holders...make [FRAND] commitments, they are voluntarily choosing to gain volume (by including their technologies in the standard) in exchange for unit price (by agreeing to charge only FRAND royalties).”).

29. *See* Melamed & Shapiro, *supra* note 2, at 2117.

30. *See* Lee, *supra* note 2, at 45-46; Moir et al., *supra* note 3, at 658.

31. *See* Gabison, *supra* note 6, at 103; *see also* *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1084 (W.D. Wis. 2012) (citing IEEE policy that “IEEE is not responsible for determining whether any licensing terms or conditions provided in connection with submission of a Letter of Assurance...are reasonable and nondiscriminatory”); *id.* at 1068 (citing ETSI policy that “[s]pecific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI”); *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217, at *7, *10 (W.D. Wash. Apr. 25, 2013) (discussing ITU policy).

32. *Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1036 (W.D. Wash. 2012) (“Motorola has committed to license its standard essential patents on RAND terms, and, if a third-party beneficiary to that commitment does not believe Motorola is meeting its obligations thereto, the courthouse may be the only place to resolve the differences.”).

B. *Main Legal Issues in FRAND Litigations*

FRAND litigation is necessarily complex due to the potential involvement of patent, contract, and competition laws, and FRAND-related issues could be outcome determinative in each of these areas of laws.³³

1. *Contexts Where FRAND Issues Arise*

In a typical FRAND litigation, the negotiation between an SEP holder and the implementer generally takes place after the latter has practiced the SEP and the former has claimed infringement.³⁴ When the SEP holder and the implementer fail to agree on FRAND terms, the holder usually sues the implementer for patent infringement in courts where the SEPs at issue were granted.³⁵ As the defendant, the implementer will file defenses and/or counterclaims³⁶ based on breach of contract³⁷ or violation of competition or antitrust law, or both.³⁸ A breach of contract claim is based on the FRAND undertaking provided by the SEP holder to the SSO, which results in either an alleged contract entered into directly with the SEP holder or a third-party right to receive a license derived from an alleged contract between the SSO and the SEP holder. For the latter defense or counterclaim, it may be argued that the SEP itself

33. All FRAND judgments tend to be fairly lengthy as a result. *See* *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711 (Eng.) (spanning 163 pages); *id.* at [803] (noting the judgment's length was only somewhat over half the total number of words in the written closing submissions in the case); *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1 (Japan) (spanning 141 pages, exclusive of attachments and exhibits). Other than the three areas of law mentioned, FRAND litigation may involve tort law as well. *See infra* Part IV.D.

34. *Melamed & Shapiro*, *supra* note 2, at 2113.

35. *See* *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1207-08 (Fed. Cir. 2014); *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609, at *1 (N.D. Ill. Oct. 3, 2013); *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14, at ¶¶ 1-6; *see also* Contreras, *From Private Ordering to Public Law*, *supra* note 2, at 211-12 (“[D]isputes have emerged as private parties have accumulated and asserted patents covering standards against manufacturers of standardized products.”).

36. FRAND suits are sometimes filed by the implementers as plaintiffs to claim FRAND terms against the SEP holders. *See* *Microsoft Corp.*, 795 F.3d at 1030; *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi* (华为技术有限公司诉交互数字通信有限公司) [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China); *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 3 (Japan) (recognizing that the implementer sought “a declaratory judgement to confirm that [the SEP holder] Samsung was not entitled to seek damages”); *Suzuki*, *supra* note 24, at 243.

37. *Li*, *supra* note 2, at 441.

38. *See* Contreras, *Many Implications of Unwired Planet*, *supra* note 25, at 2-7; *Li*, *supra* note 2, at 446-50, 464; *Melamed & Shapiro*, *supra* note 2, at 2124-28.

creates a dominant market position³⁹ and that the SEP holder abuses such a position by failing to offer or conclude a license with the implementer, requiring excessive royalties, or imposing other unfair terms that constitute anti-competitive behavior.⁴⁰ These defenses or counterclaims are not mutually exclusive, nor are they necessarily dependent on one another. For example, the court can conclude that an application for injunction by the SEP holder without a meaningful negotiation with the implementer violates the contractual obligation to negotiate in good faith⁴¹ or constitutes a breach of antitrust or competition law.⁴² The court may alternatively grant injunctive relief under patent law if it views the SEP holder's offer as compliant with FRAND conditions.⁴³

Thus far, the discussion of FRAND issues relates to their role in helping the implementers build a case or defense against SEP holders. However, another intriguing aspect of FRAND is that SEP holders can utilize it as a defense against charges of competition law violation. It has been argued that since SEP holders give a FRAND undertaking and bind it to licenses for future implementers, they do not hold a dominant position in the market, which is a key element in establishing a competition law violation.⁴⁴

In short, it is not uncommon for a typical FRAND litigation to include questions on patent, contract, and competition laws.⁴⁵ The *Unwired Planet* litigation, for example, succinctly illustrates the interrelationships among potential causes of action and defenses:

39. See TURNER, *supra* note 3, at 127-28.

40. See TURNER, *supra* note 3, at 293; see also *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007) (“We hold that (1) in a consensus-oriented private standard-setting environment, (2) a patent holder’s intentionally false promise to license essential proprietary technology on FRAND terms, (3) coupled with an SDO’s reliance on that promise when including the technology in a standard, and (4) the patent holder’s subsequent breach of that promise, is actionable anticompetitive conduct.”).

41. See *Realtek Semiconductor, Corporation v. LSI Corporation.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013); Li, *supra* note 2, at 447.

42. See *Microsoft Corp.* 795 F.3d at 1030-31 (“The development of standards thereby creates an opportunity for companies to engage in anti-competitive behavior. Most notably, once a standard becomes widely adopted SEP holders obtain substantial leverage over new product developers, who have little choice but to incorporate SEP technologies into their products.”); Li, *supra* note 2, at 443-44 (stating that European courts and competition law authorities have held that SEP holders’ seeking injunctive relieves may constitute abuse of dominant market position).

43. Gabison, *supra* note 6, at 117-20.

44. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [633] (Eng.).

45. See *Realtek Semiconductor, Corporation v. LSI Corporation.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013) (addressing implementer’s claims for injunction and declaratory judgment against patentee based on breach of contract, promissory estoppel and unfair competition); *Apple Inc. v. Qualcomm Inc.*, No. 3:17-cv-00108-GPC-MD, 2017 WL 3966944 (S.D. Cal. Sept. 7, 2017) (implementer asserts breach of contract claims, patent claims and antitrust claims); Li, *supra* note 2, at 446-48 (describing that FRAND issues concern patent, contract, and Anti-Monopoly Law in China); see also Henningsson, *supra* note 27, at 458-60 (comparing the contractual and competition law approaches to FRAND-encumbered patents); Hovenkamp, *supra* note 17, at 104-06 (comparing patent, contract and competition laws’ approaches to the holdup problem).

There are three legally relevant ways of looking at licence terms offered by a patentee or advanced by a defendant in the context of standard essential patents and [SSO]. All three contexts involve considerations of fairness, reasonableness, and non-discrimination, i.e. FRAND, but although that expression is used in all three contexts, it is necessary to distinguish between them. One context is compliance with competition law. A second is compliance with the contractually enforceable obligation to [SSO] in terms of the [FRAND undertaking]. The third context is directed to granting and refusing injunctions [for patent infringement].⁴⁶

2. *Common FRAND Issues*

FRAND-related litigations are usually both legally and technically complicated. This complication is caused by the lack of definition of FRAND, the convoluted legal concepts involved, and the difficulties in value calculations of specific SEPs in a technologically intricate standard.⁴⁷ The main legal issues concerning most FRAND litigations, arising under whichever context described above, can be categorized as follows: enforceability issues, licensing terms issues, and negotiation issues. Each will be discussed in turn.⁴⁸

i. Enforceability Issues

When claiming that the SEP holder should license its SEPs under FRAND terms, the implementer invariably needs to find an appropriate legal basis (as the cause of action or defense) for such a claim. This is the threshold question in a typical FRAND case. Nevertheless, because there is no explicit agreement between the SEP holder and the implementer, the implementer normally needs to substantiate their claim based on the SSO's IP policy or the SEP holder's previous FRAND declaration made to the SSO. Those declarations and IP policies will "have

46. *Unwired Planet v. Huawei*, [2015] EWHC (Pat) 1029, [29] (Eng.); *see also Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [99], (Eng.) (citing *Unwired Planet v. Huawei*, [2015] EWHC (Pat) 1029, (Eng.) for the structure of its analysis).

47. *See Li*, *supra* note 2, at 438 ("[U]ncertainty remains in how to properly apportion an SEP's value in relation to the value of the entire SEP-enabled technology.").

48. This is by no means an exhaustive list. Due to the complexity of FRAND litigations, other FRAND-related issues are definitely possible. Those highlighted here are just most commonly found in the cases. Other potential issues for example include whether the patentee has an obligation to disclose its unpublished patent applications, *see, e.g., Apple, Inc. v. Motorola, Inc.*, 886 F.Supp.2d 1061, 1085-86 (W.D. Wis. 2012).

legal significance...to the extent they are enforceable.”⁴⁹ Issues surrounding FRAND enforceability fall into three categories of sub-issues listed below:

*a. Direct enforceability – Determining whether there is a direct contract between the SEP holder and the implementer.*⁵⁰

Some argue FRAND commitment constitutes a unilateral offer of contract to the entire world by the SEP holder, which can be accepted by any implementer who adopts the standard.⁵¹ This, if legally established, is likely the most ideal enforceable right for the implementer because it will serve as a complete defense against patent infringement.

*b. SEP holder-SSO enforceability – Determining whether there is a contract between the SEP holder and the SSO.*⁵² Aside from, and usually in conjunction with, the direct enforceability argument, some argue there is a contract between the SSO and the SEP holder.⁵³

*c. Third-party right – Determining whether the implementer has a third-party right to be licensed on FRAND terms as derived from the contract between the SEP holder and the SSO.*⁵⁴ Since the implementer is not a party to the contract between the SEP holder and SSO, the implementer must further prove that it enjoys a third-party right to receive a license from that contract. In other words, the concern is whether the implementer has standing to sue.⁵⁵ This sub-issue depends on (b) above.⁵⁶ However, both (b) and (c) will be redundant if (a) is found. Compared to (a), resort to a third-party right is less than ideal for the implementer, as this right means only that the SEP holder has an obligation to license in FRAND terms, which—depending on whether the terms comply with FRAND—may or may

49. See Lemley, *supra* note 1, at 1910.

50. See Lee, *supra* note 2, at 52-53; see also Contreras, *Brief History of FRAND*, *supra* note 7, at 73 (“[U]nlike a simple bilateral contract, the ‘parties’ to a FRAND commitment are far from clear.”).

51. See Lee, *supra* note 2, at 52; see also Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 47 (Japan) (the implementer argued that “[u]nder the laws of France, the acceptance is made by way of performance of certain acts or agreement. As for this case, the [implementer] impliedly accepted the [SEP holder’s] licensing offer by commencing the import and sale of the Products”).

52. See Lee, *supra* note 2, at 54; Stern, *supra* note 16, at 160-61.

53. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [115]-[132] (Eng.).

54. See Lee, *supra* note 2, at 54-56; Stern, *supra* note 16, at 161-62; see also Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 48 (Japan) (including the implementer’s argument that “the FRAND Declaration [is] a ‘contract for the benefit of a third party’ (stipulation pour autrui) between the [SEP holder] and ETSI”).

55. See *In re Innovatio IP Ventures, LLC Patent Litigation*, 2018 WL 5848999, at *16 (N.D. Cal. Nov. 6, 2018).

56. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [136] (Eng.) (“I agree that such a contract [between the SEP holder and SSO] is a necessary element for the doctrine [of an agreement for the benefit of third parties] to apply.”).

not evolve into a license.⁵⁷ The implementer may prefer to have a license concluded in place with the SEP holder,⁵⁸ but, as will be observed in the precedents below, direct enforceability is difficult to establish.

While these sub-issues were framed in terms of contracts, SEP holders' FRAND commitments may also be enforceable under antitrust or competition law, which prohibits price discrimination,⁵⁹ refusal to license,⁶⁰ and tying arrangement⁶¹ under some circumstances. In some jurisdictions, such as the member states of the European Union (EU) and China, an SEP holder's decision to break their FRAND commitment may be viewed as an abuse of their dominant market position and, thus, a violation of competition law.⁶² As a result, antitrust or competition law has become an independent mechanism to enforce FRAND obligations. Alternatively, a recent Chinese case also suggests that enforceable obligation could be founded on the principle of good faith.⁶³

ii. Licensing Terms Issues

The determination of FRAND terms and rates encapsulates the majority of all FRAND issues.⁶⁴ In this Article, we use "licensing terms issues" to broadly include all possible disputes relevant to the determination of FRAND terms. Courts in different jurisdictions take various approaches in addressing these issues,⁶⁵ which include, but are not limited to, determining

57. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [143] (Eng.) ("If a patentee refuses to enter into a licence which a court has determined is FRAND then, a court can and in my judgment should normally refuse to grant relief for patent infringement. The course applies to an implementer who refuses to accept a FRAND licence. In that case the normal relief for patent infringement should normally follow."); see also *Apple, Inc.*, 886 F. Supp. 2d at 1087 (stating that the nature of the obligation is for the SEP holder to offer a license to its SEPs to the implementer on FRAND terms).

58. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [806] (Eng.) ("The legal effect of the FRAND undertaking relating to a SEP is not that the implementer is already licensed. Its effect is that an implementer who makes an unqualified commitment to take a licence on FRAND terms (settled in an appropriate way) cannot be the subject of a final injunction to restrain patent infringement.").

59. Gabison, *supra* note 6, at 112; Melamed & Shapiro, *supra* note 2, at 2126-27.

60. See Melamed & Shapiro, *supra* note 2, at 2125-26; Osenga, *supra* note 25, at 159; Stern, *supra* note 16, at 142-44.

61. See Melamed & Shapiro, *supra* note 2, at 2126.

62. See Gabison, *supra* note 6, at 112-40.

63. See *infra* Section IV.F.1.(i).

64. See TURNER, *supra* note 3, at 297-300; Gabison, *supra* note 6, at 104; see also Doug Lichtman, *Understanding the RAND Commitment*, 47 HOUS. L. REV. 1023, 1049 (2010) ("The success of the RAND commitment in the end turns on the ability of a court to calculate a non-exaggerated reasonable royalty.").

65. See Jorge L. Contreras, *Global Rate Setting: A Solution for Standards-Essential Patents?*, 94 WASH. L. REV. 701, 713-22 (2019) [hereinafter Contreras, *Global Rate Setting*]; Gabison, *supra* note 6, at 104-05, 110-11.

a particular royalty rate.⁶⁶ Also included is the appropriate method and royalty base to calculate a FRAND rate.⁶⁷ For example, no consensus has formed on whether a FRAND rate should be determined based on the end product incorporating SEPs or the smallest salable patent-practicing unit (SSPPU).⁶⁸ Of course, the rate for a global license is different from that of a national license.⁶⁹ Some courts create a FRAND range,⁷⁰ whereas others provide specific terms for FRAND.⁷¹

Licensing terms issues cover disputes beyond the calculation of a specific royalty rate.⁷² As previous cases have shown, SEP holders sometimes request other considerations in the licensing process, such as cross-licensing by the implementers.⁷³ Additionally, the SEP holder may bundle non-SEPs with SEPs and ask the implementer to pay for unnecessary non-SEPs.⁷⁴ Courts need to determine whether various licensing and royalty arrangements violate FRAND commitments.

Licensing terms issues are closely related to enforceability issues. Finding an enforceable third-party right to receive a

66. See *Ericsson Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1227-31 (Fed. Cir. 2014); TURNER, *supra* note 3, at 297; Contreras, *Brief History of FRAND*, *supra* note 7, at 74-80; Lee, *supra* note 2, at 68-85; Stern, *supra* note 16, at 166-85.

67. See Contreras, *Brief History of FRAND*, *supra* note 7, at 79-83; Contreras, *Many Implications of Unwired Planet*, *supra* note 25, at 7-11; Lee, *supra* note 2, at 79-82; Li, *supra* note 2, at 453-55; Osenga, *supra* note 25, at 200-04, 208-09; Stern, *supra* note 16, at 112-13, 168-75.

68. See Li, *supra* note 2, at 451-57; Melamed & Shapiro, *supra* note 2, at 2122-23; Stern, *supra* note 16, at 168, 177-85, 189-90.

69. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [524] (Eng.); Gabison, *supra* note 6, at 110.

70. See *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233, at *25 (W.D. Wash. Apr. 25, 2013); see also Contreras, *Many Implications of Unwired Planet*, *supra* note 25, at 4 (“The very notions of fairness and reasonableness imply some degree of flexibility, rather than arithmetic precision...SDO...policies state that the rates must be FRAND implying that some allowable range is contemplated.”).

71. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [524]-[572], (Eng.); *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi* (华为技术有限公司诉交互数字通信有限公司) [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People’s Ct. 2013) (China).

72. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [17] (Eng.) (“One key battleground is the value of Unwired Planet’s patents which is reflected in the royalty rate. However that is not the only issue. There is a major dispute about the proper scope of any license.”).

73. See *Ericsson, Inc.*, 773 F.3d at 1227-28; *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711 (Eng.); *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi* (华为技术有限公司诉交互数字通信有限公司) [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People’s Ct. 2013) (China); Lee, *supra* note 2, at 73-74; see also TURNER, *supra* note 3, at 299 (viewing the provision requiring the implementer to grant cross-licenses to the SEP holder as incompatible with the FRAND commitment). *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 53 (Japan) (the cross-licensing scheme suggested in the case was also subject to the implementer agreeing to hold the SEP holder harmless against liability arising from other infringements of the implementer’s intellectual property rights not related to the standard in case).

74. See *Ericsson, Inc.*, 773 F.3d at 1227-28; *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [672iii] (Eng.).

license from an SEP holder is not in itself a sufficient defense against patent infringement. The implementer may still be liable for infringement upon failing to accept a FRAND offer.⁷⁵ Thus, what constitutes a FRAND offer (i.e., the licensing terms issues) is naturally the next question after establishing enforceability. Licensing terms issues can also arise independently from enforceability issues. Even if there is found to be no contractual right, courts may still be willing to consider the FRAND commitment in awarding damages and issuing injunctions.⁷⁶

iii. Negotiation Issues

FRAND not only refers to licensing terms, but also represents the process in which parties negotiate for such terms.⁷⁷ Courts in a number of jurisdictions have interpreted FRAND as imposing a duty to negotiate in good faith.⁷⁸ Some commentators argue that the purpose of this duty is to reduce information asymmetry between the SEP holder and the implementer because the latter does not normally have access to the former's past similar transactions with other parties. Thus, implementers are unable to estimate whether the SEP holder's offer is discriminatory or not.⁷⁹ Moreover, given the fact that implementers are already locked into their investment and negotiations are conducted in the shadow of potential patent infringement litigation,⁸⁰ SEP holders may further leverage their market power to negotiate excessive licensing fees.⁸¹

A court may find a breach of contract if the SEP holder's offer is substantially higher than what the court would consider FRAND.⁸² In cases like this, the court will first need to determine whether there is an enforceable contractual right

75. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [143] (Eng.).

76. See *infra* text accompanying note 173.

77. James Cross & Janet Strath, *Fair, Reasonable, and Non-Discriminatory (FRAND) Terms: Can the Court Set a FRAND Rate?*, 23 *COMPUTERS & TELECOMM. L. REV.* 112, 113 (2017); Moir et al., *supra* note 3, at 658.

78. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [162] (Eng.); *Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi (华为技术有限公司诉交互数字通信有限公司)* [*Huawei Tech. Co. v. InterDigital Communications, Inc.*], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China); see also TURNER, *supra* note 3, at 161 (introducing the Hague District Court's opinion of SEP holder's obligation to negotiate in good faith).

79. Gabison, *supra* note 6, at 109; see also *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14, at ¶64 (“[I]n the absence of a public standard licensing agreement, and where licensing agreements already concluded with other competitors are not made public, the proprietor of the SEP is better placed to check whether its offer complies with the condition of non-discrimination than is the alleged infringer.”); see also Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHO [SAIBANSHO WEB] 1, 70 (Japan).

80. Melamed & Shapiro, *supra* note 2, at 2119, 2123-24.

81. See Li, *supra* note 2, at 437.

82. See *Microsoft Corp.*, 864 F. Supp. 2d at 1038.

granted to the implementer and define FRAND terms. On the other hand, it is possible “where an offer is so exorbitant and unjustified that it breaches the patentee’s duty to negotiate in good faith without needing to weigh it against a true [FRAND] agreement.”⁸³ In this way, the negotiation duty may be breached without requiring the court to resolve the licensing terms issue. These arguments are not mutually exclusive and are often raised as alternative defenses by the implementer.⁸⁴

The negotiation issues can be independent of both enforceability and licensing terms issues. For example, if the SEP holder seeks an injunction against or sues the implementer for patent infringement without negotiating a license agreement, some courts may hold that the SEP holder’s legal action could constitute an abuse of dominant market position and, thus, a violation of competition law.⁸⁵ Others, however, may rule that the SEP holder is estopped from seeking an injunction against the implementer after making the FRAND commitment.⁸⁶ The courts may reach these conclusions without deciding whether there is an enforceable contract⁸⁷ or defining FRAND licensing terms. On the other hand, courts also face the dilemma that SEP holders cannot effectively enforce their patents and prevent infringement without injunctive relief.⁸⁸ This is known as the

83. *See id.* at 1038-39. The term FRAND is sometimes used interchangeably with RAND (reasonable and nondiscriminatory). They have the same meaning in the realm of SEP licensing. *See* Rebecca Haw Allensworth, *Casting A FRAND Shadow: The Importance of Legally Defining “Fair and Reasonable” and How Microsoft v. Motorola Missed the Mark*, 22 TEX. INTELL. PROP. L.J. 235, 237 n.10 (2014); Gabison, *supra* note 6, at 102 n.7; Lee, *supra* note 2, at 39 n.3; *see also* Federal Trade Comm’n v. Qualcomm Inc., 2018 WL 5848999, at *2 (N.D. Cal. Nov. 6, 2018) (“The FTC and Qualcomm use the term FRAND, which stands for “fair, reasonable, and nondiscriminatory,” and is “legally equivalent” to RAND.”); J. Gregory Sidak, *Apportionment, FRAND Royalties, and Comparable Licenses After Ericsson v. D-Link*, 2016 U. ILL. L. REV. 1809, 1813 n.13 (2016); Richard H. Stern, *What Are Reasonable and Non-Discriminatory Terms for Licensing a Standard-Essential Patent?*, 37 EUR. INTELL. PROP. REV. 549, 549 n.1 (2015).

84. *See* Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 52 (Japan) (the implementer argued that the SEP holder breached both the obligation to enter into a license and the duty to negotiate in good faith).

85. *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14, at ¶ 77; *see also* TURNER, *supra* note 3, at 48, 155-56 (introducing EU commission’s decision and similar viewpoint that after making the FRAND declaration, an SEP holder’s application of injunction against the implementer is an abuse of dominant market position).

86. *See* Realtek Semiconductor, Corp. v. LSI Corp., 946 F. Supp. 2d 998 (2013); Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.).

87. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [721]-[722] (Eng.) (“The [C]JEU holds...that despite the exclusionary nature of the patentee’s right, implementers have a legitimate expectation that the SEP owner will grant licences on FRAND terms so that refusal to grant such a licence may in principle constitute abuse....[T]he existence of the legitimate expectation justifies the CJEU’s conclusion without having to enter into an argument about the enforceability of the FRAND undertaking. The CJEU has identified that implementers have such a legitimate expectation without having to decide that the undertaking can be enforced at the suit of an implementer.”). By the same token, enforceability of FRAND also does not depend on competition law. *See Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [723] (Eng.) (“[T]he FRAND undertaking is justiciable and enforceable in court irrespective of competition law. That gives implementers legal rights and obligations which the CJEU’s decision was not able to recognize.”).

88. *See* Li, *supra* note 2, at 438.

“hold-out” problem, where implementers may consider not accepting a FRAND offer in the negotiation if injunctions are not available to SEP holders.⁸⁹ Finally, as discussed above, the duty to negotiate in good faith can be manipulated to create enforceable obligations in some cases.⁹⁰

iv. Summary

In short, all three types of issues can manifest in FRAND litigation. They can exist dependently or independently of one another, depending on the causes of action or defenses raised by the litigants. There are, of course, other ways to categorize FRAND issues, but the three issues above capture the key complications that typically arise in FRAND disputes.

However, some issues common in FRAND-related litigation are not considered FRAND issues—most prominently, patent invalidity.⁹¹ While implementers may resort to challenging patent validity as a defense to patent infringement claims,⁹² this has no direct relationship with FRAND.⁹³ A successful validity challenge would render the examination of FRAND issues unnecessary, but whether a patent is valid has nothing to do with the patentee’s FRAND commitment. With or without a FRAND commitment, the patent’s validity will not be affected. English courts have made clear that the implementer can raise both the invalidity defense and breach of FRAND commitment since it found no contradiction warranting the implementer to raise alternative defenses.⁹⁴

89. See *Apple, Inc.*, 757 F.3d at 1331; Li, *supra* note 2, at 438.

90. See *supra* text accompanying note 63; see also Part IV.F.1.(1) (“[B]oth Chinese courts appeared to frame the question for the choice-of-law analysis as narrowly as possible to avoid having to take non-Chinese connections into account.”).

91. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.); *Apple, Inc. v. Qualcomm Inc.*, WL 3966944 (S.D. Cal., Sept. 7, 2017); *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711 (Eng.).

92. See *Ericsson, Inc.*, 773 F.3d at 1208, 1213-14; Li, *supra* note 2, at 445; see also TURNER, *supra* note 3, at 298 (explaining EC Commission’s decision that an SEP holder may violate its FRAND commitment if it imposes “a provision for termination of a licence in the event of a challenge to the validity of these [SEPs]”); Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 24-42 (Japan).

93. Patent invalidity does have an indirect impact in FRAND litigations in Europe. The issue of patent validity is regarded as being under the exclusive jurisdiction of the patent granting country according to Art. 22 of the Brussels I Regulations. This exclusive jurisdiction is interpreted to extend to validity issue raised in patent infringement cases as well. As a result, for patent infringement cases brought under the Brussels I Regulations in Europe, the SEP holder will have to file patent infringement in each of the countries where relevant patent is infringed instead of filing all infringement cases in one country. As will be seen below, this adds to the fragmentation of FRAND litigations and possibilities of different country’s law being applied. See *infra* Section III.A.2.

94. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [45] (Eng.) (“So here the defendant is entitled, in my judgment, to adopt a contingent position. In a contingent case like this, there is no basis on which the court could compel the

Other similar patent defenses, such as non-infringement⁹⁵ and patent exhaustion,⁹⁶ are not regarded as FRAND-specific issues either.

II. CHOICE OF LAW IN THE FRAND SETTING

A. *The Importance of Choice of Law in FRAND Cases*

The international nature of standards and standard-setting has thrust private international law into the heart of most FRAND disputes.⁹⁷ The private international law rules applied are thus important, as evidenced by widespread FRAND litigation around the world.

1. *International Nature of FRAND*

Most SSOs aim to create worldwide standards licensed under a FRAND license. As a result, most FRAND licenses are global and not limited to a single jurisdiction.⁹⁸ For example, IEEE requires patentees to grant licenses to “an unrestricted number of applicants on a *worldwide* basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination...”⁹⁹ As explained by the U.K. High Court, internationalism is the nature of the standards because “[a] benefit of standardization is that implementers will be able to make and sell products compliant with the standards all over the world. Another benefit is that users will be able to use the same equipment globally.”¹⁰⁰ With

defendants to accept a licence arrived at by approaching the matter as if the licensee was willing to take a licence without having a judicial determination of validity and/or infringement.”)

95. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.); *Apple, Inc.*, 2017 WL 3966944 (S.D. Cal. Sept. 7, 2017); Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 11-24 (Japan).

96. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.); Suzuki, *supra* note 24, at 244-46; Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [saibansho web] 1, 42-46 (Japan).

97. See Chang-Hwa Kim & Byungil Kim, *Korean Court Applying French Law, in* ANNOTATED LEADING PATENT CASES IN MAJOR ASIAN JURISDICTIONS 408, 414 (Kung-Chung Liu ed., 2017) (“The dispute surrounding the use of FRAND-encumbered patents has an inherent problem related to private international law...”).

98. Contreras, *Many Implications of Unwired Planet*, *supra* note 25, at 1.

99. See *Microsoft Corp.*, 864 F. Supp. 2d at 1027; *id.* at 1033 (“The objective of the [ITU] policy is to ensure compatibility of technologies and systems on a worldwide basis. To meet this objective, which is in the common interest of all those participating, it must be insured that the standardized technologies are accessible to everybody.”) (internal citation omitted); *Microsoft Corp.*, 2013 WL 2111217, at *7 (“The objective of ‘Recommendations’ and ‘Deliverables’ [of the ITU/ISO/IEC Common Patent Policy] is to ‘ensure compatibility of technologies and systems on a worldwide basis.’”); *id.* at *10 (“The purpose of the RAND commitment is to encourage widespread adoption of the standard.”); see also *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [90] (Eng.) (“[A]lthough ETSI is a European organization, it is truly international in scope.”).

100. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [91] (Eng.).

a worldwide standard, manufacturers will not waste valuable resources creating products incompatible with those from other manufacturers.¹⁰¹ In turn, this will drive down the sale price, which will ultimately benefit consumers.

For example, wireless standards for mobile phones are used internationally. Manufacturers from different countries eventually incorporate the same features into mobile phones sold to end-users in all parts of the world.¹⁰² SEP holders' FRAND commitments are therefore also worldwide commitments, namely in their commitment to license relevant patents to any future implementers no matter where they are located.¹⁰³ Moreover, these standards will generally include thousands of patented technologies granted in different countries and owned by SEP holders around the world. As a result, standards will invariably involve international parties, including SSOs,¹⁰⁴ SEP holders, implementers, and far-flung end-users. When disputes arise over FRAND, litigants are commonly SEP holders and implementers from different parts of the world.¹⁰⁵ International elements present in FRAND-related litigations therefore call for choice-of-law analysis as a threshold question. Only after the applicable country's law is identified can such a law resolve FRAND issues.

2. *Fragmented Litigations*

A caveat of establishing worldwide standards is risking fragmented litigations that result from thousands of patented technologies in multiple jurisdictions.¹⁰⁶ By definition, patents

101. See ETSI, *IPR Policy* 3.1 (2009) ("In order to further this objective the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and other applying ETSI STANDARDS and TECHNICAL SPECIFICATIONS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD or TECHNICAL SPECIFICATION being unavailable.").

102. See Huawei Jishu Youxian Gongsu Su Jiaohu Shuzi Tongxin Youxian Gongsu (华为技术有限公司诉交互数字通信有限公司) [Huawei Tech. Co. v. InterDigital Communications, Inc.], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China).

103. Gabison, *supra* note 6, at 105; see also *Microsoft Corp.*, 795 F.3d at 1050 ("[T]he purpose of the RAND commitment...is to encourage widespread adoption of the standard.").

104. ETSI for example is reported to have eight hundred members from sixty-six other countries. See *Apple, Inc.*, 2017 WL 3966944 at *1.

105. See *infra* text accompanying notes 169-174 (FRAND dispute between British and Chinese companies); *infra* text accompanying note 369 (FRAND disputes between Chinese companies and Japanese, Korean, and American companies).

106. See MARKETA TRIMBLE, GLOBAL PATENTS: LIMITS OF TRANSNATIONAL ENFORCEMENT 1 (2012) ("This fragmentation means that inventions are protected only in those countries where an inventor has filed a patent application and where a patent has been granted."); Contreras, *Global Rate Setting*, *supra* note 65, at 722-23 ("On one hand, patents are artifacts of national law and, by definition, have force only in the jurisdiction in which they are issued. On the other hand, the parties to FRAND

are territorial.¹⁰⁷ Apart from regional patents like the European patent,¹⁰⁸ they are generally created by countries that possess domestic monopolies in patented technology. Thus, to reap the benefits of patented technology internationally, technology owners must file their patent applications in multiple jurisdictions.¹⁰⁹ Historically, courts have been cautious in adjudicating cases involving foreign patents.¹¹⁰ Patentees will also generally need to seek protection for their patents by initiating separate proceedings in all jurisdictions where the patents are granted.¹¹¹

Globalization in business and technology development has made patent enforcement increasingly international,¹¹² while

disputes are often multinational corporations with operations (and patents) in dozens of jurisdictions across the globe.”).

107. See FREDERICK M. ABBOTT ET AL., INTERNATIONAL INTELLECTUAL PROPERTY IN AN INTEGRATED WORLD ECONOMY 80-81 (3d ed. 2015) (describing the role of territoriality in international patent system); MARKET TRIMBLE, GLOBAL PATENTS: LIMITS OF TRANSNATIONAL ENFORCEMENT 11-15 (2012) (explaining the principle of territoriality in the global patent system); Graeme B. Dinwoodie, *Developing a Private International Intellectual Property Law: The Demise of Territoriality?*, 51 WM. & MARY L. REV. 711, 714 (2009) (“Territoriality is a principle that has always received excessive doctrinal purchase in intellectual property law.”).

108. See John R. Thomas, *Litigation Beyond the Technological Frontier: Comparative Approaches to Multinational Patent Enforcement*, 27 L. & POL’Y INT’L BUS. 277, 294-95 (1996).

109. See Kendra Robins, Note, *Extraterritorial Patent Enforcement and Multinational Patent Litigation: Proposed Guidelines for U.S. Courts*, 93 VA. L. REV. 1259, 1278 (2007); Ryan M. Corbett, Note, *Harmonization of U.S. and Foreign Patent Law and H.R. 2795: The Patent Reform Act of 2005*, 18 FLA. J. INT’L L. 717, 718 (2006). The Patent Cooperation Treaty (PCT), signed in 1970, provides a unified procedure for filing patent applications in multiple jurisdictions of its member states. Under the treaty, patent applicants may make a single application in one language that is then examined by an international search authority. However, the PCT does not grant patents in multiple jurisdictions. The PCT application is still directed to each member state for patent examination and decision. See Ben McEniery, *Addressing the Impediments Copyright Imposes on the Use of Patent Specifications and Prior Art Documents to Improve Patent Quality*, 11 NW. J. TECH. & INTELL. PROP. 643, 661 (2013); Yahn-Lin (Franklin) Chu, Comment, *Supplemental Jurisdiction Over Foreign Patents: Permissible, So Long As Limitations Apply*, 26 EMORY INT’L L. REV. 283, 305 (2012).

110. See Dinwoodie, *supra* note 107, at 733 (“Historically, courts of a particular country...would only adjudicate cases involving alleged infringement of rights registered or recognized under the laws of that country and would dismiss claims asserting violation of foreign rights.”).

111. See Ben McEniery, *The Time Is Nigh: A Proposal for An International Patents System*, 16 CHI.-KENT J. INTELL. PROP. 167, 169-70 (2016); David G. Scalise & Daniel Nugent, Comment, *International Intellectual Property Protection for Living Matter: Biotechnology, Multinational Conventions and the Exception for Agriculture*, 27 CASE W. RES. J. INT’L L. 83, 105 (1995); TRIMBLE, *supra* note 106, at 4; see also CHESHIRE, NORTH & FAWCETT, *supra* note 15, at 816 (“Let us now assume that the patent has been registered in ten different European Community countries. If validity is raised as a defence, each of the ten European Community countries will have exclusive jurisdiction in relation to the patent that is registered in its country. The claimant would have to bring ten actions in ten different Member States. Under Article 8(1) each Member State would then apply its own law to determine whether there has been infringement.”). For Korea specifically, see Kwang Hyun Suk, Korea, in ENCYCLOPEDIA OF PRIVATE INTERNATIONAL LAW 2243, 2246 (“It has been generally thought that Korean courts have exclusive international jurisdiction in proceedings concerning the registration or validity of patents or other similar rights if the registration has taken place in Korea.”).

112. Chu, *supra* note 109, at 283.

worldwide standard setting and FRAND licensing further intensify patents' international features in the information, communication, and communications technology (ICT) industry. Combined with the territorial nature of patent litigation, international FRAND litigations are inevitable. For example, in the recent FRAND-related dispute between Apple and Qualcomm, Apple initiated eleven legal proceedings against Qualcomm and its subsidiaries in the U.S., U.K., Japan, China, and Taiwan.¹¹³ Samsung also claimed patent infringement and sought injunctive relief against Apple based on its FRAND-encumbered SEPs in multiple jurisdictions.¹¹⁴

Since countries have different choice-of-law rules and substantive laws concerning FRAND-encumbered SEPs, fragmented litigations can result in one jurisdiction finding infringement under one applicable law, while another jurisdiction finds no infringement under another applicable law despite both litigations involving disputes over the same technology between the same parties.¹¹⁵ Consequently, concerns have been raised that multinational enterprises may leverage such differences to their own advantage by forum shopping.¹¹⁶ SEP holders may choose to sue in jurisdictions that are predicted to apply a law that favors higher FRAND rates. Given the global nature of the FRAND license, the forum shopping problem will be more significant if a court can decide the FRAND rate in other jurisdictions as well, although it is still unclear whether such decisions will be respected by other courts.¹¹⁷

113. *See Apple, Inc.*, 2017 WL 3966944 at *4-5.

114. Richard Li & Richard Li-dar Wang, Reforming and Specifying Intellectual Property Rights Policies of Standard-Setting Organizations: Toward Fair and Efficient Patent Licensing and Dispute Resolution, 2017 U. ILL. J. L. TECH. & POL'Y 1, 14 (2017).

115. *See* Wenwei Guan, *Diversified FRAND Enforcement and TRIPS Integrity*, 17(1) WORLD TRADE REV. 91, 98 (2018) (“[WTO] Members’ practices as to the enforcement of FRAND terms across different jurisdictions vary substantially.”); Henningsson, *supra* note 27, at 454 (addressing the existence of different approaches to granting injunctive relief to SEP holders in different jurisdictions). *Cf.* Contreras, *Global Rate Setting*, *supra* note 65, at 707 (“[A]s the number of courts deciding FRAND-related cases has increased, so has disagreement over the interpretation of FRAND commitments.”). *But see* D. Daniel Sokola & Wentong Zheng, *FRAND in China*, 22 TEX. INTELL. PROP. L.J. 71, 73 (2013) (“Different institutional choices on issues such as injunctions, patent scope, and the determination of fair and reasonable royalties across multiple jurisdictions complicate the FRAND analyses.”).

116. Contreras, *Global Rate Setting*, *supra* note 65, at 725; Gabison, *supra* note 6, at 105.

117. Contreras, *Many Implications of Unwired Planet*, *supra* note 25, at 13; *see also* Unwired Planet LLC v. Huawei Technologies Co. Ltd., Huawei Technologies (UK) Co Ltd. [2018] EWCA Civ 2344 [83] (“It may be true that the approaches of courts around the world to the assessment of royalties under a worldwide licence are not at present wholly aligned but this is not surprising given the developing nature of this jurisdiction.”); Wolfgang V. Meibom & Johann Pitz, *Cross-Border Injunctions in International Patent Infringement Proceedings*, 19(8) EUR. INTELL. PROP. REV. 469, 477-78 (1997) (indicating the possibility of forum shopping by patent holders); TRIMBLE, *supra* note 106, at 48 (indicating that forum shopping may occur if “courts issued remedies

Arbitration may be a solution to the fragmented litigations problem.¹¹⁸ However, arbitration as a dispute-resolution mechanism is normally based on the arbitration agreement entered into by both parties.¹¹⁹ Parties must agree on arbitration in the first place, which may not always be a straightforward process. In a recent arbitration between InterDigital and Huawei, even though the parties agreed to submit their FRAND dispute to arbitration, they could not agree on the governing law.¹²⁰ Therefore, the use of arbitration to resolve FRAND disputes cannot avoid choice-of-law issues altogether.

B. *Conceptualizing Choice of Law for FRAND*

Fragmented litigations, FRAND issues' international nature, and SSOs' reluctance to define FRAND rights and obligations result in national courts having to resolve FRAND issues on their own, a task that may be too burdensome for any national court.¹²¹ Be that as it may, the courts' first step in resolving such issues is to start with the applicable law. This choice-of-law analysis is essential whether the court expressly conducts it or not. In this section, we will outline the choice-of-law process and highlight the relevance of FRAND issues therein.

The purpose of the choice-of-law analysis is to link the issue of the case to a specific country's law.¹²² This process can be divided into three different stages, namely, (i) characterization (or classification),¹²³ (ii) localization,¹²⁴ and (iii) application.¹²⁵ At the characterization stage, the court must assign the issue to one of the established categories of law. During localization, each category will in turn have its own

that covered multiple countries even when they were not the courts of the infringer's domicile");

118. Contreras, *Brief History of FRAND*, *supra* note 7, at 84-85; Henningson, *supra* note 27, at 462 (claiming that arbitration is a better approach to FRAND royalty).

119. GARY BORN & PETER B. RUTLEDGE, *INTERNATIONAL CIVIL LITIGATION IN UNITED STATES COURTS* 1157-58 (5th ed. 2011) ("[A]rbitration is almost always *consensual*—the parties must agree to resolve their differences by arbitration. Most arbitration agreements are included as clauses in commercial contracts and provide for the arbitration of any dispute that may arise in the future between the parties within a defined category. It is also possible, although much less common, for parties to an existing dispute to agree to settle their disagreement through arbitration."); Contreras, *Global Rate Setting*, *supra* note 65, at 729-30 ("Arbitration generally takes place when parties mutually agree to forego judicial resolution of a dispute in favor of private resolution of their differences.").

120. *InterDigital Commc'n, Inc. v. Huawei Inv. & Holding Co.*, 166 F. Supp. 3d 463 (S.D.N.Y. 2016).

121. It is not the purpose of this Article to discuss non-court proposals to resolve FRAND issues.

122. Adrian Briggs, *Private International Law in English Courts* 106 (2014).

123. These terms have been used interchangeably. In this paper, the term characterization will be used, though Cheshire, North & Fawcett, an important English hornbook on private international law, uses the term classification. *See* CHESHIRE, NORTH & FAWCETT, *supra* note 15.

124. Symeon C. Symeonides, *Choice of Law* 64 (2016).

125. *Id.*

choice-of-law rule known as a “connecting factor,”¹²⁶ which will connect the issue in question to a specific country’s law. The final stage, application, is where the court will apply this chosen country’s law to the case at hand. As far as FRAND issues are concerned, the most challenging stage is the initial characterization.

1. *Characterization*

As long as a country’s legal system has different categories of law (e.g., tort and contract), there will be a need for characterization.¹²⁷ Characterization is a necessary step even though the courts may conduct it implicitly or unconsciously.¹²⁸ Terminology aside, characterization is simply an elaborate term for “the process of [placing] labels on problems.”¹²⁹

While the idea seems simple enough, detailed rules regarding characterization are not always clearly set out, particularly in private international law.¹³⁰ In conflict cases, characterization can be more complicated due to the involvement of foreign elements.¹³¹ Most jurisdictions do not have clearly defined rules for characterization, and international treaties or guidelines are often silent on the topic.¹³² Despite heated debate for over a century,¹³³ no consensus has been

126. The connecting factor is usually formulated as “the law of the” thing or place. See BRIGGS, *supra* note 122, at 122. For a list of connecting factors under English law, see *id.* at 123-24.

127. SYMEONIDES, *supra* note 124, at 65 (“The characterization or ‘qualification’ process is not peculiar to conflict law. It is encountered in applying any legal rule, foreign or domestic.”); see also Christopher Forsyth, *Characterisation Revisited: An Essay in the Theory and Practice of the English Conflict of Laws*, 114 L.Q.R. 141, 158 (1998).

128. See CHESHIRE, NORTH & FAWCETT, *supra* note 15, at 42 (“Whether undertaken consciously or unconsciously, this process of classification must always be performed.”).

129. Russell J. Weintraub, *Commentary on the Conflict of Laws* 56 (6th ed. 2010).

130. DICEY, MORRIS & COLLINS, *THE CONFLICT OF LAWS* ¶ 2-015 (Lord Collins of Mapesbury et al. eds., 15th ed. 2012) (“Unfortunately . . . most of [the] cases give little indication of the method used by the court to reach its conclusion [on characterization]. The cases which do give such an indication are relatively few in number.”).

131. WEINTRAUB, *supra* note 129; see also DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-005 (“The problem of characterization arises whenever a system of conflict of laws is based on categories and connecting factors. In such a system, it is always necessary to determine which is the appropriate category in any given case.”).

132. See Regulation (EC) No. 593/2008 of the European Parliament and of the Council on the Law Applicable to Contractual Obligations, June 17, 2008, O.J. (L 177) 6 [hereinafter Rome I Regulation]; Regulation (EC) No. 864/2007 of the European Parliament and of the Council on the Law Applicable to Non-Contractual Obligations, July 11, 2007, O.J. (L 199) 40 [hereinafter Rome II Regulation]. Neither Regulation contains any specific article on characterization. Instead, characterization is regarded as a matter of interpretation of the relevant articles of the Regulations. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-007. The private international law codes of China, Japan and Korea also do not contain provision specific to characterization. *Id.*

133. According to Professor Lorenzen, the issue of characterization was first brought to attention by Franz Kahn in 1891. See Ernest G. Lorenzen, *The Qualification*,

reached on characterization in academia either.¹³⁴ Yet, its practical impact is significant and cannot be ignored.¹³⁵ Although this Article does not aim to tackle the various theoretical paradoxes of characterization, the discussion on characterization will be based on the following general positions that have gained wide acceptance among courts and academics.

First, the legal categories must be defined respectively. In FRAND cases, this means the court must define categories of contract, patent, and competition laws. The law under which these categories are to be defined is the *lex fori*, the law of the forum.¹³⁶ Most academics accept this as the only practical way to conduct characterization since at that stage of the trial, they would not have enough information on the alternative—the eventual applicable law (the *lex causea*)—to conduct characterization.¹³⁷ This approach of defining the legal categories, however, creates uncertainties in FRAND litigations, as such litigations often arise in multiple jurisdictions. Each of these jurisdictions may characterize issues differently according to their own *lex fori*.

Second, while characterization will use the legal categories of domestic law as starting points, these legal categories should not be mechanical.¹³⁸ It is widely accepted that flexibility must be given to foreign legal categories that have no equivalence under domestic law.¹³⁹ In our discussion on characterization, however, this will not normally be a problem since the relevant categories (patent, contract, and competition) are all well-defined categories, with the latter two usually defined by statutes.

Classification or Characterisation Problem in the Conflict of Laws, 50 YALE L.J. 743 (1941).

134. DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-008 (“The problem of characterization has given rise to a voluminous literature, much of it highly theoretical.”).

135. Forsyth, *supra* note 127, at 141.

136. DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-011 (“The great majority of Continental writers follow Kahn and Bartin in thinking that, with certain exceptions, the process of characterization should be performed in accordance with the domestic law of the forum.”); *see also* RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 7(2) (1971) (“The classification and interpretation of Conflict of Laws concepts and terms are determined in accordance with the law of the forum . . .”); Lorenzen, *supra* note 133, at 745-46 (“Both Kahn and Bartin concluded that . . . each forum would have to deal with them on the basis of its own internal law The great majority of writers have been forced to agree with Kahn and Bartin.”).

137. *See* BRIGGS, *supra* note 122, at 107 (“It is inevitable that this exercise is undertaken by reference to English law, for at this preliminary stage the court is far from yet knowing whether, still less which, foreign law is going to be relevant.”); *see also* Stefania Bariatti, *Classification (Characterization)*, in 1 ENCYCLOPEDIA OF PRIVATE INTERNATIONAL LAW (Jürgen Basedow et al. eds., 2017) (concluding the theory of *lex fori* is “the largely prevailing” and the “predominant” one).

138. *See* Forsyth, *supra* note 127, at 150-53.

139. Lorenzen, *supra* note 133, at 750 (“[A]s regards the qualification of legal transactions, the classification or characterization may have to be upon a broader or narrower basis than the internal law of the forum if it is to be suitable for the needs of the Conflict of Laws.”); BRIGGS, *supra* note 122, at 107 (“[T]he process of characterization is a technique devised for the sole purpose of making the common law rules of private international law work properly. It is therefore permissible for English law as it applies here to be more flexible than the corresponding rules of English domestic law may be.”).

That said, their exact boundaries may not be identical among different countries.

Third, plenty of debate has circulated on what is the subject matter to be characterized. There are schools of thought which support characterizing either the issue or the rule of law.¹⁴⁰ For the purposes of this paper, it is practical to characterize the issue rather than the rule of law.¹⁴¹ This will avoid the well-reported problem of having a gap (the case where both competing rules of law are characterized to be inapplicable) or a replicate (a case where both competing rules of law are characterized to be applicable).¹⁴² Characterizing the issue instead of the rule of law appears to align with the courts' practices.¹⁴³

Fourth, on what basis should characterization be performed? When faced with two different categories, what kind of factors should a court consider in deciding into which categories the relevant issue will fall? The examination of precedents below will attempt to derive the appropriate considerations to take into account in characterizing FRAND issues.¹⁴⁴

2. *Localization*

Once characterization is completed, the court will use the connecting factor of the chosen category to identify the applicable law. In a FRAND case where an implementer sues a SEP holder for breach of contract, an English court may, for example, characterize the validity of a SEP holder's declaration to ESTI as an issue of contract. According to the choice-of-law rule in England, the connecting factor for the validity of contract is governed first by the law of the country expressly

140. *Cf.* DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-009 ("What exactly is it that is characterized- an issue, a set of facts or a rule of law? Obviously, it can be any of these, depending on the way the court approaches the problem.").

141. *See* Macmillan Inc. v. Bishopsgate Investment Trust Plc (No. 3) [1996] 1 W.L.R. 387 ("I would regard it as plain that the rule of conflict of laws must be directed at the particular issue of law which is in dispute, rather than at the cause of action which the plaintiff relies on."); BRIGGS, *supra* note 122, at 110 ("It is usually understood that issues, rather than rules of law, are characterized."); SYMEONIDES, *supra* note 124, at 64 ("Modern systems, such as the Restatement (Second) and recent conflicts codifications, employ rules or approaches that . . . are constructed around narrower categories or 'issues.'"); DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 1-081 ("A fundamental problem in the conflict of laws is whether the connecting factor should be determined by the *lex fori* or by the *lex causae*. Since the determination of the *lex causae* depends on the determination of the connecting factor, it is no longer controversial among learned writers that the connecting factor should be determined by the *lexi fori*.").

