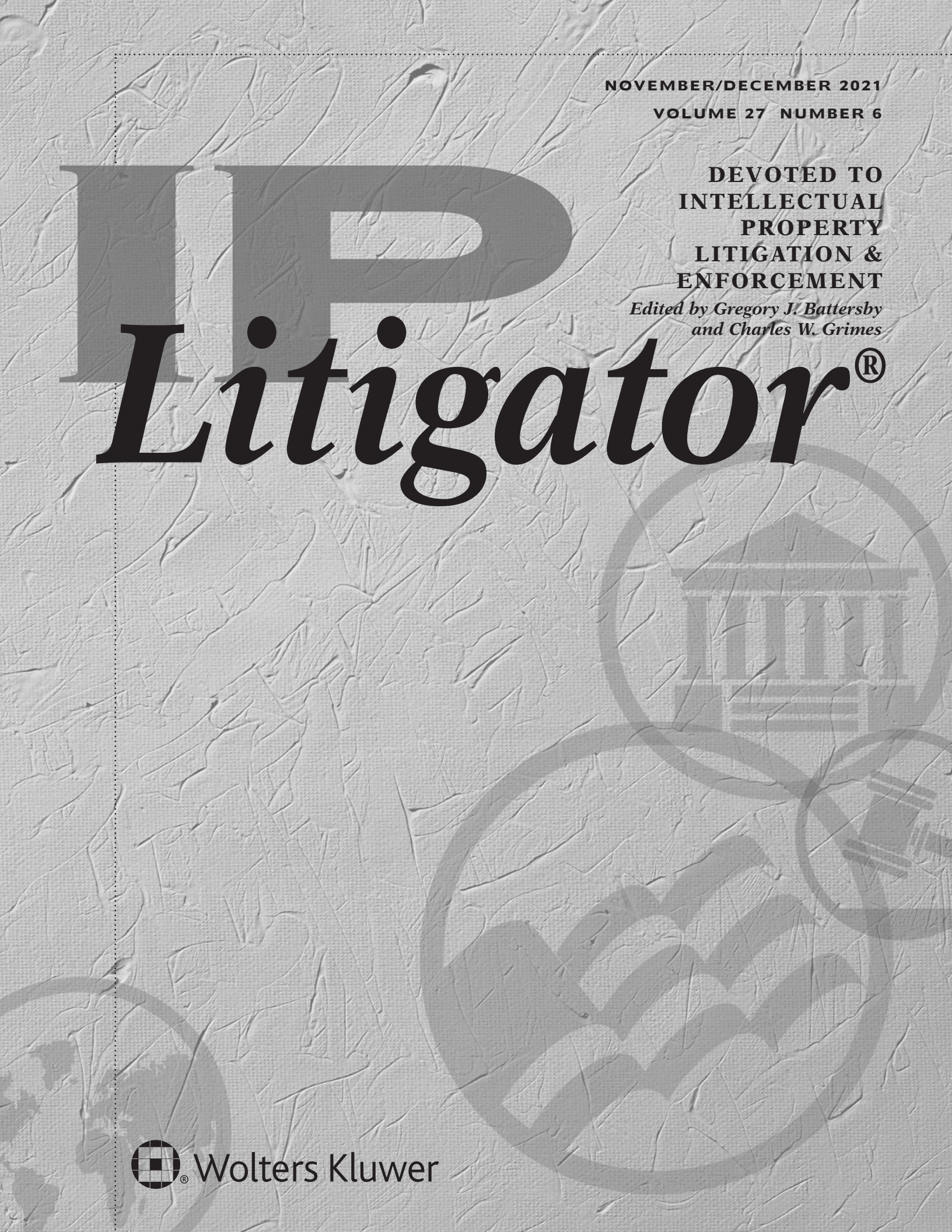
NOVEMBER/DECEMBER 2021
VOLUME 27 NUMBER 6

IP Litigator®

DEVOTED TO INTELLECTUAL PROPERTY LITIGATION & ENFORCEMENT

Edited by Gregory J. Battersby and Charles W. Grimes



Wolters Kluwer

Standard Essential Patents and the Internet of Things—The Evolving Patent Litigation Landscape

Keith M. Jurek and Paul Ragusa

Paul Ragusa is a partner and Keith M. Jurek an associate at Baker Botts L.L.P., where they practice intellectual property law, including the prosecution, licensing, and litigation of standard essential patents.

