

Conversant v LG: What about FRAND in France?

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COMMENTS

***Conversant v LG*: What about FRAND in France?**

Matthieu Dhenne*

☞ Essentiality; Fair reasonable and non-discriminatory terms; France; Licensing agreements; Standard-essential patents; Trade secret

*The Paris Court of Appeal rendered the first notable FRAND decision in France on 16 April 2019 in the *Conversant v LG* case. Contrary to expectations the court did not fix FRAND royalties.¹ This judgment remains interesting: it refocuses the debates around patents and it implements the new procedure for the protection of confidentiality resulting from the new Trade Secret Act.*

Conversant (formerly Core) holds a patent portfolio of which more than a thousand patents have been declared essential to 2G, 3G and 4G standards at the European Telecommunications Standardization Institute (ETSI). Core negotiated for several years with LG to license this portfolio, but these negotiations failed. In September 2014, Core finally sued LG before the Paris High Court (Tribunal de Grande Instance) for damages, on the one hand, and to fix the royalty rate for the telecommunication devices in France, on the other hand. Five European patents were invoked. Judging that no evidence of

infringement had been brought, the court dismissed these claims on 17 April 2015². Similar issues were raised on appeal, except that Conversant was only relying on two of the original five patents. It was always alleged that *LG* infringed both patents and Conversant was still asking for the setting of the worldwide royalty rate. The court upheld the first instance judgment, holding that patents were not essential to the standards. Thus, although the Paris Court of Appeal did not ultimately decide on the setting of the FRAND royalty rate, its judgment is nevertheless interesting because of the analysis of the essentiality that it offers, and in that it is, to our knowledge, the first to apply the Trade Secrets Act of 30 July 2018, in a patent litigation.

Fixing royalty rate is out of question

Conversant v LG is not the first FRAND dispute before French courts. In 2015, Vringo alleged, before the Paris High court, that ZTE had failed to comply with its FRAND commitment and had thereby committed an abuse of a dominant position. However, the Paris court did not have to decide on this issue, since it found the patent void and not essential.³ In this context, the case between Conversant and LG was unique: the parties asked the judges to set the FRAND royalty rate itself.

This request is part of a particularly tense international context, marked by a great deal of FRAND litigation. In short, it is a question of fixing the base of the fee and the rate applicable to it.

The royalty base constitutes the basis on which the rate applies. The royalty is considered to be proportional to the value of the contribution of the invention to a product. Either one relies on total value on the so-called market EMVR (Entire Market Value Rule).⁴ Either we rely on the price of the smallest salable patentable product unit known as SSPPU (Smallest Saleable Patent Practicing Unit).⁵

The royalty rate is a magnitude expressed as a percentage intended to apply to a base. Many approaches for setting the FRAND rate have been considered beyond the world. Initially, the US courts used the so-called “hypothetical negotiations” approach from the US case law *Georgia Pacific*,⁶ which lists 15 factors to consider in recreating the licence agreement transaction.⁷ Two methods of calculating royalties are distinguished in the latest case law: the comparables approach and the

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¹ CA Paris, 16 April 2019, *Conversant v LG*, RG n° 15/17037.

² TGI Paris, 17 April 2015, *Core v LG*, RG n° 14/14124.

³ TGI Paris, 30 October 2015, *Vringo v ZTE*, RG n° 13/06691.

⁴ *Lucent Technologies Inc v Gateway Inc* 580 F. 3d 1301, 1329–1330 (Fed. Cir. 2009); *LaserDynamics Inc v Quanta Computer USA Inc* 694 F. 3d 51, 67 (Fed. Cir. 2012). V.B.J. Love, “Patentee Overcompensation and the Entire Market Value Rule” (2007) 60 Stan. L. Rev. 263; see also V.J.G. Sidak, “FRAND in India: The Delhi High Court’s Emerging Jurisprudence on Royalties for Standard-Essential Patents” (2015) 10 J.I.P.L.P. 609.

⁵ *Cornell University v Hewlett-Packard Co* 609 F. Supp. 2d 279 (N.D.N.Y. 2009); *Ericsson v D-Link* 773 F. 3d 1201, 1232 (Fed. Cir. 2014); V.J.G. Sidak, “Apportionment, FRAND Royalties, and Comparable Licenses after *Ericsson v D-Link*” [2016] U. Ill. L. Rev. 1809; see also A. Layne-Farrar, “The Patent Damages Gap: An Economist’s Review of U.S. Statutory Patent Damages Apportionment Rules” (April 2017), SSRN, <https://ssrn.com/abstract=2911289> [Accessed 1 July 2019].

