

Overview of FRAND litigation in France: is a new era coming?

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2019 and 2020 were years marked by the development of international competition among jurisdictions for FRAND rate-setting. Although the voices of French Judges were still little heard in the midst of this global cacophony, recent decisions of the Paris High Court confirm that France is becoming a serious option for patentees to consider.

Lockdown or not, 2020 will have been a flourishing and eventful year for Standard Essential Patents ("SEPs") holders. While Chinese [1] and English [2] Judges have recently shown their willingness to set global royalty rates, German Courts, which had already shown such willingness, have ruled in favor of several SEPs owners in important litigations [3]. At the same time, recent case law in France confirms a more pro-patentee trend than before, as evidenced in particular by the record amount of damages awarded recently in the "pemetrexed" case [4]. This notable evolution of the French Judge, in particular within the Paris High Court (i.e. "Tribunal Judiciaire de Paris", formerly "Tribunal de grande instance", which is exclusively competent for patents in first instance), tends to make it more and more possible for SEP holders to go to seize French Courts. However, before venturing into this territory, patentees will have to take into consideration the few decisions rendered for the moment, which nevertheless gives some indications for future cases to know how the French Judge rules on the forum and on the merits.

TCL vs. Philips and ETSI: how the French Judge rules on the forum [5]

The "TCL" case is the most recent to date, and certainly the most enlightening in terms of the intentions of the French Courts on the issue of royalty rate setting. It was an opportunity for the French Judge to clearly assert his jurisdiction in international disputes, particularly when they involve ETSI (i.e. European Telecommunications Standards Institute), which is located in Nice, France. Indeed, on 6 February 2020, the Paris High Court issued an important decision recognizing its jurisdiction to hear FRAND license disputes involving ETSI and ruling that the commitment of SEPs holders to grant FRAND licenses constitutes a "stipulation for third parties", a mechanism under French civil law equivalent to a third-party beneficiary clause.

Philips holds two SEPs that have been declared to the ETSI. Between 2015 and 2018, TCL and Philips attempted unsuccessfully to agree on the terms and conditions of a FRAND license for these two patents. In 2018, Philips finally brought a patent infringement suit against TCL in the United Kingdom, seeking an injunction against TCL. In 2019, TCL sued Philips and ETSI before the Paris High Court to compel Philips to grant a FRAND license on the two patents and to compel ETSI to assist the parties in granting this license. For its part, Philips asked the Court to decline jurisdiction, arguing that the dispute had already been referred to the UK Court and that there would be a risk of conflicting decisions if both the UK and French courts were to rule on the same dispute.

The Paris Court declared itself competent to rule on all of TCL's claims against Philips and ETSI. The Court held that there was a sufficient nexus between the TCL claims against Philips and ETSI, even if the two claims had separate legal bases: the membership agreement between ETSI and its members with respect to TCL's claims against ETSI; and Philips' promise to grant a FRAND license to potential licensees in accordance with ETSI IPR policy with respect to TCL's claims against Philips.

Furthermore, the Court stated that the promise to grant FRAND licenses to potential licensees made by SEPs holders pursuant to article 6.1 of the ETSI rules constituted a "stipulation pour autrui" (i.e. a third party beneficiary clause) that creates a direct contractual relationship between an ETSI member company (the SEPs holder) and a third party (a potential licensee, whether or not it is an ETSI member company).

Last but not least, it should be noted that the judgment also stated that since both the ETSI membership agreement and the ETSI rules are governed by French law, the Paris High Court may be inclined to retain jurisdiction in future cases relating to FRAND licenses based on a potential violation of the ETSI IPR rules.

From Vringo to Conversant: how the French Judge ruled on the merits

Before the TCL case, the French Courts handed down several decisions giving guidance for the arguments to be developed on the merits by SEPs holders in the future.

Although, the decision in *Samsung Electronics v. Apple* seems to indicate that a decision on the merits can only decide whether a license is FRAND or not but not what the rate is [6], since then, two cases have been decided: *Vringo v. ZTE* and *Conversant v. LG*.