Historically, patent litigation involving Standard Essential Patents (SEPs) was mainly confined to the telecommunications and consumer electronics industries.[1] However, with the maturation of the Internet of Things (IoT)—the network of connected people and objects, such as smart thermostats, vehicle-to-vehicle communications, and item trackers—SEP litigation has spread beyond traditional boundaries to industries often unfamiliar with SEPs. Companies involved in making "smart" consumer or industrial products are now often forced to become familiar with the nuances of SEPs, often due an unwelcomed patent assertion from a Non-Practicing Entity (NPE). This article addresses important issues involving SEPs to assist those involved in industries unfamiliar with litigation involving patents that seek to cover industry and other standards.

I. SEP Background

SEPs are a common result stemming from the development of technological standards established by Standards Development Organizations (SDOs). SDOs are common in industries where inter-operability of competing devices is necessary to ensure safe and full operation of the devices. As an example, the European Telecommunications Standards Institute (ETSI), which has declared a greater number of SEPs than any other SDO, is responsible for drafting various telecommunication standards including the 2G (GSM/GPRS), 3G (UMTS), and 4G (LTE), specifications. Similarly, the International Telecommunication Union (ITU) sets certain global information and communication technologies standards, including the audiovisual standard ITU-T H.264, and the Institute of Electrical and Electronics Engineers (IEEE) Standards Association sets certain standards for WiFi, such as IEEE 802.11.

SDOs commonly feature input from major operators in the relevant industries who collaborate to develop the standards which may be covered by patents held by participating entities. To alleviate potential competitive concerns, SEP holders are required by many SDOs to commit to licensing their SEPs under fair, reasonable, and nondiscriminatory (FRAND) (or "RAND" without the first component) terms. The use of FRAND terms for SEPs can benefit both the patent owner and third parties. On the one hand, it can ensure that the SEP holder is recognized and fairly compensated for the use of resources to develop and contribute to the technological standard. Simultaneously, entities implementing the technological standard can access the technology incorporated in the standard knowing that patent owners have committed to license SEPs on FRAND terms.

Jurisprudence and statutes governing whether and how injunctions relating to SEPs are granted, how damages are calculated, and how FRAND royalty rates are determined can differ from country to country. For example, in *Huawei v. ZTE*, the Court of Justice of the European Union (CJEU) set forth a framework for SEP holders to follow to qualify for injunctive relief and defined obligations for the SEP holder and alleged infringer to negotiate a FRAND license agreement.[2] In *Unwired Planet v. Huawei*, a UK Court of Appeals decision, affirmed by the UK Supreme Court, held that a worldwide FRAND license is not improper because country-by-country licensing is wholly impractical.[3] The court further held that the non-discrimination requirement does not require a hard-edged component. According to the court, the mere fact that an SEP holder offers the license to another at a lower rate does not make the offer to the accused infringer discriminatory.[4]

II. SEPs and SEP Litigation in the IoT Space

As the IoT develops, billions of new devices—ranging from smart TVs, lighting fixtures, and kitchen equipment

to fitness devices, personal vehicles, and security systems—are expected to incorporate telecommunications standards to add new features and functionality. For industries such as the automotive industry, connectivity has become a must-have feature. Modern cars rely on connectivity features such as Bluetooth connections, long-term evolution (LTE) modules and WiFi connectivity. Next generation features such as vehicle-to-vehicle or vehicle-to-infrastructure communication are considered important for the development of safer roads and self-driving vehicles. The demand for enhanced connectivity and communication capabilities may lead to widespread implementation of 5G cellular standards (or updates thereof) previously relevant primarily for smartphone use. Similarly, the demand for advanced battery technologies, relating to energy storage and charging, already involves complex interactions of patents likely to be integrated into technological standards. Thus, automotive manufacturing may soon involve thousands of SEPs owned by many different companies in different fields.