142. *See* BRIGGS, *supra* note 122, at 111-12; *see also* In Re Cohn [1945] 1 Ch 5 (Eng.).

143. *See* Waddington Ltd. v. Chan Chun Hoo Thomas et al. [2008] H.K.C.F.A.R. 1498 ¶ 55 (Ct. Final App.). Lord Millet appeared to have characterized leave requirement in derivative action (a legal issue) as a procedural matter and thus is to be governed by the *lex fori*. *Id.*

144. *See infra* Part IV.

chosen by the parties (e.g., French law), if such an agreement exists.¹⁴⁵ Alternatively, if the English court characterizes the issue as one of patent law (e.g., because this is a patent license agreement), the relevant connecting factor for infringement of intellectual property rights, the *lex loci protectionis* (the law of the country for which protection is claimed) will be applied instead.¹⁴⁶ If the patent in question is registered in England, which will likely be the case since FRAND litigation is usually filed in the country where the patent is registered,¹⁴⁷ then English law will be applicable.

If FRAND litigation is filed instead, or has another parallel litigation in a different country, the result of this localization stage may differ since other countries may use a different set of connecting factors. For example, in England and other member states of the European Union, competition law matters—subject to certain exceptions—are governed by law of the country where the market is affected.¹⁴⁸ However, most other countries usually do not have a connecting factor that allows the court to apply foreign competition law. Thus, even if both countries characterize the same issue as that of competition law, the applicable law may still be different.

3. *Application*

Once a connecting factor is identified, it should be rather straightforward to find the applicable law. In the example above on the validity of an ETSI declaration, if the English court characterized it as a contractual matter and applied the governing law designed by the parties' agreement, French law will apply because there is a French governing law in the ETSI policy.

There can still be some complications in the actual application of French law by the English court.¹⁴⁹ Common law jurisdictions regard foreign law as a question of fact.¹⁵⁰ The parties will thus be in charge of providing evidence in proving the context of foreign law. If they fail to raise a foreign law issue or provide evidence, the court will simply assume that the foreign law is the same as domestic law. On the other hand, some civil law systems assume, perhaps unrealistically, that the

145. Rome I Regulation, *supra* note 132, art. 3(1),

146. Rome II Regulation, *supra* note 132, art. 8(1),

147. *See* sources cited *supra* note 111.

148. *See* Rome II Regulation, *supra* note 132, art. 6(3); *see also* Véronique Allarousse, *A Comparative Approach to the Conflict of Characterization in Private International Law* 23(3) C.W.R.U. J. INT'L L. 479, 479 (1991) ("The forum and the foreign country may have the same conflict rule and may interpret the connecting factor in the same way, but may disagree on the result because they characterize the question differently.").

149. *See* SYMEONIDES, *supra* note 124, at 68.

150. *See* BRIGGS, *supra* note 122, at 99. This same position is taken by some civil law jurisdictions. *See* Yuko Nishitani, *General Report*, in *TREATMENT OF FOREIGN LAW – DYNAMICS TOWARDS CONVERGENCE* 19 (Yuko Nishitani ed., 2017).

court knows the law, including foreign law.¹⁵¹ Thus, this discrepancy could lead to different results, even if both the common law and civil law courts attempt to apply the same foreign law. In any event, both systems will likely rely on expert witnesses in ascertaining the foreign law's content.¹⁵²

4. *Incidental Question and Dépeçage*

In addition to the three theoretical steps described above, more complex cases can bring certain advanced choice-of-law issues. In FRAND litigation, one of the most common situations is determining whether a FRAND declaration can constitute an enforceable license agreement that may serve as a defense for the implementer against a charge of patent infringement.¹⁵³ Here, unlike the example above where the FRAND declaration's validity may be characterized as either contractual or patent-related, there are two issues to characterize: the main question on patent infringement, and the secondary question on the enforceability of the FRAND declaration. This secondary question is called the "incidental question" in private international law.¹⁵⁴

Incidental questions (sometimes known as "preliminary questions") refer to situations where in determining a main question governed by a foreign law, it becomes necessary to define the choice-of-law issue in a secondary question.¹⁵⁵ While the incidental question could involve numerous highly technical issues,¹⁵⁶ in the example above the incidental question centers on characterization.¹⁵⁷ There are two likely options the court may pursue. First, the court can characterize the incidental question in the same category as the main question (i.e., treating validity of the FRAND declaration as a patent matter and applying the *lex loci protectionis*). This effectively ignores the

151. See Koji Takahashi, *Foreign Law in Japanese Courts – A Comparison with the English Approach: Idealism Versus Pragmatism*, SING. J. LEGAL STUD. 489, 491 (2002).

152. *Id.*

153. See Li, *supra* note 2, at 441.

154. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-048; see also Allan E. Gottlieb, *The Incidental Question Revisited—Theory and Practice in the Conflict of Laws*, 26 INT'L & COMP. L.Q. 734, 736 (1977).

155. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-048; Gottlieb, *supra* note 154, at 736.

156. These include whether the incidental question shall be governed by *lex fori* or *lex causae*. Gottlieb, *supra* note 154, at 751-60 (summarizing the views of different commentators). For a discussion of the issue under Japanese law, see Takami Hayashi, *Choice-of-Law Rules to Answer an Incidental Question*, 56 JAPANESE Y.B. INT'L L. 357 (2013).

157. Gottlieb listed seven contexts under which incidental question may arise. This fits into the sixth context: "Where the choice-of-law rules of the forum and the country governing the main issue are the same but the characterization of the *incidental issue* (not connecting factor) differs." Allan E. Gottlieb, *The Incidental Question in Anglo-American Conflict of Laws*, 33 CAN. B. REV. 523, 528 (1955).

validity of contract as a separate incidental question.¹⁵⁸ Second, the court can characterize the incidental question separately according to its usual category (i.e., treating validity of the FRAND declaration as a contractual matter and applying the governing law of contract). If this latter approach is adopted, the two issues will be governed by two separate connecting factors and, potentially, two separate countries' laws. This issue-by-issue analysis in choice of law is sometimes called "dépeçage."¹⁵⁹ Note that the incidental question is only one of the circumstances when dépeçage may happen.¹⁶⁰ As we will see in the judicial precedents below, the applications of incidental questions and dépeçage are far from consistent.

C. *The Difficulties in Choice of Law in FRAND*

The difficulties in characterizing multiple FRAND issues under different categories of law pose significant challenges to courts, both individually and collectively. Individually, a court faced with a FRAND litigation must characterize the FRAND issues under its own private international law rules, identify the choice-of-law rules, and thus determine the applicable law. This exercise is difficult because characterization itself is widely regarded as the most difficult private international law question,¹⁶¹ not to mention courts usually must characterize multiple FRAND issues in the same case.

1. *Entanglement of Patent, Contract, and Competition Laws*

The entanglement of patent, contract, and competition laws sets FRAND disputes apart from typical international patent litigations.¹⁶² All three categories usually play a role in FRAND-related litigations. Since each category has its own connecting factor, characterizing a FRAND issue as falling into a specific

158. This is a fairly common situation. See CHESHIRE, NORTH & FAWCETT, *supra* note 15, at 53 ("The majority of the decisions in which an incidental question has arisen have applied the law applicable to the main issue, though often without an apparent realization that an incidental question was involved.").

159. See SYMEON C. SYMEONIDES, CODIFYING CHOICE OF LAW AROUND THE WORLD: AN INTERNATIONAL COMPARATIVE ANALYSIS 220 (2014). Dépeçage is incorporated in Article 25(2) and 25(3) of the Korean Private International Act. See Moonsook Kim, *On the Korean Private International Law*, 51 JAPANESE Y.B. INT'L L. 327, 335 (2008). Cf. Peter Mankowski, "Dépeçage," in 1 ENCYCLOPEDIA OF PRIVATE INTERNATIONAL LAW 526ff (Jürgen Basedow et al. eds., 2017) ("[A] divergent characterization of various issues leading to the applicability of different conflict rules must not be regarded as dépeçage.").

160. See Peter Hay, *European Conflicts Law After the American "Revolution"—Comparative Notes*, 2015 U. ILL. L. REV. 2053, 2066 (2015). For readers interested in dépeçage, they may refer to specific works thereon, for example, Willis L. M. Reese, *Dépeçage: A Common Phenomenon in Choice of Law*, 73 COLUM. L. REV. 58 (1973).

161. Forsyth, *supra* note 127, at 141 ("Characterisation is the most fundamental and difficult problem of the conflict of laws.").

162. See Melamed & Shapiro, *supra* note 2, at 2122-37 (arguing that together with contract and patent law, antitrust law is desirable to constrain opportunistic anticompetitive conduct by SEP holders and SSOs).

category may lead to a different country's law applying to that issue.

What further complicates characterization is the necessity to characterize multiple FRAND issues. As mentioned above, FRAND issues on enforceability, definition, and negotiation may all be present in a single case. Each of these issues could be characterized separately in the three categories of law. For example, it is possible to characterize the enforceability issues as contractual issues, the licensing terms issues as patent law issues, and the negotiation issues as competition law issues. One tool at the court's disposal is treating FRAND issues as incidental questions, an option this Article will explore in more detail in the discussion of the judicial precedents.

Finally, a quick note must be made about the competition law issue in private international law. Traditionally, competition law was considered in the domain of public law, as the competition law regime was overseen by a governmental body. This effectively removed competition law from the field of private international law. However, it has become common for competition law in various jurisdictions to provide private enforcement.¹⁶³ With it now being a private cause of action enforceable by a non-government individual, private international law becomes relevant¹⁶⁴ and potentially outcome determinative in FRAND cases. It is also possible to separate civil matters as incidental questions even if the competition case is initiated by the government agent overseeing competition enforcement.¹⁶⁵

2. *Conflicting Choice-of-Law Rules in Parallel Proceedings*

Since a typical FRAND dispute may involve proceedings in multiple jurisdictions—and each jurisdiction has its own characterization and connecting factors—different jurisdictions may reach irreconcilable results. As a whole, the inherent uncertainty of this choice-of-law process makes the contemporary standard-setting system costly and user-unfriendly to SSOs, patentees, and implementers. Eventually, the transaction costs involved, most notably the costs incurred in FRAND negotiations and litigations, will place an undue burden on consumers. This unfriendly choice-of-law problem is summarized in the diagram below.

163. For an introduction on private enforcement of competition law, see Clifford A. Jones, *Private enforcement of antitrust law in the EU, UK and USA* (1999).

164. For an excellent discussion of how competition law interacts with conflict of laws in the European context, see *INTERNATIONAL ANTITRUST LITIGATION: CONFLICT OF LAWS AND COORDINATION* (Jürgen Basedow et al. eds., 2012).

165. *See* Fed. Trade Comm'n v. Qualcomm Inc., 2018 WL 5848999 (N.D. Cal. Nov. 6, 2018); *see also infra* text accompanying notes 272-278.

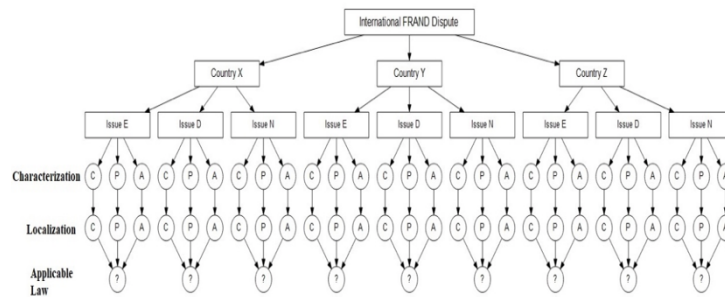


Diagram 1 – The Unfriendly Choice-of-Law Problem

In this Diagram, Issues E, D, and N stand for Enforceability, Licensing Terms (Definition) and Negotiation issues. Categories C, P, and A stand for contract, patent and antitrust (competition).

As the diagram shows, when so many variables exist in the choice-of-law process (different courts, different FRAND issues, different characterizations, and different choice-of-law rules), it makes identifying the applicable law highly unpredictable.

III. FRAND PRECEDENTS FROM SIX JURISDICTIONS

This Part reviews various precedents on FRAND decided by six jurisdictions, namely England, Germany, the United States, Japan, Korea, and China. Such jurisdictions are major players in the world's standard-setting process, particularly in regard to advanced technologies. Moreover, there are cases in all six jurisdictions involving standards developed from ETSI, a major SSO chartered under French law. ETSI's membership and policy documents were also governed by French law.¹⁶⁶ In addition, all precedents were decided relatively recently.¹⁶⁷ The choice-of-law approaches adopted therein could reasonably be compared and contrasted against each other, especially since some of the cases relate to the same FRAND disputes. We believe cases in these six jurisdictions have presented major issues concerning private international law in the context of FRAND. However, this is by no means an empirical exercise since only the major cases are included.

A. United Kingdom

In May 2017, the UK High Court handed down *Unwired*

166. Contreras, *Many Implications of Unwired Planet*, *supra* note 25, at 7.

167. Apart from some U.S. cases, all the cases covered in this Part were decided after 2012.

Planet v. Huawei, its first decision determining FRAND royalties and setting clear guidance for how an SEP holder and implementer should negotiate for a FRAND license.¹⁶⁸ The decision also provides a lens through which the court's approach to private international law concerning FRAND can be understood, especially since all three FRAND issues were involved in this case. Because this case provides adequate context for discussion on all FRAND issues, we will discuss it at length below.

In *Unwired Planet*, the SEP holder sued the implementer in English court for patent infringement.¹⁶⁹ The SEP holder sought damages and injunctive relief against the implementer. The implementer argued for breach of contract and EU competition law as defenses. The court addressed these defenses separately under the topics of "FRAND" and "Competition Law," respectively.¹⁷⁰

1. *Enforceability*

On the contract enforceability issue, English courts clearly characterized all three sub-issues into the contract category.¹⁷¹ Having referred to the choice-of-law clause designating French law as governing the ETSI policy,¹⁷² the court found under French law that (i) there was a valid contract between ETSI and the SEP holder¹⁷³ and (ii) the implementer was entitled to a third-party right to receive a license on FRAND terms from the patentee under the French legal doctrine of *stipulation pour autrui* (which stands for "an agreement for the benefit of third parties").¹⁷⁴ Since these granted the implementer a contractual right against the patentee, the court saw no need to discuss the issue of direct contract under French law.¹⁷⁵ On these enforceability sub-issues, the court relied exclusively on both parties' French law expert witnesses' testimonies. While the court did not cite the relevant choice-of-law rule, there was clearly an application of Article 3(1) of the Rome I Regulation,

168. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711 (Eng.).

169. *Id.*

170. *Id.* at [24].

171. *Id.* at [99] ("My judgment on the strike-out in April 2015 noted that FRAND could be considered in three relevant legal contexts: (1) compliance with the FRAND commitment as a matter of contract At this stage I am concerned with the first context.") (citations omitted)).

172. *Id.* at [100] ("Article 12 of the ETSI IPR Policy provides that it is governed by French law and the IPR declaration forms also refer to French law. They provide that the construction, validity and performance of the undertaking is governed by French law.")

173. *Id.* at [108]-[32].

174. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [139] (Eng.).

175. *Id.* at [145] (through the concept of unilateral commitment under Article 1100-1 of the French Civil Code).

which sets out the choice-of-law rules on contractual obligations in civil and commercial matters that apply not only to England, but to all member states of the European Union.¹⁷⁶

This third-party right to receive a license on FRAND terms, however, is not specifically enforceable.¹⁷⁷ In consequence, the SEP holder is not contractually obliged by its FRAND commitment to accept an offer made by an implementer, even if made on FRAND terms. The judge held obiter though that FRAND would still be an equitable consideration in the court's deliberation of remedies.¹⁷⁸ Normally, no relief for patent infringement will be granted in that case.¹⁷⁹

Although the English court did not utilize the terminology, this is an illustration of the concept of incidental question. Under prevailing English choice-of-law rules, equity is not an established category by itself, and courts tend to slot equity issues in the closest established categories.¹⁸⁰ In terms of the remedy for patent infringement, the closest category appears to be patent, since it is under patent law that an injunction or damages would be assessed. Thus, the issue of remedy is characterized as one of patent law and governed according to English law.¹⁸¹ The third-party right under FRAND, characterized as contract and governed by French law, will, however, constitute the incidental question in the remedy issue. Thus, this technique is seemingly used, perhaps subconsciously,¹⁸² by the English court in this case.

The enforceability issue is also crucial in the judgment's later discussion on competition law. As mentioned above, facing a charge of competition law violation, an SEP holder could also use a FRAND undertaking as a defense.¹⁸³ This was the case in *Unwired Planet*, where the SEP holder argued that it did not have market dominance because, among other things, the FRAND undertaking necessarily weakened the SEP holder's market position. Judge Birss read this defense by the SEP holder as an enforceability issue:

176. Rome I Regulation, *supra* note 132, art. 1(1).

177. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [143] (Eng.).

178. *Unwired Planet v. Huawei*, [2015] EWHC (Pat) 1029, [29] (Eng.) (“Even if a patentee is not contractually obliged by the ETSI IPR Policy to accept FRAND terms offered by a defendant, perhaps a court might refuse to grant an injunction in such a case.”).

179. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [143] (Eng.).

180. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-037 (“The most persuasive authority tends to suggest that where an obligation which would be equitable in domestic law arises in connection with another legal relationship for which a specific choice of law rule exists, the equitable claim will be characterised as falling within the domain of that other relationship and governed by the same law.”).

181. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [799] (Eng.) (citing the English patent law in discussing of damages).

182. See Gotlieb, *supra* note 154, 734 (1977) (discussing how incidental questions are often applied by courts subconsciously).

183. See TURNER, *supra* note 3, at 293 (“Holders of essential intellectual property rights may behave anti-competitively by refusing to grant licences, or requiring excessive royalties, or imposing other unfair terms, unless prevented from doing so by FRAND commitments.”).

[The SEP holder's] view was that one needed to ask to what extent the FRAND undertaking was, in practice, a constraint on behavior of a SEP owner. Part of his point was that uncertainties about the enforceability of the FRAND undertaking, which I have addressed above and which undoubtedly existed, do not mean the undertaking has no effect in practice.¹⁸⁴

Although no choice-of-law analysis was made in the competition law section of the judgment, as the enforceability issue was characterized as contractual at the outset, French law should govern this issue.¹⁸⁵ Such treatment is reasonable because it is the same enforceability issue regardless of whether it is a breach of contract or competition law.¹⁸⁶ In the competition law part of the judgment, the court also cited the evidence from French law experts as support on this point.¹⁸⁷ This is another application of the incidental question doctrine.

2. *Licensing Terms*

Despite the court clearly applying French law to the enforceability issues of the FRAND undertaking, it is not clear that the court applied French law to the licensing terms issue. As previously discussed, the court referred extensively to French law experts' opinions in examining the enforceability issues. The heading in the relevant section is also titled "Enforceability of the ETSI FRAND undertaking and French law."¹⁸⁸ However, no reference to French law or French law experts is found in the part of the judgment regarding licensing terms (starting with the subsection "How to assess what is FRAND").¹⁸⁹ In fact, the only case cited in that subsection is an English case.¹⁹⁰ Thus, it is unlikely that the court formulated the

184. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [650] (Eng.).

185. *Id.* at [98] ("The questions of its enforceability and the legal basis for it are not purely academic . . . because the degree of uncertainty around its enforceability plays a part in the argument about abuse of dominance.").

186. If the court will still consider an unenforceable FRAND undertaking as a relevant factor for the dominance issue in the context of competition law, then we may have a fourth FRAND issue (beyond enforceability, licensing terms, and negotiation). This aspect was not discussed since, as the quote indicated, the FRAND undertaking in this case is enforceable. Even if the court were to take into consideration the FRAND undertaking, the economic impact in terms of restraining the SEP holder would be minimal since the FRAND undertaking is not enforceable in courts. *See id.* at [654] ("It seems to me that when considering the specific position of an individual SEP owner's conduct the only appropriate way to assess whether that SEP owner is in a dominant position as a matter of fact is to take the practical effect of the FRAND obligation into account.").

187. *Id.* at [656].

188. *Id.* at [98].

189. *Id.* at [170]-[176].

190. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [172] (Eng.) (citing *Smith Kline & French Laboratories Ltd's (Cimetidine) Patents* [1990] RPC 203).

FRAND valuation under French law.

Arguably, the English court has effectively designed its own valuation method under English law. This is evident in Birss J.'s statement that "courts all over the world have now set FRAND rates. I am sure the English court can do that as well."¹⁹¹ The English court went on to establish certain principles in determining the FRAND royalty:

1. It is appropriate to determine a benchmark rate governed by the value of the SEP holder's portfolio;¹⁹²
2. The non-discrimination limb of FRAND does not consist of the so-called "hard edged" component that justifies an implementer demanding a lower rate than the said benchmark rate;¹⁹³
3. The FRAND royalty can be determined by reference to comparable licenses;¹⁹⁴ and
4. Counting patents is inevitable in the process of assessing FRAND royalty.¹⁹⁵

The court, however, did not offer a solid legal basis for ignoring the choice-of-law rule. Since it is not entirely clear which law the English court applied, it is difficult to deduce the choice-of-law rule and the relevant characterization. Nevertheless, considering that the related issue of enforceability was characterized as a contractual issue, the most reasonable characterization of the licensing terms issue should fall under contract law as well. However, the English court had two countries' laws governing the enforceability and content of the contract separately. This determination is unusual since the governing law of contract usually covers both the substance of performance of obligation and interpretation of the contract.¹⁹⁶ The court should have applied French law on the licensing terms issues, which in turn would have been ascertained by French law experts.¹⁹⁷

One possible, yet unconvincing, explanation is that the English court simply did not regard the licensing terms issue as a legal issue. Throughout that part of the judgment, the court clearly considered various economists' opinions of FRAND. It may be argued that the court looked at FRAND valuation as a purely factual issue to be determined not by law but by economic analysis.¹⁹⁸ However, this argument leaves much to

191. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [169] (Eng.).

192. *Id.* at [806(8)].

193. *Id.* at [806(9)].

194. *Id.* at [806(10)].

195. *Id.* at [806(11)].

196. See Rome I Regulation, *supra* note 132, art. 12; see also DICEY, MORRIS & COLLINS, *supra* note 130, ¶¶ 32-141, 32-125.

197. Sale of Goods Act 1979 c. 54, § 8(2) (Eng.).

198. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [138] (Eng.) ("Whether terms are FRAND is an objective matter for a given set of circumstances . . .").

be desired. Even if economic views must be considered, the meaning of reasonableness under the applicable law should still form the starting point on any discussion of valuation. For centuries, legal principles have been developed to determine “reasonable price” both in England and other jurisdictions. For example, under Uniform Commercial Code 2-305(1) in the U.S., if the price is left to be agreed by the parties and they fail to agree, the price is a reasonable price at the time for delivery.¹⁹⁹ Similarly, section 8 of the U.K. Sale of Goods Act also stipulates that the buyer must pay a reasonable price when no price is fixed in the contract. A body of case law has been developed in both jurisdictions to determine what is a “reasonable price.”²⁰⁰ The U.K. Unfair Contract Terms Act also has a test of “reasonableness” and “[t]here is a large body of reported cases which illustrate in general terms the way in which the courts may approach the test of reasonableness contained in the Act.”²⁰¹

Alternatively, one could argue that the court has characterized the licensing terms issue as a patent issue. With U.K. patents,²⁰² the relevant choice-of-law rule, *lex loci protectionis*, would indeed point to English law being the governing law.²⁰³ However, no discussion on that choice-of-law rule, nor any reference to English patent law, was included in that part of the judgment. Characterizing the licensing terms issue as patent also does not fit with the enforceability issue, which has been characterized as a contractual issue. Assuming the licensing terms issue should have been characterized as a contractual issue, the English court’s covert application of English law was a violation of the contractual choice-of-law rule under the Rome I Regulation.²⁰⁴

Nevertheless, one thing that the English court did well in the analysis of the licensing terms issue was clarifying that the issue should not fall into the domain of competition law. According to the court, the function of competition law is to condemn excessive pricing. Defining a FRAND rate “is not and

199. See U.C.C. § 2-305(1) (AM. LAW INST. & UNIF. LAW COMM’N 1977). Parties can make a contract for sale despite there being nothing specified on price; in that case, the price will then be a reasonable price at the time for delivery. *Id.*

200. See E. ALLAN FARNSWORTH, CONTRACTS 205 n.16 (4th ed. 2004) (“[A] market price is not necessarily a ‘reasonable’ price.”) (citing *Spartan Grain & Mill Co. v. Ayers*, 517 F.2d 215 (5th Cir. 1975)); see also JOSEPH CHITTY, CHITTY ON CONTRACTS: GENERAL PRINCIPLES ¶ 44-51 (Sweet & Maxwell eds., 31st ed. 2012) [hereinafter CHITTY ON CONTRACTS] (“[C]urrent market price may or may not be a reasonable price . . .” (citing *Acebal v. Levy* (1834) 10 Bing. 383 (Eng.))).

