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EDITORIAL

Arbitration by SSOs as a Preferred Solution for Solving the FRAND Licensing of SEPs?

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In the last decade, the licensing of standard essential patents (SEPs) on fair, reasonable and non-discriminatory (FRAND) terms has been a thorny issue for SEP holders in the US and Europe on the one hand, and major SEP implementers in major Asian economies on the other, such as Japan, Korea, the PRC, Taiwan and even India. With the rise of the Fourth Industrial Revolution, driven by the Internet of Things (IoT), 5G, driverless vehicles, and artificial intelligence (AI), which relies even more on interconnectivity, more and more new standards and SEPs will emerge, and the issue of FRAND licensing of SEPs will be even hotter.

The situation is further exacerbated by national courts' issuance of anti-suit/enforcement injunctions and even anti-anti-suit/enforcement injunctions. Since *Microsoft v. Motorola* in 2012, US courts have applied anti-suit injunctions broadly to prohibit litigants from initiating or continuing parallel SEP-related litigation in another jurisdiction. For example, in June 2015 the Northern District Court of California granted InterDigital's motion for a preliminary injunction requiring Pegatron (a Taiwanese company) to dismiss its suit in Taiwan, and again in April 2018 it issued an anti-enforcement injunction in the *Huawei v. Samsung* case to enjoin Huawei from enforcing an injunction on Chinese SEPs entered by the Shenzhen Intermediate People's Court. The England and Wales High Court also held that an anti-suit injunction could be permissible in *Conversant (Singaporean company) v. Huawei and ZTE* in 2018. Recently, after the Chinese Supreme People's Court issued within two days an anti-enforcement injunction against Conversant in August 2020, prohibiting it from enforcing a decision rendered by the

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Dusseldorf District Court, the Wuhan Intermediate People's Court has taken the whole world by surprise. It issued in September 2020 a global anti-suit injunction against InterDigital in its suit with Xiaomi (Chinese company) and then issued in March 2021 against Ericson in its suit with Samsung (Korean company) a global anti-suit (excluding even other Chinese courts) and anti-administrative complaint injunction.

As a response, the international community has started to look for alternatives. For example, since November 2015, the Munich IP Dispute Resolution Forum has worked on the role of Alternative Dispute Resolution (ADR) in solving disputes surrounding FRAND licensing of SEPs and proposed the "FRAND ADR Case Management Guidelines" in May 2018. The European Commission (EC) in its 2020 IP Action Plan vows to "improve transparency and predictability in SEP licensing via encouraging industry-led initiatives, in the most affected sectors, combined with possible reforms, including regulatory if and where needed, aiming to clarify and improve the SEPs framework and offer effective transparency tools," to facilitate licensing and sharing of IP. Seemingly, ADR is one of the industry-led initiatives the EC has in mind.

However, ADR has its drawbacks, at least from the perspective of Asian industries, and can only work under a new construction.

One big drawback of ADR is that there is already an arbitration clause in almost every SEP license, which is almost always imposed by SEP holders and almost always designates the home turf of SEP holders or the headquarters of Standard Setting Organizations (SSOs) as the place for arbitration, which are almost always non-Asian. The result of such arbitration tends to take a formalistic and pure contract law approach to interpret SEP licenses; as Lord Justice Birss has said "it is not necessary to rely on competition law to enforce the FRAND undertaking." Arbitrators will almost certainly ignore the dominant market power possessed by SEP licensors and its abuse. That is the reason why I have suggested that competition authorities in major Asian economies should promulgate guidelines to demand that SEP licensors limit the scope of arbitration to pure contractual disputes, and exclude those related to anti-trust from arbitration. The lack of competition law consideration during arbitration will not be mitigated by simply reminding that ideal candidates for arbitrators "would have specific expertise in the field of standardization and related competition law issues" as proposed by the FRAND ADR Case Management Guidelines. There are few such people, if any at all, and they will hardly be chosen by SEP holders.