As this evolution has occurred, SEP litigation has been increasingly initiated against the automotive sector, most notably in Germany. For example, Nokia Oyj (Nokia) has launched an SEP assertion campaign against Daimler AG (Daimler) in particular—filing a series of lawsuits before regional courts in Germany accusing Daimler of infringing Nokia's SEPs.[5] In response, Daimler filed an antitrust lawsuit against Nokia with the European Commission concerning Nokia's licensing of its patents for vehicle connectivity, requesting clarification on how SEPs for telecommunications standards are to be licensed in the automotive industry.[6] This long-standing dispute ended on June 1, 2021, when Nokia and Daimler announced a patent licensing agreement that resolves all litigation between the parties and provides Daimler with a license to Nokia's portfolio of mobile communications SEPs.[7]

In December 2017, Bayerische Moteren Werke AG (BMW) entered into an SEP licensing agreement related to cellular standards with a platform known as Avanci.[8] On July 28, 2020, the U.S. Department of Justice Antitrust Division (DOJ), issued a Business Review Letter (BRL) to Avanci regarding its proposed platform for joint licensing of SEPs for 5G telecommunications technologies for use in vehicles and, in the future, other IoT devices.[9] The DOJ opined that Avanci's "proposed 5G platform is unlikely to harm competition."[10] The DOJ concluded that that Avanci's provisions incentivizing pursuit of infringement claims by participating patent owners are not anticompetitive.[11]

III. The Future

There are measures that can reduce the impact of SEP litigation, particularly if implemented early in the development and use of technologies complying with the technological standards. Manufacturing agreements can include indemnification provisions addressing assertions by third-party SEP holders. Due diligence can reveal SEP holders likely to hold—and assert—SEPs relevant to the technological domain of new products prior to the investment of significant time and resources. Licensing agreements with these SEP holders can be entered under FRAND terms with a forward-looking focus. Market realities and business goals can factor into close consideration of the best litigation options and most favorable forums should SEP assertion actions be brought. Litigation options, for example, FRAND royalty determination actions or antitrust actions against an SEP holder can be used as effective item in a toolkit for an SEP assertion defense.

1. *See e.g.*, *Samsung v. Ericsson*, Inv. No. 337-TA-866 (cellular standards); *InterDigital*, Inv. No. 337-TA-800 (3G cellular standards); *Microsoft v. Motorola*, Inv. No. 337-TA-744 (SD card standard); *Motorola v. Apple* Inv. No. 337-TA-745 (cellular/802.11 standards); *LG v. Sony*, Inv. No. 337-TA-764 *(Digital TV/Blu-Ray standards)*; *Qualcomm Inc. v. Broadcom Corp.*, 05-CV-1958 (S.D. Cal.) (ITU H.264); *Fujitsu Ltd. v. NETGEAR Inc.*, 07-CV-0710 (W.D. Wis.) (IEEE 802.11).
2. *Huawei Techs. Co. Ltd v. ZTE Corp., ZTE Deutschland GmbH*, CJEU Case C-170/13 (July 16, 2015).
3. [2018] EWCA Civ 2344 (affirmed [2020] UKSC 37) at 52–57. *See also* [2019] EWCA Civ 38 at 98.
4. *Id.* at 89–90; *see also Sharp Corp. v. Oppo et al*. (Intellectual Property Tribunal of the Supreme People's Court of China, August 19, 2021).
5. *https://www.juve-patent.com/news-and-stories/cases/daimler-faces-next-connected-cars-dispute/*.
6. *https://www.reuters.com/article/us-eu-daimler-nokia-patents/daimler-asks-eu-antitrust-regulators-to-probe-nokia-patents-idUSKCN1RA2KF*.
7. *https://media.daimler.com/marsMediaSite/en/instance/ko/Joint-press-release-of-Nokia-and-Daimler-AG-Daimler-and-Nokia-sign-patent-licensing-agreement.xhtml?oid=50101910*.
8. *https://www.avanci.com/2017/12/01/avanci-announces-patent-license-agreement-bmw-group-becomes-new-licensee-avanci-platform-securing-license-standard-essential-patents-cellular-standards-2/*.
9. Letter from Makan Delrahim, Assistant Attorney General, U.S. Department of Justice Antitrust Division to Mark. H. Hamer (July 28, 2020) (available at *https://www.justice.gov/atr/page/file/1298626/download*).
10. *Id* at 2.
11. *Id.* at 11–12.