201. See CHITTY ON CONTRACTS, *supra* note 200, ¶ 15-101.

202. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [1] (Eng.) (“This action began in March 2014 when Unwired Planet sued Huawei, Samsung and Google for infringement of six UK patents from their portfolio.”).

203. Rome II Regulation, *supra* note 132, art. 8(1).

204. Rome I Regulation, *supra* note 132, art. 3(1).

cannot be necessarily co-extensive with competition law.”²⁰⁵ In other words, competition law can negatively state what is excessive, but it cannot positively state what would qualify as FRAND. Thus, while the court did not expressly state the characterization of the licensing terms issue, it did correctly indicate that it should not be characterized under competition law.

The court’s refusal to characterize the licensing terms issue under competition law is further emphasized in the competition law portion of the judgment. The court discussed how unfair and excessive pricing could be considered a form of abuse. Here, Judge Birss appeared to have at least separated the licensing terms issue from the general competition law issue:

I hold as a matter of law that the boundary of what is and is not a FRAND rate is different from the boundary of what is and is not an unfair price contrary to Art 102(a). If the rate imposed is FRAND then it cannot be abusive. But a rate can be higher than the FRAND rate without being abusive too.²⁰⁶

If we assume the licensing terms issue should have been characterized as contractual, then in the context of the discussion on unfair excessive pricing as a form of abuse, the licensing terms issue should also be characterized as contractual and be governed by French law. This is so notwithstanding that the licensing terms issue here arose in the context of competition law. Again, this is a utilization of the “incidental question” technique. Such an approach maintains the necessary consistency, because both are licensing terms issues arising in the same case despite falling under two different defenses.

In the assessment of damages, the court also referred to the licensing terms issue.²⁰⁷ Here, the court was of the view that damages should be assessed by a reference to the FRAND rate that the court had determined.²⁰⁸ While the court evidently viewed the use of damages as both a remedy and the imposition of patent law liability, the calculation of damages was a separate issue.²⁰⁹ Even if the court did not make the characterization clear, it should once again be regarded as an incidental question governed by the governing law of contract (i.e. French law).

3. *Negotiation*

205. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [153] (Eng.).

206. *Id.* at [806] (“The boundaries of FRAND and competition law are not the same. A rate may be above the FRAND rate but not contrary to competition law.”).

207. *Id.* at [796]-[802].

208. *Id.* at [799].

209. *Id.* at [800] (“For a patentee who licences their rights the answer is the amount of money the patentee would have earned in licensing, and the way to work that out is to decide what a willing licensor and willing licensee would have agreed upon as a matter of fact in all the circumstances. A willing licensor and willing licensee would have agreed on the very same licence I have found to be FRAND. So the patentee’s loss is the sum they would have earned under that licence from the infringing acts.”).

Similarly, the court also failed to provide a clear choice-of-law analysis on the negotiation issue. The court discussed the negotiation issues in two parts of the judgment, first in the “FRAND” section then in the “Competition” section.²¹⁰ In the FRAND section, the court stated that FRAND entailed both the SEP holder’s and implementer’s obligation to negotiate in good faith with each other:

FRAND needs not only be a description of a set of licence terms but is also apt to describe the process by which a set of terms are agreed. In argument Huawei’s counsel used the expression “a FRAND approach” to describe how negotiations ought to proceed. That is accurate and it bears on the parties’ obligations arising as a result of the FRAND undertaking Both patentees and implementers should take a FRAND approach to the negotiation of a licence under a SEP or SEP portfolio governed by a FRAND undertaking. The patentee is obliged by contract to take a FRAND approach to the negotiation and to grant a licence on FRAND terms. The implementer must take a FRAND approach to the negotiation and accept a licence on FRAND terms if it wishes to take advantage of the constraint on the patentee’s rights imposed by the FRAND undertaking. A FRAND approach to negotiation does not mean that parties cannot negotiate in good faith and a FRAND approach will allow for starting offers which leave room for negotiation. The fact an opening offered rate is higher than the true FRAND rate does not mean of itself that a patentee has failed to take a FRAND approach any more than the converse could be said about an implementer. On the other hand, making extreme offers and taking an intransigent approach which prejudice fair, reasonable and non-discriminatory negotiation is not a FRAND approach.²¹¹

This emphasis on the procedural aspect of FRAND is certainly reasonable, but the court did not state under which law such a finding was made. However, considering the lack of reference to French law experts and the conceptual difficulty of treating negotiation as a factual issue, it seems that this is another covert application of English law. For this part of the

210. Arguably, there could be a third place where negotiation was involved. When discussing whether there was unfair excessive pricing that could constitute “abuse,” the SEP holder argued that their offer was made in good faith negotiation. *Id.* at [759]-[761]. This point however was not further elaborated by the court.

211. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [162]-[63] (Eng.).

judgment, the only expert witness the court consulted was an economist.²¹² The characterization is also unclear in this part of the judgment, but, again, the most reasonable characterization is contract.

In the “Competition” section, the negotiation issue was raised in relation to the implementer’s complaint on the SEP holder’s premature litigation being an “abuse” of the dominant market position.²¹³ Once again, the court did not make clear the characterization and the applicable law. Here, extensive discussions concerned the Court of Justice of the European Union’s (CJEU) judgment in *Huawei v. ZTE*.²¹⁴ In that case, the CJEU set out very specific steps that the SEP holder and implementer must take in a FRAND negotiation.²¹⁵ Since the principles developed under *Huawei v. ZTE* were based on EU competition law, the characterization of the negotiation issue might be viewed as one of competition law. However, a closer examination of the judgment shows that the English court was of the opinion that competition law and FRAND were separate issues.²¹⁶ If we follow the same logic in the discussion of specific FRAND issues in the context of competition law, the negotiation issue should also be characterized as contractual and governed by French law. In any event, the English court attempted to limit the impact of these specific negotiation steps by interpreting them as not mandatory.²¹⁷

4. Summary

In the end, the court found that the implementer had not been prepared to take a license on FRAND terms, and since the SEP holder did not abuse its dominant position, the court awarded damages based on the FRAND rate the court set. An injunction was also granted.²¹⁸

Examining the choice-of-law analysis as a whole, the court made a clear and reasonable choice-of-law analysis on enforceability issues but failed to do the same for the licensing terms and negotiation issues. Finding an enforceable third-party right under French law led the court to conclude that the SEP holder was obliged to make a FRAND offer to the implementer. The covert application of English law in both the licensing terms and negotiation issues resulted in a royalty formula and good faith negotiation obligations invented by the English court.

212. *Id.* at [162].

213. *Id.* at [674]-[755].

214. *Id.*

215. See *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14.

216. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [723] (Eng.) (“It is common ground before me, but I have also satisfied myself, that the FRAND undertaking is justiciable and enforceable in court irrespective of competition law.”).

217. *Id.* ¶ 738 (“Whether a particular concrete proposal is actually FRAND is not what the CJEU is focusing on.”).

218. *Id.* ¶ 807(18).

The English court also did not refer even once to the relevant choice-of-law rules in the Rome I and Rome II Regulations. However, the court must be commended in applying separate characterizations to the incidental questions on FRAND embedded in the contexts of both patent and competition laws.

On appeal, although the choice-of-law aspect was not raised by the parties,²¹⁹ the English Court of Appeal upheld the decision of Judge Birss.²²⁰ One of the major issues contested on appeal was Huawei's argument that the imposition of a global license on terms set by the English court based on its finding of infringement of UK patents was wrong in principle and led to unjust results.²²¹ Huawei was of the opinion that the English court's decision would usurp the right of foreign courts to adjudicate the infringement and validity of foreign patents in concurrent proceedings in China and Germany.²²² The Court of Appeal firmly rejected this argument, holding that the imposition of a global FRAND license is a separate matter from ruling on the validity of foreign patents.²²³ The former matter therefore does not interrupt the patent jurisdictions of other countries.²²⁴ Thus, despite there being no discussion on choice of law, the Court of Appeal certainly viewed the FRAND issues as licensing matters instead of patent matters. That view provides strong support for the characterization of FRAND issues as contractual.

B. Germany

The second jurisdiction to examine is Germany. Two cases will be discussed here, with each of them serving as an excellent contrast to the choice-of-law approaches adopted by the English Court in *Unwired Planet v. Huawei*. Since Germany has the same choice-of-law rules as England under the Rome Regulations, this example illustrates how different courts can manipulate the same rules to attain different results.

In the first case, *General Instrument Corporation v. Microsoft Deutschland GmbH*,²²⁵ the SEP holder (a subsidiary of Motorola) sought injunction against the implementer (Microsoft) in Germany from infringing the SEP holder's European patent in the Regional Court of Mannheim.

219. See *Unwired Planet LLC v. Huawei Technologies Co. Ltd.* [2018] EWCA (Civ) 2344 [27] (appeal taken from Eng.).

220. See *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14, ¶ 291.

221. *Id.* ¶ 19.

222. *Id.* ¶¶ 77-78.

223. *Id.* ¶¶ 79-80.

224. *Id.* ¶ 81.

225. Landgericht Mannheim [Regional Court of Mannheim] May 21, 2012, Case 2:10-cv-01823-JLR, Doc. 324-26 (7-8) (Ger.). Page numbers throughout refer to the English translation.

1. *Enforceability*

On the enforceability issue, the German court characterized it as a patent issue. Accordingly, it applied *lex loci protectionis* and assigned German law as the governing law. Since German law did not recognize third-party rights, there was no enforceable contract, and an injunction was granted against the implementer.²²⁶ The German court's approach raised three important points. First, characterization could be outcome determinative in FRAND cases. The *Umwired* court characterized the FRAND commitment as a contractual issue and applied French law, ultimately finding a third-party right to license to implementer. Similarly, the Washington District Court in the same FRAND dispute involving the same parties characterized the enforceability issue as contractual, which led to an enforceable contract.²²⁷ However, when the German court characterized the same issue under patent law, it led to no enforceable third-party right.

Second, characterization rules are unclear even if the two countries have the same choice-of-law rules. Here, the German and English courts both follow the choice-of-law rules set forth in the Rome Regulations.²²⁸ Both this case and *Umwired* show the lack of characterization rules under the Rome Regulations for the courts to follow. Technically, the characterization of contract and non-contract issues is a matter of autonomous interpretation.²²⁹ While the CJEU has decided certain cases on that basis,²³⁰ making the distinction between contract and non-contract issues is rarely a straightforward process, and there is certainly no precedent in the context of FRAND.²³¹

226. *Id.* at 37 (“The assessment of whether rights of use are granted under the ITU Patent Statement and Licensing Declaration Form is governed by German substantive law. The legal system under which rights granted to use intellectual property rights are assessed is based on the laws of the country in which protection is sought [*lex loci protectionis*].”). Although the court did not refer to any specific article in the Rome II Regulations, this appears to be pursuant to Article 8 of the Rome II Regulations and is consistent with the prevailing practice of the German courts. *See* LG Düsseldorf, Apr. 24, 2012, 4b O 273/10; LG Düsseldorf, Nov. 12, 2012, 4a O 54/12 U; LG Düsseldorf, Jan. 19, 2016, 4b O 120/14; LG Mannheim, Feb. 18, 2011, 7 O 100/10.

227. *See infra* Section IV.C.1.

228. *See* sources cited *supra* note 132. The courts could have referred the case to the CJEU for a clarification of the relevant Articles of the Rome Regulations. *See* Consolidated Versions of the Treaty on the Functioning of the European Union art. 267, 2010 O.J. (C83), 2012 O.J. (C326) [hereinafter TFEU]. Unfortunately, neither court made the referral.

229. *See* sources cited *supra* note 132.

230. *See* Cour de Cassation [Cass.] [supreme court for judicial matters] 1e civ., June 17, 1992, Case C-26/91, ECR I-3967. Note that these precedents concerned jurisdiction under the Brussels I Regulation. They are therefore strictly speaking not cases on choice of law. Yet both the Brussels and the Rome Regulations are generally interpreted similarly. *Id.*

231. Discussions on characterization under the Rome Regulations tend to focus only on distinguishing contractual obligations from non-contractual obligations. *See* BRIGGS, *supra* note 122, at 519-20. Without more specific precedents, it is difficult to

Complicating matters even further, neither court referenced the Rome Regulations in the respective cases.

Third, it follows that the lack of consistent rules on FRAND issues is unsatisfactory. There are clear fragmentations in the treatment of FRAND, whether across different courts in the same litigation (the U.S. and German cases between Microsoft and Motorola), or across different litigations interpreting the same rules (as in the *Unwired Planet* English case and the *Motorola* German case).

2. *Licensing Terms*

Because the German court found patent infringement but no enforceable contractual right in *Microsoft*, the implementer was liable to pay damages. However, because evidence on the quantification of the damages was not available at the time of the proceeding, the court did not examine the licensing terms issue.²³² In other FRAND cases, German courts have been known for their avoidance of setting FRAND rates.²³³ They instead focus more on whether both parties negotiate with each other in good faith.²³⁴

3. *Negotiation*

The German court in *General Instrument Corporation v. Microsoft Deutschland GmbH*²³⁵ touched on the negotiation issue, but did not discuss it at length.²³⁶ The negotiation issue was, however, discussed in detail in *Huawei v. ZTE*.²³⁷ It is a FRAND-related matter that was eventually referred to the CJEU and extensively discussed in *Unwired Planet*.²³⁸ The key issue under debate concerned whether it was a breach of European competition law (Article 102 TFEU²³⁹) for a SEP patentee who

conduct the characterization exercise in FRAND context.

232. The court did not assess of damages. *See* Landgericht Mannheim [Regional Court of Mannheim] May 21, 2012, 2:10-cv-01823-JLR, Doc. 324-6 (52). It is unclear if the German court will consider FRAND in its assessment of damages as a matter of German patent law like the Japanese court did as a matter of Japanese patent law. *See infra* Section IV.D.2.

233. Gabison, *supra* note 6, at 121.

234. *Id.*

235. Landgericht Mannheim [Regional Court of Mannheim] May 21, 2012, 2:10-cv-01823-JLR, Doc. 324-6 (52).

236. *Id.* at 39-48. In the court's discussion of the implementer's competition law defense, the court framed the issue as whether the implementer could defend itself based on the assertion that the SEP holder was obligated to immediately grant it a license to the patent in dispute and that the injunction was a violation of competition law. However, the court did not give any in-depth discussion of FRAND in reaching its conclusion. *Id.*

237. *Huawei Techs. Co. Ltd. v. ZTE Corp.*

238. *See supra* Section IV.A.3.

239. TFEU, *supra* note 228, art. 102.

had given a FRAND commitment to sue an implementer for injunction even if the implementer was willing to negotiate such a license.²⁴⁰

The CJEU held that a SEP holder does not abuse its dominant position by bringing an action for infringement, seeking an injunction prohibiting the infringement of its patent, or seeking the recall of products—the manufacture of which that patent has been used—as long as certain conditions are met. Such conditions included (1) prior to bringing that action, the SEP holder must alert the implementer of the infringement by designating that patent and specifying how it has been infringed, and (2) after the implementer has expressed its willingness to conclude a FRAND license, the SEP holder must present the implementer with a specific written offer for a license on such terms—specifying the royalty and the way in which it is to be calculated. Meanwhile, the implementer must diligently respond to that offer in accordance with recognized commercial practices and in good faith.²⁴¹

The CJEU's decision reveals certain insights. First, the CJEU clearly discussed the duties to negotiate in the context of Article 102 TFEU and, therefore, has characterized the FRAND negotiation issue implicitly in competition law.²⁴² Second, the duty to negotiate in good faith on the part of the SEP holder is extremely concrete, from alerting the implementer of the infringement to presenting a written offer with specified royalty and the basis of calculation.

Third, the duty to negotiate in good faith is not limited to the SEP holder. The implementer must also respond to the patentee's offer diligently. Should the implementer reject an SEP holder's offer, it must (1) reply "promptly and in writing, [with] a specific counter-offer that corresponds to FRAND terms"²⁴³ and (2) provide appropriate security, such as a bank guarantee.²⁴⁴ Following the CJEU's decision, the German Court of Appeal issued a guidance order in *Sisvel v. Haier* elaborating on the required steps for both SEP holders and implementers to negotiate in good faith.²⁴⁵ The examination of negotiation tactics has become a key part of German decisions involving injunction.²⁴⁶

As discussed in *Umwired Planet* above, the English court did not interpret the CJEU's ruling as a mandate requiring these steps in a FRAND negotiation.²⁴⁷ According to the *Umwired Planet* judgment, the English court certainly did not think it was

240. See *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14, ¶ 39(1).

241. *Id.* ¶ 77(1).

242. In referring to the various articles in the ETSI policy, the court did not refer to the governing law clause contained in the policy. See *id.* ¶¶ 12-20.

243. *Id.* ¶ 66.

244. *Id.* ¶ 67.

245. *Gabison*, *supra* note 6, at 121.

246. *Id.* at 119-20.

247. See *supra* Section IV.A.3.

the role of competition law to set out concrete negotiation steps. The court came to this conclusion by examining the purpose of competition law. Competition law delineates the boundaries of proper and improper pricing practice. Negotiation steps that are FRAND should prevent parties from crossing the line set by competition law, but competition law will not define FRAND. Although the English court did not explicitly refer to the negotiation issue as a contractual issue, as argued above, any negotiation steps required by FRAND shall be regarded as an incidental issue and characterized as contractual.

Finally, despite its elaborate discussion on negotiation duties for both parties, the CJEU decided the case as if a clear definition for FRAND already existed. While the CJEU clearly acknowledged that the parties could not agree on its meaning in the main trial,²⁴⁸ it certainly did not decide on that issue itself. It is therefore unclear what circumstances will trigger the duty to negotiate for both parties in the first place. Even though the CJEU left many questions unanswered,²⁴⁹ their ruling at least shows the potential relevance of the licensing terms issue. If that issue is a necessary consideration, this should be considered an incidental question governed by French law.

C. *United States*

General Instrument Corporation v. Microsoft Deutschland GmbH represented just one episode of the long litigations between Motorola and Microsoft beginning in 2010.²⁵⁰ After the German court granted the injunction against the implementer, an antisuit injunction was subsequently sought by the implementer in *Microsoft Corp. v. Motorola, Inc.*²⁵¹ against the SEP holder from enforcing the patent injunction.²⁵² The antisuit injunction was granted by the United States District Court for the Western District of Washington and affirmed by the Ninth Circuit.²⁵³ This set the stage for the Washington District Court to resolve the FRAND disputes in 2013.

In the 2013 judgment, the Washington District Court delivered one of the most in-depth discussions on FRAND

248. *Huawei Techs. Co. Ltd. v. ZTE Corp.*, *supra* note 14, ¶ 54.

249. The CJEU was only referred to on very specific issues by the German court in *Huawei Techs. Co. Ltd. v. ZTE Corp.*

250. *See Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1029 (W.D. Wash. 2012).

251. *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012).

252. The German injunction was not self-enforcing and the SEP holder must post a security bond covering the potential damages to the implementer. *Id.* at 879. In addition, the plaintiff in the German case was General Instrument Corporation. It was a defendant in the U.S. case and also a subsidiary of Motorola Group, another defendant in the U.S. case. *Id.* at 879 n.7.

253. *Id.* at 880, 889.

among U.S. cases. Apart from upholding the third-party right of the implementer, the court also determined the calculation method for a FRAND royalty.²⁵⁴ However, missing from the judgment was any analysis on choice of law. The court had simply applied Washington law to all the issues.²⁵⁵

In fact, a lack of choice-of-law analysis is common in U.S. cases. Apart from *Apple, Inc. v. Motorola Mobility, Inc.*, *Apple Inc. v. Samsung Electronics Co., Ltd.*, and *In re Innovatio IP Ventures, LLC Patent Litigation*, no other U.S. case on FRAND has expressly conducted any choice-of-law analysis. This is not to say no choice-of-law analysis is conducted, just that it may not be conducted explicitly. Before reviewing cases including the choice-of-law analysis, it should be noted that most U.S. cases on FRAND relate to standards set by ETSI, ITU, and IEEE. Unlike the ETSI policy, the relevant FRAND documents of ITU and IEEE do not include a governing law clause.

Generally, U.S. cases have characterized all three FRAND issues as contractual.²⁵⁶ In *Apple, Inc. v. Motorola Mobility, Inc.*,²⁵⁷ a case dealing with patents included in standards set by both ETSI and IEEE, the court applied French and Washington law, respectively, to the implementer's breach of contract claims. Both parties agreed that the French governing law clause in the ETSI policy designated French law to the claims related to ETSI, so it clearly characterized the issue as one of contract law.²⁵⁸ Applying French law, the court found that there was a third-party right to license by the SEP holder to the implementer. On the other hand, claims relating to IEEE presented a bigger challenge because of the lack of a governing law clause.²⁵⁹ IEEE is an SSO based in New York, while the implementer and the SEP holder were companies incorporated in California and Illinois, respectively.²⁶⁰ In the end, the court applied Wisconsin law, the *lex fori*, because the court found no actual conflicts on the relevant issues under all the potential applicable laws (New York, Wisconsin, and Illinois).²⁶¹ This reasoning appears to be based on the false conflict principle, which directs the court to

254. *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013).

255. The choice of law issue does not appear to be the focus of the parties. *See Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 1000-01 (W.D. Wash. 2012) (referring to the lack of briefings on choice of law).

256. *See Microsoft Corp. v. Motorola, Inc.*, 795 F. 3d 1024, 1052 (9th Cir. 2015) (ruling that it was a contract case and Motorola had a duty of good faith and fair dealing because it previously made a RAND commitment); *see also Li, supra* note 2, at 440 (summarizing that US courts have viewed "an SEP holder's commitment to an SSO to license its SEPs under FRAND terms as a legally binding contract").

257. *Apple, Inc., v. Motorola, Inc.*, 886 F. Supp. 2d 1061, 1081-82 (W.D. Wis. 2012).

258. *See id.* at 1081.

259. *See id.* at 1082 (identifying that neither party undertook an adequate choice of law analysis regarding IEEE).

260. *See id.* 1081-82.

261. *See id.* at 1082 ("[U]nder Wisconsin's choice of law principles, if there is no genuine conflict between Wisconsin law and law of other possible state, court applies Wisconsin law.").

apply the *lex fori* when all the potential applicable laws lead to the same result.²⁶² This is a choice-of-law technique specific to U.S. law.

Applying Wisconsin and French law respectively, the court found that (1) contracts existed between the SEP holder and both SSOs and (2) the implementer had a right to enforce the contracts as a third-party beneficiary.²⁶³

Similarly, French law was applied in *Apple Inc. v. Samsung Electronics Co., Ltd.*,²⁶⁴ which involved the ETSI standard. Under the choice-of-law rules in California, a governing law clause must satisfy one of two tests: “(1) whether the chosen state has a substantial relationship to the parties or their transaction, or (2) . . . there is any other reasonable basis for the parties’ choice of law.”²⁶⁵ If either test is satisfied, the governing law clause will be enforceable so long as the designated law is not contrary to fundamental policies of California.²⁶⁶

The California District Court gave effect to the French governing law clause in question because (1) ETSI is based in France, (2) French law is reasonable as ETSI policy is central to the contract claim, and (3) French contract law is not contrary to any fundamental California public policy.²⁶⁷ Thus, once again, the characterization was one of contract. Applying French law, the court held, similar to *Apple, Inc. v. Motorola Mobility, Inc.*, that a contract existed between the SSO and SEP holder and that the implementer was entitled to a third-party right to receive a FRAND license, denying the SEP holder’s motion to dismiss the breach of contract counterclaim.²⁶⁸

Finally, in *In re Innovatio IP Ventures, LLC Patent Litigation*, the Illinois District Court applied Illinois law to the third-party right issue since neither party identified a conflict between Illinois and California law.²⁶⁹ Again, this is an application of the false conflict rule.²⁷⁰ Similar to the two cases above, the court found contracts between both the SSO and SEP holder, as well as a third-party right.²⁷¹

The consistency of characterizing FRAND issues as contractual also extends to competition cases. In *Federal Trade*

262. On the concept of false conflict, see Peter Kay Westen, *False Conflicts*, 55 CALIF. L. REV. 74 (1967).

263. *Apple, Inc.*, 886 F. Supp. 2d at 1085.

264. *Apple, Inc. v. Samsung Electronics Co., Ltd.*, 2012 WL 1672493, at *10 (N.D. Cal. May 14, 2012).

265. *Id.*

266. *Id.*

267. *Id.*

268. *Id.* at *11-12.

269. *In re Innovatio IP Ventures, LLC Patent Litigation*, 921 F. Supp. 2d 903, 922 (N.D. Ill. 2013).

270. See Westen, *supra* note 262.

271. *In re Innovatio*, 921 F. Supp. 2d at 922-23.