The second drawback is that arbitration taking place elsewhere will preempt local antitrust law suits in major Asian economies, which have offered some practical help to SEP implementers. In the last decade, some standards for FRAND licensing of SEPs under antitrust laws have converged in major Asian jurisdictions. There are three Nos and one Yes. "No" to bundling non-SEPs with SEPs, "No" to continual payment of royalties after the expiration of SEPs, "No" to royalty-free cross-licensing, and "Yes" to the provisioning of patent lists by SEP holders. Failure to uphold the three Nos and one Yes by SEP holders could lead to antitrust issues of abuse of dominance by the SEP holders in these Asian jurisdictions.

The three Nos and one Yes standards take a per se illegal approach and might seem rigid. However, they provide bright-line rules and as a result certainty to SEP implementers in Asia. In addition, they mirror or resemble some of the "Nine No-Nos" that reigned in the US from 1970 to 1995, especially "No" mandatory package licenses and "No" royalty provisions not reasonably related to the licensee's sales. It took the US 25 years to transition to the Antitrust Guidelines for the Licensing of Intellectual Property, which looks at these issues from the perspectives of rule of reason. The three Nos and one Yes standards should therefore be treated with equal understanding and tolerance, as Asian economies might need time to evolve according to their changing conditions and mindsets. Why would Asian SEP implementers agree to throw away that level of antitrust law safeguard by embracing arbitration unconditionally?

On top of that, it is worth noting that oftentimes these three Nos and one Yes standards have also been accepted in the form of consented corrective measures and concrete undertakings made by SEP holders to different Asian competition authorities. Since the SEP holders are global conglomerates and operate internationally, these standards could have the potential of transcending national borders to become global standards. Otherwise, they would be "discriminatory" towards businesses located in other jurisdictions. If we were to promote arbitration beyond Asia, should these antitrust standards be not arbitrable?

The third drawback of ADR is that it lacks the positive externality of a litigation. Its results will not be published, and no teaching and research on and oversight over the licensing of SEPs will be possible. Relevant knowledge will not be accumulated for and disseminated to the public. The FRAND ADR Case Management Guidelines take notice of this concern and suggest that "public policy considerations have to be balanced with confidentiality as an established ADR-principle" and "at least the methods and principles adopted by the parties and the arbitral tribunal in the determination of FRAND terms and conditions should be made public." Whether this will be acceptable to and practicable for ADR institutions remains highly uncertain.

On the contrary, arbitration by SSOs offers the most viable solution and can best avoid the above drawbacks. For three reasons FRAND licensing of SEPs needs *ex ante* regulation: increasing litigation worldwide indicates massive market failure; SEPs equal monopoly or joint monopoly; and SSOs from the private sector are replacing sovereign states in the development and adoption of new technical standards. The *ex ante* regulation is through light-handed control over the self-regulation by SSOs. SSOs are closest to all participants in the market, have professional knowledge about the standards and their major contributors, are not limited by national boundaries, and are therefore best positioned to tackle the problem at the roots.

In other words, SSOs should be asked by regulators to provide safeguards for the smooth implementation of the standards embodied in SEPs. Specifically, SSOs should conduct the essentiality check on the declared SEPs, be the depository of FRAND-compliant royalty rates that their members have signed, which will enable SSOs to concretize FRAND-compliant terms, and provide arbitration service to SEP owners and implementers. To be more feasible, SSOs should take the need for collective management of SEPs seriously. They can learn from the examples of the extended collective management of copyright by forming an umbrella organization to coordinate different arbitration cases to avoid royalty stacking and enhance transparency. That way, a global arbitration, as envisioned by Lord Justice Arnold, can be better achievable.

No single national competition agency can deal with all SSOs. Therefore, concerted action across national competition agencies is a must. Given that almost all SSOs are headquartered in the EU and US, and both the USFTC and EC have dealt with SSOs-related issues, coordination between the two would be a good start. More challenging, though, is to integrate competition authorities of other jurisdictions. It is only fair and appropriate to include at least the competition agencies of Taiwan, South Korea and the PRC, as they have dealt with FRAND licensing of SEPs issues, and their economies are leading the ICT industries. These five competition agencies can form a consortium to oversee the self-regulation of SSOs, including the arbitration service, in a way that best addresses the three drawbacks associated with traditional arbitration.

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