⁶ *Georgia-Pacific Corp v United States Plywood Corp* 318 F. Supp. 1116, 1119–20 (S.D.N.Y. 1970), mod. & aff’d, 446 F. 2d 295 (2d Cir. 1971), cert. denied, 404 U.S. 870 (1971). See also *Unisplay SA v American Electronic Sign Co Inc* 69 F. 3d 512, 517 (Fed. Cir. 1995).

⁷ Factors adapted to the FRAND case by Judge Robart in the *Microsoft* case: *Microsoft v Motorola*, 2013 WL 2111217 (W.D. Wash. 2013), aff’d, 696 F. 3d 872 (9th Cir. 2015). See also *In re Innovatio IP Ventures* 2013 WL 5593609 (N.D. Ill. 2013); *Ericsson v D-Link*, 773 F. 3d 1201, 1232, 1235 (Fed. Cir. 2014).

top-down approach.⁸ The first method consists in looking for comparable licences to compare their royalty rates with that of the licence in question, while taking into account contextual differences.⁹ The second method consists in aggregating royalties on a standard in order to divide the sum obtained by the number of essential patent holders.¹⁰ Other approaches have been considered to take into account the margin achieved on the final product: the incremental value approach and the bottom-up approach. According to the first one, the amount of royalties should correspond to the additional value provided by the patented technology in relation to the maximum amount that a licensee would be willing to pay for the optimal alternative solution.¹¹ According to the second one, it would be better to look for the cost associated with the implementation of reasonable alternatives to the patent in question which could have been included in the standard and then to divide this cost by the total number of infringements in order to fix the maximum royalty by product.¹²

Not all of the conceptions of FRAND royalty calculation are mutually exclusive and may even be complementary. Thus, the two recent important decisions in this area have opted for a comparable and top-down mix approach.¹³ There is no question here of expanding on these different approaches: the subject is far too broad, and, above all, it was not treated by the judgment commented. All that emerges from the judgment is that the comparables have been discussed, confidentially. That being the case, this theme of royalty calculation is at the heart of the FRAND litigation worldwide. It raises a number of questions, and the French judge has still never pronounced on it. Without going into details, let us simply note that the contribution of the French judge could not only lie in the method chosen, but also in the elements to be taken into account: what are, in general, the contextual elements to be taken into account in the case of a comparison? Does the number of licensees influence the rate, for example? Does the activity or inactivity of the owner of the essential patent have any influence? It is too bad that these few questions, and many others, remain

unanswered in France, given the importance of FRAND litigation in the world? But should we really deplore this lack of influence of French case law on this point? Or to put this story in its more general context, that of patents? First, in the particular field of telecommunications—FRAND's privileged playground—patents concern computer-implemented inventions and their validity remains subject to discussion¹⁴: whatever you think about it.¹⁵ It should be noted that the in the present case LG did not believe that the claimed inventions were excluded from the field of patentability. Second, standard essential patents (SEP) are declared as such by their owners to standardisation organisations without any control of the essentiality by them. Should we really be surprised in this case that when thousands of patents are declared essential, many of them are not essential or, even worse, are simply void? We do not think so. Everyone will understand that it is difficult to decide on a FRAND royalty covering a portfolio with thousands of patents by considering a non-representative sample, or two patents chosen (carefully) by the right holder.

The question is—essential or not?

It is precisely the lack of essentiality of the patents that put a (premature) end to the developments of the court. Claim 1 of the first patent, EP 0978210, relates to a “method for selecting a base station in a mobile communication system” comprising the two following steps: “identify a bad radio connection between a second base station and a multimode terminal” and “select one of the first base stations according to the measurement of at least one base station signal in the multimode terminal”. According to the relevant technical descriptions of UMTS (3G) and LTE (4G) standards, if a radio connection with a quality below a threshold is identified, a measurement step as claimed shall be performed. On the other hand, the terminal may decide not to carry out said measurement if the quality of the radio connection is greater than the threshold. The court concluded that a

⁸ In the US: *TCL Communications Technology Holdings Ltd v Ericsson Telefonaktienbolaget LM Ericsson* Cases 8:14-CV-00341 JVS-DFMx & 2:15-CV-02370 JVS-DFMx (C.D. Cal., 2017). In the UK: *Unwired Planet v Huawei* (2017) EWHC 711 (Pat); [2019] 4 C.M.L.R. 7.