Commission v. Qualcomm Incorporated,²⁷² the U.S. Federal Trade Commission (FTC) sued Qualcomm for violating § 5 of the Federal Trade Commission Act (FTCA)²⁷³ which prohibits unfair methods of competition in or affecting commerce. Since Qualcomm had previously committed to two SSOs to license the SEPs on a FRAND basis,²⁷⁴ the FTC sought partial summary judgment to prove that the FRAND commitments require Qualcomm to make licenses available to its competitors.²⁷⁵ This is apparently a litigation strategy employed by the FTC to establish a building block, together with other evidence at trial, to prove the FTCA violation.²⁷⁶ In other words, the court was asked to decide FRAND issues (here enforceability and licensing terms issues) as incidental questions in a competition lawsuit. Although this case was brought by the FTC, and thus was in the domain of public law, the court had no problem applying private international law principles and held that California law governed the FRAND issues.²⁷⁷ This was because California was both the place of performance as well as the execution of the contract.²⁷⁸ The case shows, once again, the consistency of U.S. courts in characterizing FRAND issues as one of contract. In addition, it reveals that the incidental question approach is not restricted to different subjects under the civil cases umbrella (e.g. applying choice-of-law rules of contract in patent cases), but also extends to civil matters in public cases. As FRAND issues can arise in both private and public law contexts, this is certainly a sensible approach.

Having addressed cases with a clear choice-of-law analysis, we will now discuss specific FRAND issues based on all U.S. cases concerning FRAND, including those without explicit choice-of-law analysis.

1. *Enforceability*

While few cases discuss the direct contract issue,²⁷⁹ most

272. *FTC v. Qualcomm Inc.*, 2018 WL 5848999, at *1 (N.D. Cal. Nov. 6, 2018).

273. Federal Trade Commission Act, 15 U.S.C. § 45 (1914).

274. *Qualcomm Inc.*, 2018 WL 5848999 at *7. The two SSOs involved in the case are Telecommunications Industry Association (TIA) and the Alliance for Telecommunications Industry Solutions (ATIS). Both have provided for FRAND in their policies but neither contains a governing law clause. *Id.*

275. *Id.*

276. See FTC's Reply in Support of Partial Summary Judgment on Qualcomm's Standard Essential Patent Licensing Commitments & Memorandum of Points & Authorities in Support, No. 5:17-cv-00220-LHK-NMC, 2018 WL 6499003 (N.D. Cal. Oct. 4, 2018).

277. See *Qualcomm Inc.*, 2018 WL 5848999 at *7.

278. *Id.*

279. *Cf. Apple, Inc. v. Samsung Electronics Co., Ltd.*, 2012 WL 1672493, at *9 (N.D. Cal. May 14, 2012) (addressing Apple's direct contract claim, which was part of its breach of contract claim, together with Apple's declaratory judgment claim regarding its right to license Samsung's Declared-Essential Patents because the two claims were "overlapping").

courts have no difficulty finding contracts between the SSO and SEP holder,²⁸⁰ as well as an enforceable third-party right to the implementer.²⁸¹ All enforceability issues are consistently characterized as contractual.

2. *Licensing Terms*

In *Microsoft Corp. v. Motorola, Inc.*, the Washington District Court clearly treated FRAND issues as contractual and applied Washington law, as mentioned above.²⁸² This led to the court formulating its own valuation method on FRAND royalties based on the factors of patent royalty valuation laid out in *Georgia-Pacific Corp. v. United States Plywood Corp.*²⁸³ Essentially, the court adopted the fifteen factors laundry list developed by the Southern District of New York and made certain adjustments as applicable to FRAND.²⁸⁴ The goal of the test was to determine a royalty rate based upon a hypothetical negotiation between the patent holder and the infringer.²⁸⁵ The court, however, was mindful of the difference between a classic patent infringement case and modified the test accordingly.²⁸⁶

This modified *Georgia-Pacific* test was approved on appeal by the Ninth Circuit²⁸⁷ and followed in *In re Innovatio IP Ventures*.²⁸⁸ In fact, despite the *Georgia-Pacific* test's origin in patent law, the Ninth Circuit "reiterate[d] that this is not a patent law action" and the test only "serve[s] as guidance in contract cases on questions of patent valuation."²⁸⁹ Thus, the test further highlighted the characterization of the issue as contractual.

However, the United States Court of Appeals for the Federal Circuit in *Ericsson, Inc. v. D-Link Systems, Inc.*²⁹⁰ expressly rejected the application of the *Georgia-Pacific* test. The court was

280. *See infra* Table 1.

281. *Id.*

282. *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *1 (W.D. Wash. Apr. 25, 2013).

283. *Id.* at *18-20 (citing *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)).

284. *Microsoft Corp.*, 2013 WL 2111217 at *16-17.

285. *See Contreras, Brief History of FRAND*, *supra* note 7, at 85-86.

286. *Microsoft Corp.*, 2013 WL 2111217 at *16 ("First, the owner of an SEP is under the obligation to license its patent on RAND terms, whereas the owner of a patent uncommitted to RAND has monopoly power over its patent and may choose to withhold licensing. Second, the hypothetical negotiation almost certainly will not take place in a vacuum: the implementer of a standard will understand that it must take a license from many SEP owners, not just one, before it will be in compliance with its licensing obligations and able to fully implement the standard.").

287. *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1042 (9th Cir. 2015) ("In sum, given the need for flexibility in determining a royalty rate for a RAND-encumbered patent . . . the district court's RAND order properly applied the hypothetical agreement approach.").

288. *In re Innovatio*, 2013 WL 5593609 at *5-8.

289. *Microsoft Corp.*, 795 F.3d at 1040.

290. *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1231 (2014).

of the opinion that “many of the *Georgia-Pacific* factors simply are not relevant [and] many are even contrary to RAND principles.”²⁹¹ Instead, no mechanical, bright line rule should be followed:

In sum, we hold that, in all cases, a district court must instruct the jury *only* on factors that are relevant to the specific case at issue. There is no *Georgia-Pacific*-like list of factors that district courts can parrot for every case involving RAND-encumbered patents. The court should instruct the jury on the actual RAND commitment at issue and must be cautious not to instruct the jury on any factors that are *not* relevant to the record developed at trial. We further hold that district courts must make clear to the jury that any royalty award must be based on incremental value of the invention, not the value of the standard as a whole or any increased value the patented feature gains from its inclusion in the standard. We also conclude that, if an accused infringer wants an instruction on patent hold-up and royalty stacking, it must provide evidence on the record of patent hold-up and royalty stacking in relation to both the RAND commitment at issue and the specific technology referenced therein.²⁹²

Regardless, whether the United States Court of Appeals’ rejection of the *Georgia-Pacific* test is binding in subsequent cases remains to be seen. This will largely depend on whether the licensing terms issue should be characterized as a patent issue. To the extent that it is a patent issue, it will fall into the subject matter jurisdiction of the Federal Circuit, and the ruling in *Ericsson* is expected to be followed.²⁹³ However, if it is regarded as a contractual issue (as the Ninth Circuit has indicated), the ruling in *Ericsson* is not binding to state courts.²⁹⁴ This question concerns to some extent the boundaries of the Federal Circuit’s jurisdiction, which is currently up for its own hot debate among commentators.²⁹⁵ While the answer is not certain, this example again highlights the significance of characterization, even across domestic state borders as in the United States.

291. *Id.* at 1230.

292. *Id.* at 1235.

293. See Joan E. Schaffner, *Federal Circuit “Choice of Law”: Erie Through the Looking Glass*, 81 IOWA L. REV. 1173, 1181-82 (1996) (“Pursuant to its ‘choice of law’ doctrine, the court categorizes federal legal issues into five categories: (1) substantive issues within its exclusive jurisdiction, (2) procedural issues which implicate or pertain to the substantive patent law, (3) procedural matters relating to the court’s own appellate jurisdiction, (4) procedural matters not unique to the patent law, and (5) substantive issues not within its exclusive jurisdiction. The court exercises independent judgment in the review of issues within the first three categories and defers to federal regional circuit law in the review of issues within the last two categories.”) (citations omitted).

294. See Amelia Rinehart, *The Federal Question in Patent-License Cases*, 90 IND. L.J. 659 (2015) (“[T]he Federal Circuit and the district courts hearing these patent cases, under *Erie Railroad Co. v. Tompkins*, must apply state laws to the contractual issues that they end up hearing in conjunction with these patent cases.”).

295. *Id.* at 682-85.

In most of the U.S. cases however, courts managed to avoid entirely the conflict of law issues associated with licensing terms. For example, in discussing whether an injunction should be granted for a FRAND-commitment patent, the Federal Court of Appeal in *Apple v. Motorola* did not try to ascertain what FRAND actually meant in the context under the relevant applicable law.²⁹⁶

3. Negotiation

On the negotiation issue, the court in *Apple, Inc. v. Samsung Electronics Co., Ltd.* applied French law, the governing law of contract, in resolving the duty to negotiate in good faith.²⁹⁷ Similarly, the District Court for the Western District of Washington found there was a duty to negotiate in good faith under Washington law in *Microsoft Corp. v. Motorola, Inc.*²⁹⁸ Thus, the characterization fell under contract. In comparison with the elaborate negotiation steps set out in *Huawei v. ZTE*, we can observe a number of differences between the substantive laws of EU and the United States.

First, in *Microsoft Corp. v. Motorola, Inc.*, the court was of the opinion that initial offers made by the SEP holder do not have to be on FRAND terms.²⁹⁹ However, if an offer is found to be “blatantly unreasonable,” it could constitute a breach of duty to negotiate in good faith.³⁰⁰

Second, U.S. courts appear to deny a duty to negotiate in good faith on the part of the implementer. In *Microsoft Corp. v. Motorola, Inc.*, the court explained that “a finding that negotiating in good faith is condition precedent to Motorola’s [FRAND] obligations to the implementer would run contrary to the purpose of Motorola’s commitments to the IEEE and the

296. *See* *Apple, Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32, 1342-43 (Fed. Cir. 2014).

297. *Apple, Inc. v. Samsung Electronics Co., Ltd.*, 2012 WL 1672493, at *12 (N.D. Cal. May 14, 2012) (“Both experts agree that under French law, the parties can enter into a valid contract to negotiate in good faith.”).

298. *See Microsoft Corp.*, 864 F. Supp. 2d at 1038 (“[A]ny offer by Motorola (be it an initial offer or an offer during a back-and-forth negotiation) must comport with the implied duty of good faith and fair dealing inherent in every contract.”).

299. *Id.* (“Because the IEEE and the ITU agreements anticipate that the parties will negotiate towards a RAND license, it logically does not follow that initial offers must be on RAND terms.”).

300. *Id.*; *see also* *Apple, Inc. v. Motorola Mobility, Inc.*, 2011 WL 7324582, at *1, *32-33 (W.D. Wis. 2011) (stating that Apple alleged patentee Motorola “has made royalty demands on Apple that exceeded those made on comparable parties for use of the declared-essential patents . . . demanded a rate that was based on the total revenue base of Apple’s products rather than the revenue from the components that utilize the technologies of the declared-essential patents, sought to include cross-licenses to certain of Apple’s non-essential patents as a condition of a licensing agreement and sued Apple when Apple refused to accede to Motorola’s demands”).

ITU.”³⁰¹ According to the court, to hold otherwise would mean that the SEP holder “could preemptively request exorbitant compensation for its standard essential technology, and the implementer would be compelled to negotiate in good faith in response to the exorbitant demand.”³⁰² Such a duty would thus be contrary to the purpose of FRAND. The court in *Apple Inc. v. Qualcomm Incorporated* similarly held that the implementer was not bound to accept the patentee’s offer.³⁰³ Likewise, the court in *Apple v. Motorola* clearly stated that there was no duty for the implementer to make a counteroffer: “Motorola agreed to license its standards-essential patents on FRAND terms as a *quid pro quo* for their being declared essential to the standard It does not claim to have conditioned agreement on prospective licensees’ making counteroffers in license negotiations.”³⁰⁴ This line of decisions clearly favors the implementers.

That said, rejecting a FRAND offer is not without consequence. In *Apple, Inc. v. Motorola, Inc.*, the Federal Circuit ruled that “an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”³⁰⁵ Therefore, the implementer’s failure to negotiate in good faith with the SEP holder may justify the latter’s seeking injunction against the former.³⁰⁶

4. Summary

In short, U.S. courts have generally treated FRAND issues as contractual and have also utilized the incidental question approach in certain cases. When dealing with ETSI cases with a governing law clause, U.S. courts applied French law—just like the English court in *Unwired*. However, the choice-of-law analysis has been lacking in most cases. Most U.S. courts simply applied the *lex fori* without any reference to characterization and choice-of-law rules. While arguments can be made that U.S. laws are substantially similar and the lack of choice-of-law analysis is not a big problem, this can easily be rebutted by the conflict between federal and state law seen in the *Microsoft* case. The lack of choice-of-law analysis clearly needs to be addressed. Not surprisingly, the differences in choice-of-law approach (and thus different applicable law) resulted in different conclusions in terms of enforceability, licensing terms, and negotiation issues.

301. *Microsoft Corp.*, 864 F. Supp. 2d at 1035.

302. *Id.*

303. *Apple, Inc. v. Qualcomm Inc.*, 2017 WL 3966944, at *12 (S.D. Cal. Sept. 7, 2017) (“Apple is not obligated to accept a worldwide FRAND license from Qualcomm. Apple, therefore, has not contracted away its right to ask foreign courts for declaration that their products do not infringe upon Qualcomm’s SEPs because those SEPs are either non-essential, invalid, or exhausted under foreign law.”).

304. *Apple, Inc.*, 869 F. Supp. 2d at 914.

305. *Apple, Inc.*, 757 F. 3d at 1332.

306. This is similar to the interpretation of the nature of FRAND commitment in *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [143] (Eng.).

D. Japan

*Apple Inc. v. Samsung Electronics Co., Ltd.*³⁰⁷ discussed above, was part of the worldwide litigation between Apple and Samsung that also included Japan. After seeing how different characterization approaches could lead to different results, the Japanese precedent will demonstrate how the application stage can influence the choice-of-law process and shape the outcome of the case.

1. Enforceability

In the Japanese litigation of *Apple v. Samsung Electronics Co., Ltd.*,³⁰⁸ the Intellectual Property High Court (IPHC) of Japan faced similar arguments as those presented in *Unwired Planet*, with a cause of action based on a patent infringement and defenses based on contract and competition laws.³⁰⁹ The case also involved the ETSI standard. Like *Unwired Planet*, the court first found that French law governed the enforceability issue, referring to the French governing law clause in the ETSI policy.³¹⁰ The choice-of-law rule applied by the court was Article 7 of the Act on General Rules for Application of Laws (PILA),³¹¹ which stipulated the governing law would be “the law of the place chosen by the parties at the time of the act.” Since Article 7 provides mainly the choice-of-law rule for contract law,³¹² it follows that the court should have characterized the enforceability issue as contractual.

307. *Apple, Inc.*, 2012 WL 1672493 at *12.

308. The IPHC of Japan made three decisions regarding the FRAND disputes between Samsung and Apple on May 16, 2014. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1 (Japan); Samsung v. Apple, IPHC, Special Division, 2013 (Ra) no. 10007, 1 (May 16, 2014) [hereinafter Samsung v. Apple I]; Samsung v. Apple, IPHC, Special Division, 2013 (Ra) no. 10008, 1 [hereinafter Samsung v. Apple II].

309. Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB] 1, 46-50 (Japan). Unlike in *Unwired Planet*, however, it was the implementer which sought a declaratory judgment to confirm that there was no patent infringement. *Id.* at 3.

310. *Id.* at 111; see also Yuzuki Nagakoshi & Katsuya Tamai, *Japan Without FRANDS? Recent Developments on Injunctions and FRAND-Encumbered Patents in Japan*, 44 AIPLA Q.J. 243, 258-59 (2016); Suzuki, *supra* note 24, at 247.

311. Ho no Tekiyo ni Kansuru Tsusoku Ho (Act on General Rules for Applications of Laws), Law No. 78 of 2006 (Japan).

312. See Koji Takahashi, *A Major Reform of Japanese Private International Law*, 2 J. PRIV. INT'L L. 311, 317 n.31 (2006). Article 7 provides for the “juristic act” and not only “contracts.” *Id.* The former is much broader than the latter, but contracts are considered the most important category of the juristic act. See Yoshihisa Hayakawa, *General Rules on Contracts*, in 50 THE JAPANESE ANNUAL OF INTERNATIONAL LAW 25, 30 (2007). However, in the context of the case, the characterization as contract should be clear.

However, the Japanese court found that French law did not allow a third-party right.³¹³ Recall that in *Unwired Planet*, the English court first held that there was an enforceable SEP holder-SSO contract and that a third-party right to receive a FRAND license can be derived from such a contract under the French doctrine of *stipulation pour autrui*.³¹⁴ However, the Japanese court held that ETSI and the SEP holder had not agreed that the license agreement should be formed between the SEP holder and the beneficiary.³¹⁵ Thus, *stipulation pour autrui*, which is based on having the SEP holder-SSO contract, could not be applied successfully here. In other words, the Japanese court's holding of no third-party right was due to a difference of opinion regarding the enforceability of the SEP holder-SSO contract under French law.

The Japanese court also did not refer to any French law experts' testimony in reaching its conclusion. This may have to do with different practices in ascertaining the content of foreign law. Japanese law generally places the burden of the ascertainment of foreign law on the shoulders of the judges.³¹⁶ They are therefore expected to know foreign law, even though that has been criticized as being too ideal. Either way, commentators observed that Japanese courts have been more practical in practice and would indeed demand litigants to provide evidence on foreign law.³¹⁷ To what extent this different system affects the finding of French law is not clear, and may never be.

In comparison with *Unwired Planet*, the Japanese court reached the same decision in terms of characterization, choice-of-law rule, and applicable law on the enforceability issues, but had a different finding on the application of French law regarding the enforceability of the SEP holder-SSO contract. Since there was no such contract, the third-party right contractual defense failed. This made the implementer liable to

313. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 114 (Japan); Suzuki, *supra* note 24, at 247-48, 258.

314. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [138] (Eng.) (finding that the same theory was successful despite it being “not commonplace in French law.”).

315. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 114 (Japan). According to the court, there was no SEP holder-SSO contract because (i) the provisions of the FRAND Declaration were not definitive; (ii) no important particulars of a license agreement were fixed; (iii) there was a risk of circumvention of the reciprocity clause; (iv) ETSI also provided that the FRAND Declaration did not give rise to a license agreement; and (v) the formation of a license agreement was contrary of the historical background for the adoption of the ETSI IPR Policy. *Id.* The (i), (ii) and (v) reasons were expressly rejected in *Unwired*, while (iv) and (v) were not discussed therein.

316. See Takahashi, *supra* note 151. This system has remained intact after the new private international law act came to effect since there is no specific provision on proof of foreign law in the new legislation and its subsequent amendments. See Takahashi, *supra* note 312, at 312 n.5.

317. See Takahashi, *supra* note 151.

pay damages to the SEP holder for patent infringement.

2. *Licensing Terms*

Without a valid contract, FRAND is conceivably out of the picture. However, the court clearly found FRAND relevant in assessing the damages for patent infringement and ruled that the SEP holder was not entitled to claim damages exceeding a FRAND rate.

The Japanese court first discussed whether an SEP holder's claim for damages where a FRAND declaration was made would constitute an abuse of right. The applicable choice-of-law rule according to the court was Article 17 of PILA, which provides that tortious obligation is governed by "the laws of the place where the result of the wrongful act occurred."³¹⁸ Since the infringing act (the import and sale of infringed products) and the damage was caused by a Japanese patent, the court concluded that Japan qualified as the place where the wrongful act occurred.³¹⁹ Considering there is no special article in the PILA covering patent infringement and Article 17 is the general choice-of-law rule for tort,³²⁰ the characterization was therefore tort law.³²¹ The court then set forth its own valuation method based on Japanese law.³²² Accordingly, the licensing terms issue was characterized as one of tort and governed by Japanese law.

The court essentially interpreted Japanese tort law to demand fairness in granting damages on patent infringement, and the FRAND commitment by the patentee was a significant

318. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 115 (Japan).

319. *Id.*

320. See Takahashi, *supra* note 312, at 329 ("It is widely acknowledged that the infringement of intellectual property, too, calls for special treatment. But no special rules have been devised [at the time of the latest amendment of the PILA] since the problem has yet to be sufficiently analysed and no universally accepted solution has emerged yet."). In particular, the Supreme Court of Japan also characterized damages for patent infringement as tort and governed by the *lex loci delicti* under the Article 11(1) of the previous private international law statute (*Horei*) in the *Card Reader* case. See Saikō Saibansho [Sup. Ct.] Sept. 26, 2002, 2000 (Ju) 580, 56 SAIKŌ SAIBANSHO MINJI HANREISHŪ [MINSHŪ] 1551 (Japan). An English version of the case is also available at 46 JAPANESE ANN. INT'L L. 168 (2003).

321. While the characterization could be regarded as one of patent law if we were to stick to the categories generally used in this article, it is noted that the Supreme Court of Japan distinguishes the two categories in the *Card Reader* case. In patent infringement dispute, the court applied the choice-of-law rule of patent law to injunctive relief, but that of tort law to damages claim. See 46 JAPANESE ANN. INT'L L. 168, 170-71, 173 (2003). For criticism of this bifurcated approach and that the proper characterization should be to treat both instances under tort, see Yuko Nishitani, *Cross-Border Patent Infringement in Japan – Comment on the Supreme Court's Decision of September 26, 2002 (the "Card Reader" case)*, 16 J. JAPANESE L. 251, 263-67 (2003).

322. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 130-38 (Japan).

consideration. Unless special circumstances exist, the court would award damages to the patentee, but only to the extent that damages did not exceed the reasonable license fee set under its FRAND methodology. This line of reasoning is very similar to the damages assessment in *Unwired Planet*.³²³

Here, one of the special circumstances the court considered was violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. The court ruled that there was no such violation since the amount of damages claimed by the SEP holder did not exceed the FRAND rate.³²⁴ No choice-of-law analysis was conducted, however. Under the PILA, there is no specific choice-of-law rule for the competition law, and it is generally regarded as being governed by Article 17 as well.³²⁵ However, it is unclear whether Japanese courts will apply foreign competition law. This is likely due to concern about the public law nature of competition law.³²⁶ In any event, the court included only limited discussion on competition law.³²⁷

3. Negotiation

Another special circumstance that the court considered in assessing damages was whether the SEP holder had an obligation to negotiate in good faith with the implementer for the execution of a FRAND license.³²⁸ While the court did not conduct a separate choice-of-law analysis on this issue, since the discussion is in the context of abuse of right, which has been characterized as one of tort, this issue shall also fall within the tort category.

On the other hand, the IPHC held in separate cases that a FRAND-encumbered SEP holder's request for an injunction against an implementer constituted abuse of right and thus violated Article 1(3) of the Civil Code.³²⁹ In *Apple I* and *Apple II*, the IPHC was asked to determine whether the SEP holder's exercise of the right to seek an injunction based on the patent right constitutes an abuse of right. Citing the *Card Reader* case, the court characterized the issue as one of patent law and applied the *lex loci protectionis*.³³⁰ Since the patent is registered in

323. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711. [17]-[86] (Eng.).

324. See *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 128-29 (Japan).

325. See Takahashi, *supra* note 312, at 329.

326. *Id.*

327. See *Chiteki Zaisan Kōtō Saibansho* [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 128 (Japan).

328. *Id.* at 126-27.

329. *Samsung v. Apple I*, *supra* note 308, at 27; *Samsung v. Apple II*, *supra* note 308, at 27; *Nagakoshi & Tamai*, *supra* note 310, at 247; *Suzuki*, *supra* note 24, at 252-54. Japanese courts rarely apply doctrine of abuse of right to restrict the enforcement of SEPs. See *Suzuki*, *supra* note 24, at 256.

330. See *Samsung v. Apple I*, *supra* note 308, at 17.

Japan, Japanese law was the governing law. Thus, depending on whether negotiation issue arises in the context of injunction or claim for damages, the characterization could be different. It also means that the applicable law could be different, though in the dispute between Apple and Samsung, the IPHC applied Japanese law in both contexts.³³¹ While it is counterintuitive for injunction and claim for damages to be subject to different characterizations, the IPHC appears to be bound by Card Reader ruling decided by the Supreme Court of Japan.³³² However, it is submitted the Card Reader case could be distinguished here as that case does not involve any licensing issue which should arguably be governed by the law of contract under Japanese law.³³³

An interesting question left undiscussed in the judgment is whether the licensing terms and negotiation issues will be characterized as contractual if a valid contract is found under French law, as in the case of *Unwired Planet*. In addition, will it be possible for the Japanese court to consider FRAND terms under French law by regarding the FRAND issues as incidental questions? According to the court, FRAND is relevant to assessment of damages in the first place because the SEP holder “voluntarily makes a FRAND licensing declaration on the premises that such patent would be made available to the standard users.”³³⁴ Arguably, this gave rise to a form of pre-contractual obligation. Domestic Japanese law recognizes similar pre-contractual obligation in cases where there is no enforceable contract.³³⁵ Without a specific choice-of-law rule under the PILA for pre-contractual obligation, it is not entirely clear how the Japanese court would characterize such obligation.³³⁶ For our purposes, it shall be characterized as a contractual issue, the closest legal category. It has been argued by at least one Japanese scholar that in the context of unjustified breaking-off of negotiations, the *lex contractus* is the more appropriate approach.³³⁷ In addition, under Article 12 of the Rome II Regulation, this kind of pre-contractual obligation (known as “*culpa in contrahendo*”) is also governed by the choice-of-law rules of contract.³³⁸ Accordingly, if we were to

331. *See supra* text accompanying note 321.