In the first case, Vringo brought an infringement action before the Paris High Court on the basis of two patents declared essential to the UMTS standard [7]. Vringo also sought preliminary injunctions against ZTE. The Court rendered its decision on this injunction on 30 October 2015. In addition to challenging the validity and essentiality of the two patents, ZTE also argued that "*Nokia had contractually agreed to grant a license to anyone wishing to implement the UMTS standard on [FRAND] terms*" and that Vringo was bound by this agreement. ZTE requested that the Paris Court appoint at least one expert to calculate the FRAND royalty rate for the license in France. Neither party requested that the Court itself calculate the appropriate FRAND royalty rate. Finally, ZTE asserted that Vringo had "*abused its dominant position by (i) breaching its obligations under the European Telecommunications Standards Institute (ETSI) to grant a license on FRAND terms, (ii) engaging in tying, (iii) and proceeding with privatization*". The Court held succinctly that the first patent was invalid and the second was not essential.

In the second case, Conversant (formerly Core) holds a portfolio of patents of which more than a thousand have been declared essential to 2G, 3G and 4G standards at ETSI [8]. Core negotiated for several years with LG to license this portfolio; these negotiations were unsuccessful. In September 2014, Core sued LG before the Paris High Court for damages on the one hand, and for setting the royalty rate for telecommunications devices in France on the other hand. Five European patents were invoked. On 17 April 2015, the Court dismissed these claims on the grounds that no evidence of infringement had been adduced. Similar issues were raised on appeal, except that Conversant relied on only two of the five original patents. It was always alleged that LG was infringing both patents and that Conversant was seeking the setting of the worldwide royalty rate. LG argued that the patents were invalid, that there was a lack of a FRAND offer and exhaustion of rights by producing a Nokia-Qualcomm license.

While the Paris Court of Appeal did not ultimately rule on the setting of the FRAND royalty rate, its decision is nevertheless interesting because of the analysis of essentiality it offers and because it is, to our knowledge, the first to apply the French Trade Secrets Act of 30 July 2018 in a patent law dispute.

In the decision, it was precisely the lack of essentiality of patents that put a premature end to the Court's subsequent discussions. Claim 1 of the first patent, EP 0978210, relates to a "method for selecting a base station in a mobile communication system" comprising the following two steps: "identifying a poor radio connection between a second base station and a multimode terminal" and "selecting one of the first base stations based on the measurement of at least one base station signal in the multimode terminal". According to the relevant technical provisions of the UMTS (3G) and LTE (4G) standards, if a radio connection with a quality below a threshold is identified, a measurement step as claimed must be performed. On the other hand, the terminal may decide not to perform the said measurement if the quality of the radio connection is above the threshold. The Court concluded that a terminal that also performs the measurement when a good connection exists would comply with the standards, but would not infringe the patent, so the patent would not be essential to those standards.

Claim 1 of the second patent, EP 0950330, relates to a "user terminal having a wireless interface and a formatting device for formatting a signal to be transmitted over said wireless interface in accordance with a low protocol level signal formatting apparatus, characterized in that it comprises means for receiving a type signal, said type signal indicating a high level signaling protocol to be used for transmitting said signal, and for formatting said signal in accordance with that high level signaling protocol". LTE terminals are capable of accessing the network protocols "IPv4" and "IPv6", which, according to the complainant, implies the implementation of the selection step referred to in this application. The Court ruled that the patent itself did not distinguish between IPv4 and IPv6, but referred only to the Internet Protocol (IP). In addition, the standard does not explicitly state that the terminal must choose between IPv4 and IPv6 when both are available. It is therefore not possible to consider that such a selection step is required by the standard and therefore that the patent claiming it is essential.

But what about royalties if the patent is indeed infringed but not essential? A priori, the patent holder would no longer be bound by a FRAND commitment. The patentee would then be free to set the royalties of his choice. But before reaching that point, the patentee would prove infringement independently of the only implementation provided for by the standard. The French courts would thus return to the rules of "standard" patent law, as in the case of the Vringo decision.

With an interim order issued in October 2018, the Paris Court of Appeal decided to apply the French Trade Secrets Act of 30 July 2018, and more specifically the new Article L 153-1 of the French Commercial Code. This article provides that a judge of the French court must take procedural measures to protect the trade secrets referred to and disclosed in the course of litigation. Access to certain documents (including license agreements) has therefore been limited to the parties' attorneys and certain designated persons who have signed confidentiality agreements (including interpreters and economists). Two versions of written submissions are also regularly filed. In this case, a complete written statement of claim was filed, as well as a version that omitted any reference to confidential information relating to the various license agreements in question. The hearing, which took place over three days, had to be managed to deal with these confidentiality issues. On the first day, access to the hearing room was restricted to the parties' counsel and certain representatives of the parties. This session was devoted to the most sensitive parties (notably the Nokia-Qualcomm agreement). On the second day, the assessment of the FRAND rate was discussed. Again, access to the courtroom was limited to the above-mentioned persons and - when discussing comparable license agreements - a number of designated experts were allowed access. On the third day, the validity, essentiality and infringement of patents were discussed, this time without access restrictions.