332. *Id.*

333. Jun Yokoyama, Private International Law in Japan ¶ 181 (2017).

334. *See* Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 121 (Japan).

335. *See* Decision of Sept. 18, 1984, Supreme Court, (o)No. 159, 1137 HANREIJIHO 51 (1984).

336. *See* YOKOYAMA, *supra* note 333, ¶ 221.

337. *Id.*

338. *See* DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 35-095 (“Article 12, it is clear, applies regardless of whether the contract was concluded or not. Where the

treat FRAND's relevance in assessing damages by referencing an enforceable pre-contractual obligation (and thus putting it under the umbrella of the enforceability issue), the appropriate choice-of-law approach is to treat it as an incidental question and characterize it as contractual.

Similarly, the negotiation issue should also be treated as an incidental question and characterized as contractual. Throughout its discussion of FRAND issues in the judgment, the Japanese court cited multiple provisions of the ETSI policy.³³⁹ Considering French law interprets these provisions pursuant to the governing law provision in the policy,³⁴⁰ this further strengthens the case for a contract characterization for FRAND issues. If the Japanese and English courts adopt this approach, their decisions on FRAND issues will all be governed by French law, regardless of the findings on the enforceability issue. There will be, for example, no discrepancies in how to calculate FRAND royalties.

4. Summary

In short, the Japanese court's choice-of-law approach to the enforceability issue mirrors that of *Unwired Planet*. However, due to a different application of French law on the SEP holder-SSO contract, the court reached a different conclusion as to the third-party right question. As it interpreted FRAND in the context of infringement damages, it characterized the licensing terms and negotiation issues as tort issues, leading to the application of Japanese law. The court, however, did not treat the FRAND issues as incidental questions like the English court did in *Unwired Planet*. To avoid inconsistent treatments of FRAND issues, courts should consider utilizing the *Unwired Planet* approach to incidental questions and characterized all FRAND issues as contractual.

E. Korea

*Samsung v. Apple*³⁴¹ is a Korean case that stemmed from the same worldwide litigation between Samsung and Apple.

contract has been concluded the law applicable to the non-contractual obligation arising out of dealings prior to the conclusion of the contract is to be the law applicable to the contract Where the contract is not concluded, then, subject to what is said below, the applicable law is the law that "would have been applicable to the contract had it been entered into."

339. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 111-35 (Japan).

340. European Telecommunications Standards Institute, *Intellectual Property Rights Policy* art. 12 (June 8, 2009) ("The Policy shall be governed by the laws of France.").

341. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.). An unofficial English translation of a Media Report released by the court that summarizes key points is available at <https://drive.google.com/file/d/0B1Qqjz4aI6hdW9xU3pGN2N6VDQ/view>.

Therefore, this case serves as a good comparison to Japan's choice-of-law approaches.³⁴² The SEP holder, Samsung, filed a lawsuit in the Seoul Central District Court against Apple, the implementer, seeking injunctive relief for the infringement of certain patents granted in Korea. The implementer raised five defenses, but only one of them directly related to FRAND. Under that defense, the implementer argued that the patentee violated its FRAND declaration.³⁴³ The court decided in favor of Samsung's infringement claim and granted an injunction, as well as damages.³⁴⁴ Apple then appealed but withdrew in 2014.³⁴⁵

1. *Enforceability*

Similar to the Japanese court, the Korean court applied French law on enforceability issues, stating expressly that the FRAND declaration made by the patentee was governed by French law.³⁴⁶ This is clearly an application of Article 25 of the Korean Private International Act, which provides that “[a] contract shall be governed by the law that the parties choose explicitly or implicitly.”³⁴⁷ While Article 24 of the Private International Act applied the *lex loci protectionis* to matters relating to intellectual property rights, contractual matters such as disputes on license agreements are generally governed by the choice-of-law rules on contract under Articles 25, 26, and 29.³⁴⁸ That is exactly the choice-of-law approach of the Korean court in this case.

Applying French law, the Korean court decided that the implementer enjoyed no enforceable contractual right.³⁴⁹ On the direct enforceability sub-issue, the court rejected the implementer's argument that an enforceable license could be

342. The U.S. counterpart, is probably not a comparison since it was a motion to dismiss that did not have the benefits of a full trial on all relevant FRAND issues. *See* Apple, Inc. v. Samsung Electronics Co., 2012 WL 1672493 (N.D. Cal. May 14, 2012).

343. The first three were all patent defenses (non-infringement, invalidity of patents and patent exhaustion) and the last one was based on competition, but none of them involved FRAND issues. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.).

344. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, Aug. 24, 2012 (S. Kor.).

345. *See* Chang-Hwa Kim & Byungil Kim, *Injunctive Relief for the Infringement of FRAND-encumbered SEPs*, in ANNOTATED LEADING PATENT CASES IN MAJOR ASIAN JURISDICTIONS 321, 323 (Kung-Chung Liu eds., 2017).

346. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 171, 173, Aug. 24, 2012 (S. Kor.); Kim & Kim, *supra* note 97, at 410.

347. Minbeob [Civil Act], Act on Private International Law, Act No. 6465, Apr. 7, 2001, *enforced on* July 1, 2001, art. 25 (S. Kor.) [hereinafter Private Int'l Act], *translated in* Ministry of Government Legislation online database, <http://law.go.kr/LSW/eng/engMain.do> (login required).

348. Suk, *supra* note 111, at 2248.

349. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 178, Aug. 24, 2012 (S. Kor.).

created by the mere fact that the implementer practiced the SEP after the SEP holder's FRAND declaration. The court held that under French law: (1) Samsung's FRAND declaration was not an offer because the price was not fixed, and (2) there was no written agreement, which was a legally required formality, between the two parties.³⁵⁰ Moreover, the implementer neither negotiated a contract with the SEP holder nor deposited the licensing fee required by the ETSI's IP policy. Therefore, the pure practice of the SEP could not be considered an acceptance.³⁵¹

In connection with the potential contract between the SEP holder and ETSI, the court emphasized that the ETSI policy focused on standards and technical specifications. Thus, it was difficult to confirm whether a contractual or compensatory relationship between the patentee and ETSI had formed.³⁵² ETSI and similar organizations were not considered as licensees in the market, but rather they existed to maintain order with regards to standard establishment in the technology market.³⁵³

Finally, on the third-party right, it was said that even if a contract existed between the SEP holder and ETSI, a license agreement was bilateral and thus required separate negotiation between the parties themselves (the SEP holder and the implementer) to have such a license agreement.³⁵⁴ Referencing the clause in the FRAND declaration that the patentees "are prepared to grant irrevocable license under the IPRs on terms and conditions," the court found it difficult to conclude that this clause had binding legal force upon a third-party implementer.³⁵⁵ The court recognized that a contract with a third-party beneficiary (*stipulation pour autrui*) was exceptionally permitted by Article 1121 of the French Contract Law. However, the required relations for such a contract between the promisor, promisee, and beneficiary were absent in the FRAND context.³⁵⁶ In other words, the relations between the SEP holder, SSO, and standard implementer were not equal to those between the promisor, promisee, and beneficiary under French law. Therefore, the implementer could not enforce FRAND obligations against the SEP holder. In short, the characterization, connecting factor, applicable law, and conclusions in the enforceability issue are substantially the same as those found in Japanese law. Meanwhile, the applications of French law by the courts of Korea and Japan were opposite those by the courts in England and the United States.

350. *Id.* at 175; Kim & Kim, *supra* note 97, at 410.

351. *See* sources cited *supra* note 346.

352. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 175, Aug. 24, 2012 (S. Kor.).

353. *Id.*

354. *Id.*

355. *Id.* at 178.

356. *Id.*; *see also* Kim & Kim, *supra* note 97, at 411.

2. *Licensing Terms*

The Korean court did not discuss the licensing terms issue. The lack of discussion on this topic is perplexing, since the court did award damages to the SEP holder. Nevertheless, unlike the Japanese court, the Korean court did not use a FRAND rate (which was derived from the Japanese court's design for a calculation method) to calculate the final award.³⁵⁷ This is a key difference between the two cases.

3. *Negotiation*

The Korean court discussed the negotiation issue in two separate topics: promissory estoppel and patent misuse. In the discussion of promissory estoppel, the court found that the SEP holder's FRAND declaration brought about its duty to negotiate in good faith with any party interested in implementing the standard.³⁵⁸ The FRAND declaration also resulted in outlining the SEP holder's duty to not seek an injunction against any implementer unless the latter rejects or abandons negotiation.³⁵⁹ Based on the court's explanation of French law, the SEP holder could only seek injunctive relief against the implementer if the latter did not pursue a license from the former or practiced the SEPs but denied their validity.³⁶⁰ This discussion of the negotiation issue should be considered under the contract category, since the court referred to French law in reaching its conclusion.³⁶¹

Secondly, the court considered the SEP holder's FRAND declaration in the context of patent misuse. The discussion of FRAND in such a context is similar to that on abuse of right in the Japanese judgment. It was stated that the scope of the SEP's patent protection under patent law could be limited due to the FRAND declaration.³⁶² Although the court did not conduct any

357. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 222, Aug. 24, 2012 (S. Kor.).

358. *Id.* at 180-81; Kim & Kim, *supra* note 97, at 411-12.

359. *See* sources cited *supra* note 346.

360. *Id.*

361. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 180, Aug. 24, 2012 (S. Kor.). The court cited the testimony of French law expert, Professor Philippe Delebecque in this part of the judgment. Under Article 5 of the Act on Private International Law, the Korean court may request the parties' cooperation, including the provision of expert testimony, to ascertain the contents of the foreign law designed as the governing law. *See* Kwang Hyun Suk, Harmonization of Private International Rules in Northeast Asia 6 (Oct. 12, 2013) (unpublished manuscript) (on file with author) (presented at the Conference of the International Law Association of Japan in Shizuoka). Contrast this with the lack of a specific article under Japanese law. *See supra* note 303.

362. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 191, Aug. 24, 2012 (S. Kor.).

choice-of-law analysis in its analysis of patent misuse, it seems that this principle of good faith arose from patent law, based on the court's discussion of the Korean patent system.³⁶³ Despite the lack of express reference in the judgment, Article 24 of the Private International Act applies *lex loci protectionis* and thus directs the court to Korean law.³⁶⁴ Having reviewed the negotiation process, the court concluded that the SEP holder did not violate its duty to negotiate in good faith.

The court therefore rejected the implementer's arguments that the SEP holder violated the principle of estoppel by seeking injunction after giving the FRAND declaration as well as the patent misuse under Korean law. Injunction was thus granted by the court. This conclusion is different from that of the Japanese court, which imposed damages but no injunction on the implementer.³⁶⁵

4. Summary

In short, this case denied any enforceable contract defense to the implementer while finding FRAND relevant under patent law. In the same token, it is suggested that FRAND issues should be regarded as an incidental question governed by French law. This is particularly the case when it comes to the negotiation issue. The court seems to have characterized the negotiation issue in the discussion of estoppel as contractual, but characterized the same issue under patent law in the discussion of patent misuse. While the court reached the same conclusion (no breach of good faith) despite having different substantive laws governing the issue, the treatment of incidental question could minimize potential internal conflicts within the same case. The Korean court also did not discuss FRAND in the calculation of damages as the Japanese court did.³⁶⁶

Finally, although violation of the Fair Trade Act was one of the defenses raised by the implementer, the court did not include any FRAND issue in the discussion of competition law matters, nor did the court discuss competition law matter as a factor in damages assessment.³⁶⁷

363. The court referenced some Korean cases, including Supreme Court [S. Ct.], 2011Da12163, Apr. 28, 2011 (S. Kor.), and Supreme Court [S. Ct.], 2005Da67223, 182-83, Jan. 25, 2007 (S. Kor.).

364. See Kim & Kim, *supra* note 97, at 413 (“[T]he court did not mention French Law in the examination of the abuse right, and just applied the Korean principles to the case. According to the court, a demand by the plaintiff for an injunction was not against good faith, which is the major principle of Korean law.”). For discussion of the *lex loci protectionis* rule under Article 24, see Moonsook Kim, *On the Korean Private International Law*, 51 JAPANESE Y.B. INT’L L. 327, 334 (2008).

365. See sources cited *supra* note 346.

366. Under Korean conflict rule, remedies and damages are determined according to the applicable law. See Young Seok Lee, Sae Youn Kim & Sy Nae Kim, *Republic of Korea*, in *ASIAN CONFLICT OF LAWS: EAST AND SOUTH EAST ASIA* 85, 105 (Alejandro Carballo Leyda ed., 2015).

367. Seoul Central District Court [Dist. Ct.], 2011GaHap39552, 197, Aug. 24, 2012 (S. Kor.).

F. China

As China has grown into a major player in the worldwide communications business, issues concerning SEPs and FRAND have drawn extensive attention in the country.³⁶⁸ In recent years, Chinese courts have decided a few cases concerning FRAND-encumbered SEPs.³⁶⁹ The most important cases concerning choice-of-law issues thus far are two related cases between Huawei and InterDigital. The first case, *Huawei v. InterDigital (Huawei I)*,³⁷⁰ concerns the dispute over the patent royalties.³⁷¹ The second case (*Huawei II*) deals with the implementer's accusation of the SEP holder's violation of Chinese competition law.³⁷² Both of these cases went to appeal and were rendered by the Guangdong High Court ("GDHC") around the same time.³⁷³ However, separating competition law from the patent license action, as evidenced below, will not make a difference in the choice-of-law analysis.

1. Huawei I

In *Huawei I*, the lawsuit began with the implementer asking

368. See Lee, *supra* note 2, at 40-41, 46-48; Sokola & Zheng, *supra* note 115, at 81-92.

369. See Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi (华为技术有限公司诉交互数字通信有限公司) [Huawei Tech. Co. v. InterDigital Communications, Inc.], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China); Huawei Jishu Youxian Gongsi Su Sanxing (Zhongguo) Touzi Youxian Gongsi Deng (华为技术有限公司诉三星(中国)投资有限公司等) [Huawei v. Samsung I], 2016 Yue 03 Min Chu No. 816 (Shenzhen Interm. People's Ct. 2018); Huawei Jishu Youxian Gongsi Su Sanxing (Zhongguo) Touzi Youxian Gongsi Deng (华为技术有限公司诉三星(中国)投资有限公司等) [Huawei v. Samsung II], 2016 Yue 03 Min Chu No. 840 (Shenzhen Interm. People's Ct. 2018); Xian Xidian Jietong Wuxian Wanglao Tongxin Gufen Youxian Gongsi Su Suoni Yidong Tongxin Chanpin (Zhongguo) Youxian Gongsi (西安西电捷通无线网络通信股份有限公司诉索尼移动通信产品(中国)有限公司) [Iwncomm v. Sony], 2017 Jing Min Zhong No. 45 (Beijing High People's Ct. 2018).

370. Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi (华为技术有限公司诉交互数字通信有限公司) [Huawei Tech. Co. v. InterDigital Communications, Inc.], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China).

371. A concurrent litigation was ongoing in Delaware at the time where Huawei, as defendant, asked the Delaware court to set the FRAND royalties in its counterclaim. See *InterDigital Communications Inc. v. Huawei Technologies Co.*, 2013 WL 8507613 (D. Del. Mar. 14, 2013). The parties agreed to settle their dispute in arbitration, but again ran into the problem of choice of law. See *InterDigital Commc'ns, Inc. v. Huawei Inv. & Holding Co.*, 166 F. Supp. 3d 463 (S.D.N.Y. 2016).

372. Huawei Jishu Youxian Gongsi Su Jiaohu Shuzi Tongxin Youxian Gongsi (华为技术有限公司诉交互数字通信有限公司) [Huawei Tech. Co. v. InterDigital Communications, Inc.], 2013 Yue Gao Fa Min San Zhong Zi No. 305 (Guangdong High People's Ct. 2013) (China).

373. Huawei I and II were decided on Oct. 16, 2013 and Oct. 21, 2013, respectively, though by different judges.

the Guangdong Intermediate Court (GDIC) to decide the royalties over certain SEPs granted in China based on the FRAND principle. The GDIC conducted a choice-of-law analysis at the outset. The court identified the governing law over the entire case and did not conduct a choice-of-law analysis issue-by-issue. In comparison with the more fragmented approaches in some of the jurisdictions discussed above, this is a sensible approach considering these FRAND issues are interrelated.

The GDIC cited Article 49 of the Chinese Conflict Act,³⁷⁴ which allows the parties to choose the governing law regarding the transfer and licensing of intellectual property by contract. In the absence of such a choice, the law of the habitual residence of a party whose performance of obligation is most characteristic of the contract, or the law that is most closely connected with the contract, shall be applied pursuant to Article 41.³⁷⁵ While characterization is not generally provided under the Chinese Conflict Act and remains unclear in China,³⁷⁶ it may be deduced that the court implicitly characterized FRAND issues as contractual. This is because the court cited Article 49 instead of Article 50, which provides that liability for infringing intellectual property rights is governed by the *lex loci protectionis*.³⁷⁷ Accordingly, the Chinese court characterized all FRAND issues (or more technically, the entire case) as contractual.

However, what sets this case apart is its surprising application of Chinese law as the governing law and disregard of the French governing law clause contained in the ETSI policy. The court first framed the case as a dispute over royalties between the SEP holder and the implementer, classifying the European SEP licensing issue under the IP Policy of ETSI as having no relevance for the implementer nor the SEP holder.³⁷⁸ Puzzlingly, the court did not explain why the ETSI policy had no relevance to Chinese patents even if the SEP holder in this case clearly declared the Chinese patents pursuant to the ETSI policy.³⁷⁹

In any event, the GDIC made a conclusory statement that

374. Law of the People's Republic of China on the Laws Applicable to Foreign-Related Civil Relations (promulgated by the Standing Comm. Nat'l People's Cong., Oct. 28, 2010, effective Apr. 1, 2011) art. 49 (China) [hereinafter Conflict Act].

375. *Id.* art. 41.

376. Article 8 of the Conflict Act only provides that the characterization of foreign-related relationship is to be governed by the law of forum. *See* ZHENG SOPHIA TANG ET AL., CONFLICT OF LAWS IN THE PEOPLE'S REPUBLIC OF CHINA 30 (Edward Elgar ed., 1st ed. 2016).

377. Conflict Act, *supra* note 374, art. 50.

378. *Huawei I*, *supra* note 370 (“What needs to be resolved in this case is not the licensing issue of IDC’s European SEP under the Intellectual Property Policy of ETSI to which both Huawei and IDC are members, but the licence that Huawei, for the implementation of Chinese telecommunication standard, requested from IDC on the fair, reasonable, non-discriminatory condition in China’s telecommunication jurisdiction.”).

379. *Id.* ¶ 3(3).

there was no governing law clause between the SEP holder and the implementer.³⁸⁰ Instead, the court applied the law which had the closest connections to the transaction. Here, this was found to be Chinese law after the court cited a number of connections with China—including the subject matter being Chinese patents, the Chinese domicile of the implementer, and China being the primary market, the place of negotiation, and the place where the patents were utilized.³⁸¹ Again, while there is no denying these connections were all relevant, the court never referred to any non-Chinese factors—such as the U.S. domicile of the SEP holder, the French domicile of ETSI, both parties' ETSI memberships, and ETSI's role in standard setting.³⁸² The most noticeably absent non-Chinese factor, however, was the ETSI policy's French governing law clause. Even if the court found that it was not *the* governing law clause of the SEP holder-implementer contract, the clause was still in the SEP holder-SSO contract. Not surprisingly, the choice-of-law analysis ended with another conclusory statement: “IDC’s argument that that French law should be applicable to this case had neither factual nor legal basis, and is hereby rejected.”³⁸³ There was no further elaboration.

On appeal, this conclusion was affirmed by the Guangdong High Court (GDHC). While the GDHC provided additional explanations, the initial justifications merely reiterated the GDIC’s arguments. First, the case was not about whether the Huawei or IDC held ETSI membership, nor did it concern whether the relevant terms of the ETSI policy were appropriate.³⁸⁴ Second, the subject matter of the case involved IDC’s Chinese patents, not patents granted in France or other countries.³⁸⁵ Again, while these statements are correct, they still do not explain why the ETSI policy had no relevance to Chinese SEPs, all of which were covered by IDC’s declaration to ETSI. Third, the GDHC echoed the various Chinese connections in the case without addressing any non-Chinese connections.

Finally, the court added that in China a patent must be granted pursuant to Chinese patent law, exclusively. It is hard to see how this point strengthens the appropriateness of applying Chinese law beyond the subject matter being Chinese patents, which had already been covered in the closest connection

380. *Id.* (“There was no evidence in this case that that the parties have agreed on the choice of applicable law.”).

381. *Id.*

382. The court did not discuss the characteristic performance principle under the Supreme People’s Court’s 2007 Provisions on Applicable Law. However, this omission could be justified, as an intellectual property license agreement does not fit into any of the 17 characteristic performance categories set out in Article 5 of the Provisions. *Id.*

383. *Id.*

384. *Huawei I*, *supra* note 370.

385. *Id.*

assessment. Chinese patent law is no doubt the only law applicable to patent registration, but the dispute here—as repeatedly stated by the court—related to the appropriate royalties and not the relevant patents’ validity. Accordingly, the GDHC’s explanations hardly justified the application of Chinese law. In any event, both Chinese courts appeared to frame the question for the choice-of-law analysis as narrowly as possible to avoid having to take non-Chinese connections into account.³⁸⁶

i. Enforceability

The court never clarified whether the implementer possessed any enforceable contractual rights under Chinese law. It did, however, emphasize that the SEP holder had a legal obligation to license under FRAND. In fact, when the SEP holder claimed there was no contract in the appeal, the GDHC emphasized that there was an enforceable obligation, but did not deny the claim.³⁸⁷ The court held that this FRAND obligation could be interpreted through the doctrine of good faith and fairness in the General Principle of Civil Law and Contract Law.³⁸⁸ Although the court did not explicitly recognize the contractual relations between the SEP holder and the implementer, it pointed out that the doctrines of good faith and of fairness were used to interpret the contractual terms the parties could not agree on.³⁸⁹ Therefore, this line of reasoning may imply that the doctrine of good faith could create enforceability under Chinese law.

ii. Licensing Terms

Applying Chinese law, the GDIC provided its own definition of FRAND, beginning with its purpose:

For good faith users who are willing to pay reasonable royalties, holders of standards-essential patents should not directly refuse to grant licenses. On the other hand, it is necessary to ensure that patentees can obtain sufficient returns from their technical innovations. On the other hand, holders of standards-essential patents should be prevented from charging exorbitant royalty rates or attaching unreasonable terms by leveraging their powerful position forged by the standards. The core of the FRAND obligations lies in the determination of reasonable and non-discriminatory

386. On how framing the choice of law question could impact of the choice of law result, see BRIGGS, *supra* note 122, at 113-14.

387. *Huawei I*, *supra* note 370.

388. *Id.*

389. *Id.*

royalties or royalties rates.³⁹⁰

The court then provided four factors which must be included in the consideration of the reasonable royalty rate: profit from utilizing the patent; excluding value obtained from the inclusion of the patent to the standard; proportion of the patent's contribution to the standard; and reasonable distribution of license fees among patentees.³⁹¹

It then set out a valuation method, which was mainly based on comparing the royalties in a previous licensing agreement with another implementer's.³⁹² Again, the assumption is that this methodology is based entirely on Chinese contract law.

iii. Negotiation

As mentioned above, it appeared that the doctrine of good faith created enforceability in the first place. The court also found that the SEP holder did not negotiate in good faith with the implementer after reviewing the history of their dealings.³⁹³ Most relevant sections in the judgment are redacted, but the conclusion is clear.

The holdings on all three issues were affirmed on appeal by the GDHC. In particular, the court highlighted the application of Chinese law and specifically rejected the application of French law on the FRAND definition.³⁹⁴

2. Huawei II

The court characterized all FRAND issues as contractual in *Huawei I* partially because it did not need to consider competition law issues, which were left to *Huawei II*. When examined as a whole, however, the same characterization issue observed from other jurisdictions is present again. Meanwhile, this also suggests the incidental question approach could mitigate, if not solve, the problem.

Huawei II was a private enforcement action by the implementer, who claimed that the SEP holder's acts violated the Chinese Anti-Monopoly Law.³⁹⁵ In essence, there were four

390. *Id.* The English court cited Section IV with approval in *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [92] (Eng.).

391. *Huawei I*, *supra* note 370.

392. *Id.*

393. *Id.* Two other Chinese courts ruled that both the SEP holder and the implementer were obliged to negotiate with each other in good faith. Although these courts neither conducted any choice-of-law analysis nor explained the legal basis of good-faith negotiation, they only referred to Chinese law. *See* sources cited *supra* note 369.

394. *Huawei I*, *supra* note 370.

395. Anti-Monopoly Law (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 30, 2007, effective Aug. 1, 2008) (China).

issues: (1) how to define the affected market, (2) whether the SEP holder had a dominant market position, (3) whether the SEP holder abused such a dominant market position, and (4) how the SEP holder should be held liable for the abuse.³⁹⁶ Among these issues, only the third issue on abuse involved FRAND issues.

Similar to the discussion on abuse in *Unwired Planet*,³⁹⁷ the implementer in *Huawei II* accused the SEP holder of (a) making offers with an excessive price, (b) filing an injunction in the United States to obtain an unfair negotiation advantage, and (c) bundling the SEP with other intellectual properties,³⁹⁸ in light of the SEP holder's FRAND declaration to ETSI.³⁹⁹ Both the Shenzhen Intermediate People's Court (SIPC) and the GDHC found the SEP holder violated the Chinese Anti-Monopoly Law.⁴⁰⁰ In reaching this conclusion, all three FRAND issues were engaged. First, the abuse involved the enforceability issue. FRAND was considered relevant because the SEP holder gave a declaration to ETSI to license its SEP on FRAND terms. Besides, this FRAND commitment triggered a duty to negotiate in good faith (i.e., the negotiation issue), and the failure to observe this duty would constitute an abuse of their dominant market position. Finally, because one of the alleged abuses was excessive pricing, this in turn involved the licensing terms issue.

The courts conducted no choice-of-law analysis in *Huawei II*. However, the judgment did state that FRAND was to be governed by Chinese law.⁴⁰¹ Since the case was discussed entirely in the context of Chinese competition law, it is reasonable to assume that all FRAND issues were characterized in the category of competition law. Considering that *Huawei I* also applied Chinese law, there was no true conflict between the cases. However, if the GDHC holds that French law is governing law after conducting a proper choice-of-law analysis as suggested above, there could be inconsistencies in all three FRAND issues due to differences between French and Chinese law. This is not an academic speculation, as both cases stemmed from the same dispute between the same parties. Arguments in both cases were also based on substantially the same evidence. While discussing whether certain bundling practices constituted abuse, the court in *Huawei II* actually consulted the FRAND ruling in *Huawei I* for additional support.⁴⁰² As suggested in this article, the best approach to maintaining consistency across

396. See *Huawei II*, *supra* note 370. These issues resemble those discussed in *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [627]-[791] (Eng.).

397. There was no discussion on FRAND in the dominance issue in *Huawei II*.

398. It is unclear from the judgment what these other intellectual properties were since that part of the judgment was redacted.

399. See *Huawei II*, *supra* note 370.

400. Certain bundling acts were found acceptable but which ones were redacted.

401. *Huawei II*, *supra* note 370 ("According to Chinese law, InterDigital shall license its SEP to Huawei according to 'fair, reasonable, and non-discriminatory principle.'").

402. *Huawei II*, *supra* note 370.

cases is separating FRAND issues as incidental questions and characterizing them as contractual. This will enable French law to govern all FRAND issues regardless of the contexts or proceedings in which they arise.

3. *Summary*

In short, the problem with *Huawei I* is its selective application of the SEP holder's FRAND commitment to ETSI. There is no problem in characterizing all FRAND issues as contractual. However, both courts expressly discarded the relevance of the SEP holder's FRAND commitment when conducting the choice-of-law analysis despite heavily relying on it in the subsequent discussion on various FRAND issues under Chinese law. For example, in justifying the GDIC's definition of FRAND, the GDHC cited Article 6.1 of the ETSI policy, stating that both IDC and Huawei should be bound by ETSI policy due to their ETSI memberships.⁴⁰³

These selective applications are both contradictory and confusing. While this might not be the intention of the court, it does give the impression that the court attempted to avoid applying French law at all costs. This seems consistent with the Chinese courts' general reluctance to apply foreign law.⁴⁰⁴ For example, in a separate study conducted by one of the authors, no case was found to have applied U.S. law in intellectual properties disputes by Chinese courts.⁴⁰⁵ Additionally, the application of Chinese law certainly gives Chinese courts more room to shape FRAND to their liking.

IV. SUMMARY OF FINDINGS

A. *Substantive Laws Are Different on FRAND*

Theoretically, if countries' laws are highly similar, choice-of-law should have no significant impact on FRAND litigations. In reality, substantive laws on FRAND issues indeed vary widely across national borders and can certainly lead to different results in FRAND litigations.

On the issue of enforceability, for example, Washington law recognized a third-party right in *Microsoft*, while German law

403. *Huawei I*, *supra* note 370.

404. See TANG ET AL., *supra* note 376, at 266 ("Given the past tendency of applying Chinese law, most Chinese courts, if seized to hear a dispute, may apply Chinese law without considering policy, governmental interests or closest connections.").

405. See King Fung Tsang, China's Rule of Law from a Private International Law Perspective, 47 GA. J. INT'L & COMP. L. 93, 120 (2018).

does not, despite involving the same parties and technologies.⁴⁰⁶ Without repeating the findings on this issue, see Section IV.B.1.⁴⁰⁷

Similarly, substantive laws can have very different methodologies to define FRAND licensing terms, even if two countries' laws both find an enforceable contract. For example, England's valuation method in *Unwired Planet* is different from the U.S. method in *Microsoft*. The former considers value gained after the patent's inclusion in the standard, while the latter expressly excludes post-incorporation value.⁴⁰⁸ According to Richard Posner, the presiding judge in *Apple, Inc. v. Motorola*:⁴⁰⁹

The purpose of the FRAND requirements . . . is to confine the patentee's royalty demand to the value conferred by the patent itself as distinct from the additional value—the hold-up value—conferred by the patent's being designated as standard-essential.⁴¹⁰

The English court was well aware of this difference but thought post-incorporation value could be included in the valuation in principle.⁴¹¹ Even in the United States, we also observe different approaches between state law and federal law. The former applied a modified *Georgia-Pacific* test, while the latter rejected such an assessment.⁴¹² Similarly, the duties of negotiation vary. U.S. courts seem to place a lesser burden on the implementer, as displayed in *Microsoft v. Motorola*, in comparison with the CJEU in *Huawei v. ZTE*.⁴¹³

Each stage has a domino effect that impacts the final results. While it is difficult to calculate scientifically the influence that choice of law has on the final outcome, the *Apple v. Samsung* worldwide litigation probably serves as the best example. This litigation includes cases in the United States, Japan, and Korea. In the Japanese case, the application of Japanese law led to the denial of injunctive relief, since the court viewed it as inappropriate in light of the FRAND declaration.⁴¹⁴ However, in the Korean case the application of Korean law eventually led to an injunction against the implementer for patent

406. *See supra* Section IV.B.1.

407. Differences in licensing terms and negotiation issues are discussed in the paragraphs that follow.

408. *See Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [97] (Eng.).

409. *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (2012).

410. *See Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *12 (W.D. Wash. Apr. 25, 2013) (“From an economic perspective, a RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard.”).

411. *See Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [97] (Eng.) (“To that extent I may be differing from certain parts of the decisions in *Innovatio IP Ventures and Ericsson v D-Link* in the US but it is not necessary to look into that any further since neither side before me took the point.”); *see also Unwired Planet International Ltd., Unwired Planet LLC v. Huawei Technologies Co. Ltd., Huawei Technologies (UK) Co. Ltd.* [2018] EWCA (Civ) 2344 [83].

412. *See supra* Section IV.C.2.

413. *See supra* Section IV.C.3.

414. *See supra* note 329.

infringement, despite the presence of the same FRAND declaration.⁴¹⁵ Even if both courts awarded damages, Japanese law included FRAND in the damages assessment, while FRAND was not a factor under Korean law.⁴¹⁶

The U.S. case of *Apple v. Samsung* was more limited in scope because it only concerned a motion to dismiss the implementer's counterclaim of breach of contract. However, unlike the cases in Japan and Korea, the U.S. court found that French law allowed a third-party right to be granted to the implementer. Accordingly, it was held that the implementer had sufficiently pled the SEP holder's breach of contract.

C. *Difference in Connecting Factors Is Not the Real Problem*

Compared to the first stage of characterization, the second stage of localization has fewer problems. Despite different countries having distinct connecting factors generally, they are substantially similar as far as FRAND issues are concerned. On the other hand, even if the connecting factors are the same, the ultimate applicable law may still be different if the issue is characterized under different legal categories.⁴¹⁷ With this in mind, the similarity among connecting factors makes the issue of characterization even more important in the choice-of-law process.⁴¹⁸ The connecting factors of the six jurisdictions are summarized below.

Jurisdiction	Contract	Patent	Competition
England	Proper law of contract	<i>Lex loci protectionis</i>	Law of the country where the market is or is likely to be affected
Germany			
U.S.		<i>Lex loci delicti</i>	<i>Lex fori</i>
Japan		<i>Lex loci delicti</i> / <i>Lex loci protectionis</i>	
Korea		<i>Lex loci protectionis</i>	
China		<i>Lex loci protectionis</i>	

Table 1

415. *See supra* Section IV.E.3.

416. *See supra* Section IV.E.2.

417. Forsyth, *supra* note 127, at 158 (“[C]haracterization may arise even where all the relevant legal systems have formally identical choice of law rules.”).

418. *See* DICEY, MORRIS & COLLINS, *supra* note 130, at 390 (“Characterization is becoming increasingly out of favour in conflict of laws theory. This is a reaction to the older view that it was a scientific method of deciding fundamental problems that the conflict of laws tended to throw up with monotonous regularity.”). However, this does not apply to FRAND issues, as the competing connecting factors of contract, patent and competition laws are rather inflexible. *See supra* Table 1. Moreover, proper law of contract in Table 1 refers to the choice-of-law rule that has the contract governed by express choice-of-law agreement, and in its absence, the law with the most significant connections to the contract. Detailed discussions on these connecting factors are examined below.

1. *Choice of Law in Contract*

All six jurisdictions surveyed here have choice-of-law rules that recognize party autonomy in contract issues.⁴¹⁹ Any issue characterized as contractual will be governed by an express choice-of-law agreement between the contracting parties.⁴²⁰ With the exception of China, most jurisdictions applied French law in ETSI cases when there was a governing law clause provided in the ETSI policy. If there is no governing law clause, all jurisdictions apply the law with the closest connections.⁴²¹

2. *Choice of Law in Patent*

Similarly, most jurisdictions apply *lex loci protectionis* to patent law issues, which practically refer to the law under which the patents in dispute are granted.⁴²² In the European Union, under Article 8(1) of Rome II Regulation, the law of the country for which protection is claimed will apply to claims of infringement of intellectual property rights. For patents, the country for which protection is claimed is the country where the patent in question is registered.⁴²³ This is a clear display of the principle of territoriality considered “so important that there is no common habitual residence exception or ‘manifestly more closely connected’ escape clause.”⁴²⁴ China⁴²⁵ and Korea⁴²⁶ have both codified *lex loci protectionis* in their conflict statutes

419. See Young Seok Lee, Sae Youn Kim & Sy Nae Kim, *Republic of Korea*, in ASIAN CONFLICT OF LAWS: EAST AND SOUTH EAST ASIA 5.03[A][1] (Alejandro Carballo Leyda ed., 2016) (“Party autonomy in the choice of applicable law is both recognized and supported especially for the chapter on contractual rights.”).

420. See Restatement (Second) of Conflict of Laws § 187(1) (Am. Law. Inst. 1971).

421. *Id.* The application of closest connections test is much more likely to reach different results than the case where there is a governing law.

422. See Rainer Moufang, *The Extraterritorial Reach of Patent Law*, in PATENTS & TECHNOLOGICAL PROGRESS IN A GLOBALIZED WORLD 601, 602 n.8 (Wolrad Prinz zu Waldeck und Pyrmont et al. eds., 2009) (“The principle of *lex loci protectionis* in the field of intellectual property law is enshrined in Article 8 of the Rome II Regulation.”); Armagan Ebru Bozkurt Yuksel, *Arbitration of Patent Disputes in Turkey*, 8 J. BUS. L. 700, 715 (2010) (“*Lex loci protectionis* is applied to all issues arising from intellectual property rights including patent rights/”); see also ANDREW DICKINSON, THE ROME II REGULATION: THE LAW APPLICABLE TO NON-CONTRACTUAL OBLIGATIONS 448, 455-60 (2008) (explaining Article 8(1) of Rome II adopts *lex loci protectionis* for intellectual property right infringement issues); Michael Beck, *Conflicts of Laws in Proceedings Before the European Patent Office*, 48 INT’L REV. INTELL. PROP. & COMPETITION L. 925, 943 (2017) (“Issues of transferability of intellectual property rights are generally left to the *lex loci protectionis*.”); Jaime Espantaleon, *Exhaustion Light in European Television*, 32 EUR. INTELL. PROP. REV. 29, 38 (2010) (“Recital 26 of the Rome II Regulation provides that the ‘principle of *lex loci protectionis* should be preserved regarding infringements of intellectual property rights,’ such as copyright, related rights, trademarks and patents.”); de Werra, *supra* note 8, at 197 (“It is indeed traditionally acknowledged that the impact of IP licenses on third parties is governed by the *lex loci protectionis*, i.e. the law of the country in which the protection of the IP is sought.”).

423. See CHESHIRE, NORTH & FAWCETT, *supra* note 15, at 815.

424. *Id.* at 816.

425. See Conflict Act, *supra* note 374, art. 50.

426. See Private Int’l Act, *supra* note 347.

regarding patent infringement. The Supreme Court of Japan also applied the *lex loci protectionis* in patent infringement cases in regard to injunction claim, though the damages claim is governed by *lex loci delicti*.⁴²⁷

The United States generally applies *lex loci delicti* to determine the applicable law for intellectual property infringement.⁴²⁸ However, since the U.S. courts have consistently declined jurisdiction over foreign patent infringement claims, the court will practically apply only U.S. patent law and, therefore, reach the same result as *lex loci protectionis*.⁴²⁹

3. Choice of Law in Competition Law

While clear choice-of-law rules on competition law are rare, most courts will only apply the *lex fori*, namely their own competition law, in practice. Most jurisdictions, including Japan,⁴³⁰ China,⁴³¹ and Korea,⁴³² do not have express choice-of-law rules on competition law that allow the court to apply foreign competition law. While the U.S. does not have a clear choice-of-law rule on antitrust, it practically applies U.S. antitrust law only.⁴³³

On the other hand, Article 6(3) of the Rome II Regulation is a rare statutory provision that provides choice-of-law rules on competition law. Although delegations from Austria and Germany originally proposed to exclude competition law from

427. See *supra* text accompanying note 321.

428. See Intellectual Property And Private International Law: Comparative Perspectives 146 (Toshiyuki Kono ed., 2012).

429. *Id.* at 147; see also EUROPEAN MAX PLANCK GROUP, CONFLICT OF LAWS IN INTELLECTUAL PROPERTY: THE CLIP PRINCIPLES AND COMMENTARY 306 (2013) (noting rare exceptions to the generally followed rule of *lex loci protectionis*).

430. Takashi, *supra* note 312, at 329 (“Tort claims arising from unfair competition and anti-competitive practices are likewise left to the decision of the courts. Because of their strong public policy implications, a special rule might have been made specifying the law of the affected market. But support for such a rule was not sufficiently strong since there was doubt whether the affected market was the appropriate connecting factor to cater for a variety of interests infringed by unfair competition and anti-competitive practices and whether the Japanese courts should apply foreign competition law which had been considered to be of public law nature.”).

431. See Tang, *supra* note 376, at 265.

432. The Regulation of Monopoly and Fair Trade Act does provide for the extraterritorial application of Korean competition law for acts conducted in a foreign country that have an effect in Korea. However, this only applies to foreign courts applying Korean law, but not for Korean courts applying foreign competition law. See Suk, *supra* note 361, at 17 (“Article 2bis could be viewed as something like Article 6(3)(a) of the Rome II, the major difference being that Article 2bis takes the form of a unilateral choice-of-law rule that only deal[s] with cases where Korean law is applicable, whereas Article 6(3)(a) of the Rome II takes the form of a bilateral choice-of-law rule.”).

433. Hannah L Buxbaum & Ralf Michaels, *Jurisdiction and Choice of Law in International Antitrust Law – A US Perspective*, in INTERNATIONAL ANTITRUST LITIGATION: CONFLICT OF LAWS AND COORDINATION 225, 237 (Jürgen Basedow et al. eds., 2012) (identifying only one case, Multi-Juice SA v. Snapple Beverage Corp., 2003 WL 1961636 (S.D.N.Y. Apr. 25, 2003), that applied foreign antitrust law and argued that it does not create a strong precedent).

the Regulation entirely, Article 6(3) was eventually included given the increasing importance of private enforcement of the competition law.⁴³⁴ According to the Article, the general choice-of-law rule is the “affected market rule”⁴³⁵ which dictates that the court should apply the law of the country where the market is, or is likely to be, affected. Although Article 6(3) opens the possibility to apply foreign competition law, such application is unlikely.⁴³⁶ First, Article 6(3) built in an exemption that is particularly relevant for FRAND litigation:

When the market is, or is likely to be, affected in more than one country, the person seeking compensation for damage who sues in the court of the domicile of the defendant, may instead choose to base his or her claim on the law of the court seised, provided that the market in that Member State is amongst those directly and substantially affected by the restriction of competition out of which the non-contractual obligation on which the claim is based arises.

This exemption allows a plaintiff in competition law to sue the defendant based on the competition law of the forum as long as (1) the defendant is domiciled in the forum and (2) the alleged violation spans over multiple member states and the forum is one of such member states. Due to the international nature of FRAND litigation, the likelihood of having multiple affected member states would therefore allow SEP holders to sue on the law of the forum, instead of a foreign law. Second, although Article 6(3) is not restricted to EU competition law,⁴³⁷ it may be difficult to apply foreign competition law in practice. Such application (e.g. applying treble damages under U.S. antitrust law) will still be subject to the public policy exception and, therefore, will likely be unsuccessful.⁴³⁸ Finally, while national competition laws are not identical to Article 102 of the TFEU,⁴³⁹ they no doubt share some key similarities. Thus, applying English competition law may not be very different from applying domestic competition laws from other EU member states.⁴⁴⁰ In short, even if the choice-of-law rule on competition under Article 6(3) is not necessarily the *lex fori*, the court of the member state which takes on a FRAND-related litigation will likely apply *lex fori* or the law of another Member State substantially similar to the *lex fori*. In fact, both *Unwired* and *ZTE v. Huawei* concern only Articles 102 of the TFEU.

434. DICKINSON, *supra* note 422, at 393.

435. *Id.* at 395.

436. See James Fawcett & Paul Torremans, Intellectual property and Private International Law 906-07 (2d ed. 2011).

437. *See id.* at 906.

438. DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 35-060.

439. See FAWCETT & TORREMANS, *supra* note 436, at 905.

440. For example, Article 102 of the TFEU is substantially similar to Section 18 of the Competition Act of 1998. See *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [627] (Eng.).

4. *Other Issues in Localization*

Despite similar connecting factors among different jurisdictions, courts can still maneuver their choice-of-law rule to reach a different result. This scenario played out in *Huawei I*.⁴⁴¹ The Chinese court in *Huawei I* applied the contract choice-of-law rules only to certain facts (contractual dealings between the patentee and the implementer) while intentionally excluding the relevance of other important facts (the contractual dealings between the SSO and the patentee).⁴⁴² Therefore, French law was avoided. Similarly, the English court in *Unwired Planet* should have applied French law to licensing terms and negotiation issues instead of the covert application of English law.⁴⁴³

While these practices are undesirable, they mostly reflect the court's improper application of the rules rather than the choice-of-law system's design. From a larger perspective, therefore, localization does not pose a significant problem for the choice of law in FRAND litigations.

C. *Application of the Chosen Law Is Not the Problem Either*

Even if the same law is chosen, courts may still interpret that law differently. For example, Japanese and Korean courts both interpreted French law as not recognizing any enforceable right by the implementer, while the English and U.S. courts found the exact opposite and recognized such enforceable rights by the implementers.

This, however, is not the most significant issue in the long run. While rules concerning the proof of foreign law vary between jurisdictions, nothing in the precedents suggests this difference has any impact on the final results of the cases. In addition, the content of foreign law is practically a question of fact to be established by foreign expert witnesses.⁴⁴⁴ Since the competence of expert witnesses vary, it is not surprising that different courts could reach different findings on the same law. Discrepancies in the interpretation of French law can be partially traced to the lack of clarity on certain FRAND issues (such as the third-party right) under French law.⁴⁴⁵ With certain FRAND-related disputes currently pending in France, it is expected the French positions on various FRAND issues will be clarified in the future.⁴⁴⁶

441. *Huawei I*, *supra* note 370.

442. *Id.*

443. *See supra* Sections IV.A.2-3.

444. *See Allarousse*, *supra* note 148, at 493.

445. *See Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [146] (Eng.).

446. Cyrille Amar, *SEP and FRAND 2016: Are French Courts Patent-FRANDly?*,

D. The Key Difference Lies in Characterization

Two observations can be made about the characterizations of the six jurisdictions: (1) no jurisdictions have identical treatments for all FRAND issues, although the English and American approaches were very similar; (2) contract law appears to be the most characterized among the three potential categories. These observations have significant bearings on the shaping of our suggested approach.

Among the three stages of the choice-of-law process, characterization seems the most crucial. The characterization between contract and patent was the tipping point between the English court in *Unwired Planet* and the German court in *Microsoft*. Characterizing FRAND issues as contractual led the English court to apply French contract law, which recognized a third-party right. The German court, however, characterized FRAND issues as patent issues and applied German law, which did not recognize third-party rights.⁴⁴⁷

More precisely, having different characterization rules is not the problem. The real problem is the lack of any clear rule whatsoever. While it is possible to deduce the courts' conclusions in their judgments, many never provided the reasoning behind their decisions. Setting universal approaches becomes much more difficult when courts do not refer to established rules.

E. Characterization is Influenced by the Causes of Action, Defenses, the Success of Threshold Issues of Enforceability, and Incidental Questions

We have identified certain factors that influence the courts' approaches to characterization. These factors are causes of action, defense/counterclaim (if any), success of the threshold issues of enforceability, and the technique of incidental question.

Causes of action naturally have highly influenced courts' characterizations of FRAND issues. Lord Collins explained its importance as follows:

[W]hen the choice [of characterization] is between causes of action it will usually be unnecessary for the court to decide whether the action is in contract or in tort. Provided that the plaintiff has a sufficient cause of action in one, it is no business of the court to force him on to the other. In this sense, the choice of the relevant rule will depend more on the plaintiff than on the judge.⁴⁴⁸

IAM MEDIA (May 23, 2016) <https://www.iam-media.com/frandseps/sep-and-frand-2016-are-french-courts-patent-frandly>.

447. *See supra* Section IV.B.1.

448. *See* Lawrence Collins, *Essays in International Litigation and the Conflict of Laws* 357 (1994).

Accordingly, if there is only one cause of action (for example, breach of contract claims in most U.S. cases) with no defense or counterclaim that may be subject to a different characterization, the court will follow the parties' choice and will not characterize the cause of action differently. In other words, the cause of action forms the default characterization. However, as *Huawei v. ZTE* shows, not having a specific defense or counterclaim does not mean that a FRAND issue may not be present and potentially characterized differently.

The case will be different when there is a defense or counterclaim that may potentially be characterized under a different category. In FRAND cases, these defenses and counterclaims against the cause of action of patent infringement are breach of contract and violation of competition. The most common characterization approach of the courts is to characterize these defenses or counterclaims separately from the cause of action. Thus, although the cause of action is patent infringement (as in *Unwired Planet* and the *Apple v. Samsung* cases in Japan and Korea), courts characterized the licensing defense as a matter of contract. Similarly, competition defenses are characterized as competition law (e.g. *Unwired Planet*). As discussed, these are all examples of the implicit utilization of the incidental question approach. On the other hand, the said approach is not consistently applied (e.g. the German *Microsoft* case characterized the FRAND licensing defense under patent law, a default cause of action treatment).⁴⁴⁹

The most intriguing case is how to handle the characterization of the FRAND issue when (1) the said defense failed or (2) the FRAND issue may be characterized differently from other issues of the same defense. In the former case, the failure of the third-party-right issue (which was characterized in contract in the *Apple v. Samsung* cases in Japan and Korea) led to the characterization of the FRAND terms licensing issue as tort or patent in the assessment of damages.⁴⁵⁰ In other words, failure of the threshold issue directed the courts back to the default choice, the characterization of the cause of action.

A fair question, however, is this: if the court finds no enforceable third-party right for implementers as a threshold question, how can the court justifiably refer the FRAND issue in patent damages to the governing law of contract? Why should the governing law matter when there is no contract? The answer might well be found in the contract between the SSO and the SEP holder. Even if no third-party right can be derived from

449. If the court simply ignores the characterization of the defense, this means that the court does not consider utilizing the incidental question technique, which is not uncommon. See *supra* note 158.

450. See *supra* Sections IV.D.1-E.1.

that contract for the implementer's benefit, the SSO-SEP holder contract may still be valid. Though that contract is not enforceable by the implementer, the court is of course justified to take it into account for damages. In this sense, the governing law of contract should apply instead of patent law. Even if the court concludes that there is no SEP holder-SSO contract under the applicable law, pre-contractual obligation created by the SEP holder's voluntary FRAND undertaking should still be treated as contractual.⁴⁵¹

The latter case is essentially the complicated case of an "incidental question within an incidental question." We have seen how the English court in *Umwired Planet* appeared to characterize the FRAND issue within competition defense as contract law when the competition defense was also an incidental question to the patent infringement cause of action.⁴⁵² Needless to say, the more complicated the case, the more likely the courts' practice on incidental questions may vary.