Companies - patent holders and licensees - often do not want to disclose comparable license rates in license agreements, which are the result of lengthy negotiations. Most of the time, the negotiations leading up to the license and the license itself are subject to confidentiality restrictions, as the negotiations are often governed by a Non-Disclosure Agreement (NDA) and the license terms include a non-disclosure clause. As a result, parties will be reluctant to disclose such documents in a proceeding if the Court in question. The NDA at issue in the Conversant case governed Nokia-Qualcomm's license and information and was governed by German law. German courts are deemed not to protect confidential documents at all or to the same extent as other jurisdictions in the event of a dispute. At the time of the decision, the implementation of the EU Trade Secrets Directive had not yet been completed in Germany. On the issue of confidentiality in the context of SEPs, the *Oberlandesgericht Düsseldorf* stated in the *Sisvel v. Haier* decision in 2017 that an SEP is required to produce comparable license agreements, even though it is covered by an NDA [9]. In another decision also issued in 2017 - *Unwired Planet v. Haier*, the *Düsseldorfgericht* stated that a SEPs holder is required to produce comparable license agreements, even though it is covered by an NDA [10]. Huawei - the same Court stated that the plaintiff's refusal to produce a NDA could lead to a presumption of discriminatory practices, while the alleged violator's refusal could lead to the conclusion that he was not a consenting licensee.

In the Conversant case, the French Court was primarily bound by the EU Trade Secrets Directive and its implementation into French national law. The French judge therefore applied the provisions of the Trade Secrets Act transposing the European Trade Secrets Directive in order to protect the confidential information referred to in the NDA. This was particularly important because a German judge would not have been able to

provide such a solution at the time. Not only were the confidentiality provisions of an NDA not challenged, but the parties were still able to discuss royalty rates with all the necessary elements without destroying confidence in the regime established by the NDA. This position taken by the French courts is commercial and constructive. Parties litigating before the French courts will be reassured that their NOA will remain in effect, while still being able to rely on comparable royalty rates as a reference for their damages arguments.

Thus, although we have not obtained the calculation of a FRAND royalty rate, the recognition, introduction and application of the procedure for the protection of confidential information in licenses and negotiations gives the parties some satisfaction. With this regime in place, it will not be long before the French Courts and the new judges (increasingly favorable to patents), discuss (and determine) a FRAND royalty rate. In particular since the last TCL case law and the important position it holds in the forum when ETSI is involved.

All in all, while it is perhaps premature to speak of a "new era" yet, there is also no doubt that in light of recent case law, not only with respect to FRAND licenses but also in the pharmaceutical sector, a new era may be on the horizon because the French Courts are clearly destined to become an option not to be overlooked by SEPs holders.

[1] Y. Yu et J. C. Contreras, *Will China's New Anti-Suit Injunctions Shift the Balance of Global FRAND Litigation?*, <https://patentyo.com/patent/2020/10/contreras-injunctions-litigation.html>.

[2] M. Klos, *UK Supreme Court sets new standards in global FRAND litigation*, <https://www.juve-patent.com/news-and-stories/cases/uk-supreme-court-sets-new-standards-in-global-frand-litigation>.

[3] M. Klos, *The global SEP race*, <https://www.juve-patent.com/news-and-stories/people-and-business/the-global-sep-race/>.

[4] M. Dhenne, *PEMETREXED patent infringement in France: €28 million in damages for Eli Lilly ("France is back")*, <http://patentblog.kluweriplaw.com/2020/10/26/pemetrexed-patent-infringement-in-france-e28-million-in-damages-for-eli-lilly-france-is-back/>.

[5] Paris High Court, 6 February 2020, RG No. 19/02085.

[6] Paris High Court, 8 December 2011, RG No. 11/58301.

[7] Paris High Court, 30 October 2015, RG No. 13/06691.

[8] Paris Court of Appeal, 16 April 2019, RG No. 061/2019.

[9] OLG Düsseldorf, 30 mars 2017, aff. No. I-15 U 66/15).

[10] OLG Düsseldorf, 14 déc. 2016 et 17 janv. 2017, aff. No. I-2 U 31/16).