In summary, as highlighted in our discussions of the precedents, these different treatments in characterization will lead to inconsistencies. These potential inconsistencies can be broken down as follows:

(i) *Inconsistency within the same case*: the same FRAND issue may be characterized differently within the same case if it appears in both the contract and competition defenses (e.g. *Samsung v. Apple* (Korea)).

(ii) *Inconsistency within the same jurisdiction*: if characterization depends on the success of the threshold defense (e.g. enforceability), the same FRAND issue may be characterized differently in different cases even within the same jurisdiction (e.g. *Apple v. Samsung* (Japan)).

Similarly, FRAND issues will be characterized differently if the causes of action, defenses, or counterclaims are different in separate cases, even if they are all filed in jurisdictions with substantially the same choice of law rules (e.g. *Umwired Planet* and *Huawei v. ZTE*).

(iii) *Inconsistency across different jurisdictions*: If jurisdictions approach characterization differently, the eventual applicable laws will likely be different. This will be particularly problematic when two jurisdictions reach different conclusions on FRAND issues even though both disputes involve the same parties and technologies (e.g. the *Motorola v. Microsoft* and *Apple v. Samsung* litigations).

451. See *supra* Section IV.D.3.

452. See *supra* Section IV.A.1.

F. Harmonizing the Substantive Law Will Help, But . . .

Many suggestions have been offered to harmonize the substantive laws on FRAND.⁴⁵³ Theoretically, if all countries have the same law, choice-of-law rules will not matter. Putting aside the feasibility of identical law in practice, characterization should still be considered. Standardizing the substantive law will work only if all countries consolidate their substantive law into one legal category *and* characterize all FRAND issues into that same category. It has also been suggested that SSOs provide a definition of FRAND or develop their own non-law guidelines.⁴⁵⁴ However, this is no simple task partly because of the potential antitrust concerns.⁴⁵⁵ Moreover, SSOs may be reluctant to define FRAND because the incomplete description of FRAND actually provides more desirable flexibilities for SEP holders and implementers during their negotiations.⁴⁵⁶

V. SUGGESTED SOLUTIONS

As previously discussed, choice-of-law issues are outcome determinative. The most difficult issue lies in characterization, both because of the lack of clear legal principles and the difference in approaches and practice among different jurisdictions. Although this Article does not aim to end all issues in characterization, this section does offer suggestions for handling characterization in the context of FRAND.

453. See Li, *supra* note 2, at 429 (“Interoperable technologies that derive value from global network effects necessitate consistent guidelines to regulate . . . FRAND . . . licensing practices for . . . SEPs . . . across international borders. A uniform, international standard for FRAND licensing would aid the development of interoperable platforms.”); de Werra, *supra* note 8, at 209 (“The need for global harmonization of IP licensing law is also clear in the highly debated discussion regarding the meaning of the concepts of . . . FRAND . . . patent licensing terms and conditions.”); see also Nuno Pires de Carvalho, *Intellectual Property: From Biodiversity to Technical Standards: Technical Standards, Intellectual Property, and Competition—A Holistic View*, 47 WASH. U. J.L. & POL’Y 61, 87 (2015) (“The lack of consistence of FRAND law] may constitute a problem, particularly if we consider that the adoption of international standards is on the rise, especially in the context of technologies that need to be adapted to a globalized economy.”).

454. See Doug Lichtman, *Understanding the RAND Commitment*, 47 HOUS. L. REV. 1023, 1032 (“Yes, looking forward, standard-setting organizations ought to supplement the traditional RAND language with more specific information about exactly what the clause means.”).

455. *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *13 (W.D. Wash. Apr. 25, 2013) (“[M]ost SSOs prohibit any prospective discussion of licensing terms—generally citing fears of antitrust litigation . . . there are these conversations where they bring up antitrust concerns as a reason to avoid getting into [an] explicit definition of RAND.”).

456. See Damien Geradin, *The Meaning of “Fair and Reasonable” in the Context of Third-Party Determination of FRAND Terms*, 21 GEO. MASON L. REV. 919, 930 (2014); Richard A. Epstein, F. Scott Kieff & Daniel F. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 1, 12 (2011).

The first task, however, is recognizing that the existing international choice-of-law harmonization projects cannot tackle the issue.⁴⁵⁷ Both the American Law Institute (ALI)⁴⁵⁸ and Max Planck⁴⁵⁹ have created model laws on choice-of-law which encourage countries to adopt universal choice-of-law rules on intellectual properties.⁴⁶⁰ In addition, the Waseda Principles (Japan and Korea) examines the applicability of ALI and CLIP to East Asian Countries.⁴⁶¹ While these projects are certainly helpful in harmonizing choice-of-law rules generally, it is respectfully submitted that they cannot solve the characterization issue.

First, efforts to standardize choice-of-law in intellectual property rights cases have always focused on harmonizing the connecting factors. However, the connecting factors in each category are already very similar across the six jurisdictions examined here.⁴⁶² Second, and more importantly, none of these projects provide any rules on characterization. For instance, in the Waseda Principles, the drafters thought that characterization is best left to individual countries' rules.⁴⁶³ Such may not be an unreasonable design because characterization is always subject to the context of the specific case. It would, however, make it difficult to establish hard and fast rules for any jurisdiction, not to mention setting one that is binding on all jurisdictions.

While setting a clear rule may not be realistic, some general principles can still be established. With the courts' increasing awareness of FRAND issues, a reasonably predictable approach based on characterization can potentially be established.

A. General Principle

There are few explanations on how to perform characterization in domestic and private international law contexts.⁴⁶⁴ It is hereby submitted that characterization should

457. Dinwoodie, *supra* note 107, at 719 ("For example, in 1991 the Hague Conference on Private International Law, at the request of the United States, embarked on a quest to negotiate a jurisdiction and judgments convention of general applicability in civil and commercial matters. Those efforts floundered in 2000-2001, in large part due to disagreement over how to handle intellectual property cases, forcing the Conference to scale back its efforts and concentrate on a convention validating exclusive choice-of-court clauses in business-to-business contracts.").

458. The American Law Institute, *Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes* (2008).

459. *See* sources cited *supra* note 429.

460. Dinwoodie, *supra* note 107, at 720-21.

461. *See* Waseda University Global COE Project, *Commentary on Principles of Private International Law on Intellectual Property Rights* (Oct. 14, 2010) (proposal drafted by members of the Private International Law Association of Korea and Japan).

462. *See supra* Section V.B.

463. WASEDA UNIVERSITY GLOBAL COE PROJECT, *supra* note 461, at 137 ("[I]t is believed and laid out in this Article that the question of characterization should be referred to each state as often as possible.").

464. CHESHIRE, NORTH & FAWCETT, *supra* note 15, at 42 ("[I]t may be a case near the line in which it is difficult to determine whether the question falls naturally within this or that judicial category."); *see also* KOREA LEGISLATION RESEARCH

ultimately consider the purpose and nature of the substantive issues being characterized.⁴⁶⁵ This approach has support from judicial authorities and leading scholars from different jurisdictions. In *Adams v. National Bank of Greece*,⁴⁶⁶ the English House of Lords faced the question of whether a Greek moratorium rule should be characterized as relating to amalgamation or contract. The House of Lords held that it should be characterized as contractual, because the purpose of the Greek legislation was to relieve the new Greek bank of liabilities under the relevant bonds, and this purpose was not affected by the attempt of the Greek legislator to disguise it as relating to amalgamation.⁴⁶⁷ In *Macmillan Inc. v. Bishopsgate Investment Trust Plc (No. 3)*,⁴⁶⁸ a subsequent English Court of Appeal decision, Auld L.J. stated that “the proper approach is to look beyond the formulation of the claim and to identify according to the *lex fori* the true issue or issues thrown up by the claim and the defence.”⁴⁶⁹

By the same token, one commentator has suggested that the ultimate purpose of the choice-of-law process is “to identify the law having the most significant relationship with the issue in question This in turns involves a familiar litany of questions: which state is most interested; what are the parties’ expectations; which solution best captures the law’s economic and social context?”⁴⁷⁰

So what exactly are the purpose and nature of FRAND issues? As previously mentioned, FRAND is designed for worldwide standards.⁴⁷¹ The global nature of FRAND requires a consistent law and category of law to govern all FRAND issues. This law shall also apply when FRAND issues fall under patent law, contract law, competition law, or a combination thereof. Moreover, consistency can provide more predictability for implementers regarding the cost of standard implementation.⁴⁷² Consequently, this may improve FRAND enforcement by

INSTITUTE, INTRODUCTION TO KOREAN LAW 283 (2012) (noting that “the difficult question is how to decide whether a given rule or issue should be regarded as fitting into a particular category” but failing to discuss characterization).

465. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-039 (“The way the court should proceed is to consider the rationale of the English conflict rule and the purpose of the rule of substantive law to be characterized.”).

466. *Adams v. National Bank of Greece*, [1961] A.C. 255.

467. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-030-036.

468. *Macmillan Inc. v. Bishopsgate Investment Trust Plc (No. 3)* [1996] 1 W.L.R. 387 (CA).

469. *Id.* at 407.

470. Richard Fentiman, *Choice of Law and Intellectual Property*, in INTELLECTUAL PROPERTY AND PRIVATE INTERNATIONAL LAW – HEADING FOR THE FUTURE 131 (Josef Drexel & Annette Kur, eds. 2005).

471. See *supra* Section III.A.1.

472. Li, *supra* note 2, at 429.

encouraging a wider adoption of accepted standards.⁴⁷³ Consistency and predictability are of crucial importance to the communications and platform industries, where products generally contain thousands of FRAND-encumbered patents.⁴⁷⁴ Without consistency and predictability in applicable law, both SEP holders and implementers will risk enormous investments in technology development, and innovation in the industry will be hugely hindered.

Ideally, courts will become aware of FRAND's global importance. In some respects, this has already occurred. In *Unwired Planet*, for example, the English courts referred to precedents established by China, Germany, and the U.S., expressly approving the Chinese court's description of FRAND.⁴⁷⁵ Similarly, the Chinese court also made reference to a German case in its judgment.⁴⁷⁶ U.S. courts have long been open to academic perspectives.⁴⁷⁷ The Japanese court even launched a formal public consultation to solicit domestic and foreign public opinions on how FRAND issues should be resolved.⁴⁷⁸ If courts practiced more awareness of international approaches to characterization, especially when backed by strong academic discussions, the choice-of-law problems in FRAND could be resolved through changes in judicial practice without engaging in large-scale, costly, and thus uneasy convention drafting and negotiation.

B. *Characterizing All FRAND Issues Separately as Contractual*

If a single category is to be chosen, contract would be the best choice. As seen in Table 3, contract law has been the most usual category for FRAND issues. Second, the purpose of FRAND is to create a contract (i.e. a patent license agreement) between the SEP holder and the implementer. Put differently, if FRAND is to have any legal impact to standard setting, license agreements must be concluded. Third, both standard setting and FRAND share a strong private-ordering nature stemming from collaborations between private parties.⁴⁷⁹ Market actors use

473. See *supra* text accompanying note 26.

474. See Melamed & Shapiro, *supra* note 2, at 2114-15.

475. *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [93] (Eng.) (“I agree with the Guangdong High People’s Court’s succinct summary of the purpose of FRAND.”).

476. *Huawei I*, *supra* note 370.

477. *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 875-76 (9th Cir. 2012) (citing to Lemley, *supra* note 1).

478. See Chiteki Zaisan Kōtō Saibansho [Intellectual Prop. High Ct.] May 16, 2014, Hei 25 (2013) (ne) no. 10043, SAIBANSHO SAIBANREI JŌHŌ [SAIBANSHO WEB], 1, 139-41 (Japan).

479. See Contreras, *supra* note 2, at 214-16; see also Nicolas Petit, *The IEEE-SA Revised Patent Policy and Its Definition of “Reasonable” Rates: A Transatlantic Antitrust Divide?*, 27 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 211, 213-14, 235 (2017); Jorge L. Contreras, *Patent Pledges*, 47 *ARIZ. ST. L.J.* 543, 546-47 (2015); Jay P. Kesan & Carol M. Hayes, *FRAND’s Forever: Standards, Patent Transfers, and Licensing Commitments*, 89 *IND. L.J.* 231, 253 (2014); David J. Teece & Edward F. Sherry, *The Interface Between Intellectual*

contract and standards as a private-ordering mechanism to achieve their commercial goal and market efficiency. While FRAND is referred to in patent or competition law issues, its contractual nature should never be neglected. Therefore, we argue that each FRAND issue should be characterized as contractual regardless of the context in which they are raised.⁴⁸⁰ If a FRAND issue is present in the context of patent or competition law, it should be characterized separately as an incidental question. While this suggestion has been dealt with in the discussions above, a more detailed examination is merited, particularly with regard to the interaction with the law governing the main question (i.e. the applicable law to the cause of action) and the suggestion's viability.

Although FRAND is a relatively new issue, the entanglement of contractual and non-contractual obligations has long existed in legal practice.⁴⁸¹ In the context of the Rome II Regulation, Professors Fawcett and Torremans suggested that a two-stage test should be used in an intellectual property infringement where there is a contractual defense.⁴⁸² Their approach could also be used in FRAND.

1. *Characterization of the Underlying Issue as Non-contractual*

When the cause of action is infringement, the underlying infringement issue will be characterized as non-contractual. It will not be characterized as contractual since “[i]t is the claim of the licensor that the other party is infringing rather than carrying out a contract between them.”⁴⁸³

2. *Interactions with Contractual Defense*

This will involve the following issues: (1) whether a contractual defense can be an effective defense; (2) whether the defense in the contract clause is valid; and (3) whether the contractual clause covers the activity complained of.

Article 15(b) of the Rome II Regulation provides that the law applicable to non-contractual obligations applies to “the grounds for exemption from liability, [and] any limitation of

Property Law and Antitrust Law: Standards Setting and Antitrust, 87 MINN. L. REV. 1913, 1987 (2003).

480. Technically, characterization under the Rome Regulations is a matter of interpretation by the CJEU. See DICEY, MORRIS & COLLINS, *supra* note 130, ¶ 2-007 (“[W]here the choice of law rules which the court is directed to apply are those laid down by European Regulation of other European instrument, the question for the court is more usefully understood as one simply of statutory interpretation.”).

481. *Sayers v. International Drilling Co NV* [1971] 1 WLR 1176; *Canadian Pacific Railway v. Parent* [1917] AC 195.

482. See FAWCETT & TORREMANS, *supra* note 436, at 820-21.

483. *Id.* at 820.

liability.” Thus, such a law will apply *prima facie* to issues 1, 2 and potentially also 3. However, they suggest the law of contract will apply to both issues 2 and 3 because of the manifestly closer connection to contract.⁴⁸⁴

Accordingly, the validity and interpretation of the contractual defense are treated as incidental questions.⁴⁸⁵ They are characterized as contractual and governed by the proper law of contract, while the effect, if any, of the contractual defense given by the court is to be decided by the law applicable to non-contractual obligation (the cause of action). The law of both contract and tort will have roles to play under this approach. This division of labor is important to separate the contractual issues from patent issues, even though they all fall under the umbrella of patent infringement cases. While the prior discussion is based on the Rome II Regulation, it is a sensible approach that should be adopted by other jurisdictions.

Applying this joint approach to FRAND, all three of the major FRAND issues shall be governed and interpreted by the governing law of contract.⁴⁸⁶ The validity issue (issue 2) discussed above is essentially the same as the enforceability issue of FRAND, while the scope issue (issue 3) encompasses both the licensing terms and negotiation issues. Whether this FRAND license will constitute a solid defense to patent infringement (issue 1) will be decided by the *lex loci protectionis*, which governs the underlying infringement issue.

This same approach can also be used in a competition law context. For example, in *Huawei v. ZTE*, while the issue faced by the CJEU was based only on competition law, the court can still refer to contract law on the issue of whether there exists an enforceable FRAND commitment. What effects, if any, to be given to both cases will depend on the governing law of competition. The key is to separate all FRAND issues from the others and subject them to the governing law of contract. Likewise, whether FRAND can restrain the dominant market position of the SEP holder is ultimately an enforceability issue, which should be characterized as a contractual issue. As discussed, *Unwired Planet* has laid down the foundation to handling the FRAND issues this way. This approach also extends to public enforcement cases. In *Federal Trade Commission v. Qualcomm Incorporated*, discussed above, the U.S. court

484. The authors only referred to the application of Art 4(3) to issue iii. *Id.* at 821. However, some argue Art 4(3) also applied to issue ii. See CHESHIRE, NORTH & FAWCETT, *supra* note 15, at 866. The latter treatment is more appropriate.

485. A contractual clause that exempts tortious liability has long been a classic example of incidental question. See JONATHAN HILL & MÁIRE NÍ SHÚILLEABHÁIN, CLARKSON & HILL'S CONFLICT OF LAWS 43 (5th ed. 2016).

486. Having different part of the case governed by different laws is indeed common. See Forsyth, *supra* note 127, at 145 (“It is commonplace that different parts of the same case may be governed by different laws: one law may govern the validity of a contract, another the capacity to enter into that contract, a third may govern the ownership of goods delivered pursuant to that contract and, since the *lex fori* always governs procedure, a fourth may govern procedural matters.”).

effectively applied choice-of-law rules in contract to decide an incidental question (enforceability and licensing terms of FRAND commitments) in an FTCA violation case.⁴⁸⁷

On the viability of incidental questions, the use of the “incidental question” approach may not be explicitly allowed in legislation or judgments, but the courts have utilized it implicitly as we have seen above. Apart from Germany, courts have all practically treated the FRAND enforceability issue as an incidental question to the patent infringement. This proves that handling FRAND issues with the incidental question approach is viable under the private international law rules in our six jurisdictions.⁴⁸⁸ Courts should apply the incidental question approach to the actual FRAND issues, beyond blindly following the labels of cause of action, defense and counterclaim.

Treating all FRAND issues under contract law will solve the three types of inconsistencies highlighted above.⁴⁸⁹ This will also solve the problem in cases where the court has to deal with FRAND issues in multiple causes of action and/or defenses, thus establishing an internal consistency.

C. *Adoption of Choice-of-law Clause by SSOs*

As SSOs solve many standard-related problems *ex ante*,⁴⁹⁰ a common proposal is to reform SSOs’ IP policies or practices.⁴⁹¹ From a normative perspective, the choice-of-law issue can be

487. *See* discussion of Fed. Trade Comm’n v. Qualcomm Inc., 2018 WL 5848999, at *1 (N.D. Cal. Nov. 6, 2018) in Section IV.C.

488. Despite the fact that Germany did not adopt this approach in *Microsoft*, it is at least arguably allowed under Rome Regulations. This is because England is subject to the same rule under Rome Regulations and the English court has no problem utilizing it. A more complicated issue is whether *dépeçage* is allowed in all six jurisdictions. Some scholars argue no. For example, “[t]he [Japanese PILA] provides a single choice-of-law rule for the law applicable to an entire cause of action or a legal relationship as a whole. The Act does not allow *dépeçage* on its face.” *See* Symeonides, *supra* note 159, at 225 n.13. However, this should not be a problem, as it does not seek to have the two issues characterized in the same category (e.g., act and damages in tort) to be subject to two applicable laws, but to have two differently characterized issues (both recognized legal relationship, contract and tort) to be subject to two different applicable laws. *See* T.W. Dornis, “Local Data” in *European Choice of Law: A Trojan Horse from Across the Atlantic?*, 44 GA. J. INT’L & COMP. L. 305, 310-13, 336 (2017) (giving context to the reluctance to utilize *dépeçage* in Europe while advocating for its adoption in order to construct a consistent choice of law approach).

489. If one just looks at U.S. courts, characterizing FRAND issues under patent will arguably best promote consistency, as it will give the Federal Circuit jurisdiction to develop the law on FRAND. *See* Lemley, *supra* note 1, at 1926.

490. Henry E. Smith, Property as Platform: Coordinating Standards for Technological Innovation, 9 J. COMPETITION L. ECON. 1057, 1074 (2013).

491. *See* Li, *supra* note 2, at 461-64; Li & Wang, *supra* note 114, at 38-39, 45-47; Hovenkamp, *supra* note 17, at 106 (“Failures are probably best addressed via the institutional design of standard-setting procedures, including predisclosure obligations, rather than by antitrust.”); *see also* Joanna Tsai & Joshua D. Wright, *Standard Setting, Intellectual Property Rights, and the Role of Antitrust in Regulating Incomplete Contracts*, 80 ANTITRUST L.J. 157, 159-60 (2015).

dealt with at the SSO level.⁴⁹² It is noted at the outset that ETSI has a governing law clause while IEEE and ITU do not. Having such a clause will not solve all choice-of-law problems, but it will certainly mitigate some obvious uncertainties.

The positive effects of an express choice-of-law agreement are apparent. To start, courts consistently apply French law in the ETSI-related disputes, at least as far as the enforceability issues are concerned.⁴⁹³ Further, the only case reviewed where courts characterize FRAND issues as entirely under patent happens to be *Apple, Inc. v. Motorola Mobility, Inc.*,⁴⁹⁴ a case where no choice-of-law clause was included in the FRAND commitment to IEEE. It seems that having a choice-of-law clause will signal the courts to characterize issues as contractual, whether consciously or subconsciously. From a choice-of-law perspective, it is a foregone conclusion that an express choice-of-law agreement eliminates uncertainty in identifying the law with the closest connections.⁴⁹⁵

Ideally, major SSOs, such as ITU and IEEE, will adopt French law, and French courts will subsequently develop an expertise in all FRAND issues. In reality, French law may not have strong connections to most other SSOs, and French law still lacks certainty to date on enforceability issues. Other factors may be at work, and it is never easy for SSO members to come to a consensus. Even if they were to choose a different law, it would still substantially reduce the uncertainties highlighted throughout this Article.

Lastly, courts should avoid applying other escape devices in choice of law, such as the application of public policy in FRAND cases.⁴⁹⁶ After all, it is in the public interest to have a single law to apply to all FRAND issues across the world.⁴⁹⁷ It is difficult to see how applying the law chosen by the patentee will be contrary to public policy of any jurisdiction. In fact, applying a single system of law to all FRAND issues promotes public policy, and courts should always take this into account during the characterization process.⁴⁹⁸

492. Cf. Li & Wang, *supra* note 114, at 29 (“IPR policy reform [by SSOs] is an approach that is potentially able to provide a unified solution over multiple jurisdictions while the standards are adopted and implemented internationally.”).

493. The lone exception is *Huawei I*, *supra* note 370.

494. *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1082 (W.D. Wis. 2012).

495. See Regulation (EC) No. 593/2008 of the European Parliament and of the Council on the Law Applicable to Contractual Obligations [Rome I], June 17, 2008, O.J. (L 177/6) art. 3(1).

496. For example, in the *Card Reader* case, U.S. patent law was held inapplicable in Japan for violation of public policy. See Saikō Saibansho [Sup. Ct.] Sept. 26, 2002, 2000 (Ju) 580, 56 SAIKŌ SAIBANSHO MINJI HANREISHŪ [MINSHŪ] 1551 (Japan). For criticism of this approach, see Nishitani, *supra* note 321, 270.

497. Cf. *supra* Section III.C.2 (describing the social costs arising from the uncertainties associated with choice of law); *supra* text accompanying notes 471-474 (explaining the social benefit resulting from the consistency and predictability of applicable law).

498. The English court took this into account in finding third party right under

VI. CONCLUSION

FRAND is a mechanism under which worldwide standards can be achieved. Ironically, it has instead caused fragmented international choice-of-law issues, which must be addressed by private international law. While this task might appear daunting, standardization can be tackled step-by-step. It all starts with recognizing the significance of the choice-of-law process in FRAND-related disputes. The lack of focus on choice-of-law issues is clear in most of the precedents discussed in this Article.

Having identified the characterization problem, the three-step approach suggested herein can ideally serve as a blueprint for the courts. Recognizing the worldwide nature of FRAND is the first step, then characterizing all FRAND issues as contractual, and finally including choice-of-law clauses in SSO FRAND documents. These steps will substantially eliminate the uncertainties in the choice-of-law processes.

These three steps may not be achieved overnight, but it does not require any pricey legislative reform. Characterization may be a vague concept, but this also means the courts have room to develop the principle, and some courts, like the English court, have laid down a good foundation for our suggested approach. The suggested approach also will not incur substantial costs for SSOs to agree individually, if not collectively, on a governing law clause. The implementation of this three-step approach may make choice-of-law rules on FRAND more user-friendly and, in the long term, benefit end-users of the standards around the world. As Professor Willis Reese once said, “[a] basic objective in law is to develop rules that will work well in actual practice.”⁴⁹⁹ Our suggested approach on choice-of-law shall work well for all stakeholders regarding the applicable law on FRAND, making it more consistent while saving courts substantial time and energy in making choice-of-law decisions. In the end, not only will the choice-of-law rules become more user-friendly, so will FRAND.

French law. *See* *Unwired Planet v. Huawei*, [2017] EWHC (Pat) 711, [146] (Eng.).

⁴⁹⁹ Willis L. M. Reese, *A Suggested Approach to Choice-of-Law*, 14 VT. L. REV. 1, 1 (1989).