⁹ In the US see notably *Interactive Pictures Corp v Infinite Pictures Inc* 274 F. 3d 1371, 1384–1385 (Fed. Cir. 2001); *Integra Lifescience I Ltd v Merck KGaA*, 331 F. 3d 860, 870 (Fed. Cir. 2003); *Lucent Technologies Inc v Gateway Inc*, 580 F. 3d 1301, 1329–1330 (Fed. Cir. 2009); *Apple Inc v Motorola Inc*, 757 F. 3d 1286 (Fed. Cir. 2014); *Commonwealth Scientific and Industrial Research Organization (CSIRO) v Cisco Sys. Inc*, 809 F. 3d 1295, 1302 (Fed. Cir. 2015), cert. denied, 136 S. Ct 2530 (2016); *ePlus Inc v Lawson Software Inc*, 764 F. Supp. 2d 807, 813 (E.D. Va. 2011); *Realtek Semiconductor Corp v LSI Corp*, 946 F. Supp. 2d 998 (N.D. Cal. 2013). In Europe, the method has been applied by the English and German judges: see *Unwired Planet v Huawei* (2017) EWHC 711 (Pat); [2019] 4 C.M.L.R. 7; LG Düsseldorf, 31 March 2016, *St Lawrence Communication v Vodafone*, 4a O 73/14; LG Düsseldorf, 13 July 2017, *Sisvel v ZTE*, aff'd n° 4a O 154/15; LG Mannheim, 29 January 2016, *NTT v HTC*, aff'd n° 7 O 66/15.

¹⁰ *TCL Communications Technology Holdings v Ericsson LM Ericsson* (C.D. Cal., 2017) and *Unwired Planet v Huawei* (2017) EWHC 711 (Pat); [2019] 4 C.M.L.R. 7.

¹¹ *In re Innovatio IP Ventures*, 2013 WL 5593609 (N.D. Ill. 2013); Delhi High Court, 12 March 2013, *Telefonaktiebolaget LM Ericsson v Micromax Informatics Ltd and Mercury Electronics Ltd*; Delhi High Court, 8 December 2014, *Telefonaktiebolaget LM Ericsson v Xiaomi Technology*; Delhi High Court, 13 March 2015, *Telefonaktiebolaget LM Ericsson v Intex Techs (India) Ltd*. See Sidak, “FRAND in India” (2015) 10 J.I.P.L.P. 609.

¹² A. Layne-Farrar and K.W. Wong-Ervin, “Methodologies for calculating FRAND damages: an economic and comparative analysis of the case law from China, the European Union, India, and the United States” (2017) 8 J.G.L.R. 127.

¹³ *TCL Communications Technology Holdings Ltd v Ericsson Telefonaktienbolaget* (C.D. Cal., 2017); and *Unwired Planet v Huawei* (2017) EWHC 711 (Pat); [2019] 4 C.M.L.R. 7.

¹⁴ Further, we can notice that the FRAND litigation was born in the US, where the courts were very understanding about the patentability of these inventions until the *Alice* case (M. Dhenne, “L'arrêt Alice De La Cour Suprême Des États-unis: L'adieu Au Pays Des Merveilles?” [2016] Propr. Industr. Étude 9). Since then, there has been a decrease in this litigation in the US with a corresponding increase in Europe, and particularly in Germany, a country known for its bifurcated system under which counterfeiting can be approached without reference to the validity of patents.

¹⁵ We have already criticised this legal insecurity. See M. Dhenne, “Technique et droit des brevets: L'invention en droit des brevets” (LexisNexis, Bibl. dr. entreprise, 2016), passim; and M. Dhenne, “La notion de technique en droit des brevets” [2015] Propr. intell. 253; M. Dhenne, “The Assessment of Technicality of Computer-Implemented Inventions in Europe” (2018) 40 E.I.P.R. 295. See also M. Dhenne and C. Geiger (eds), *Les inventions mises en œuvre par ordinateur: enjeux, pratiques et perspectives* (Paris: LexisNexis Editions, CEIPI Collection, 2010), passim.

terminal that also performs the measurement when a good connection exists would be in accordance 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 on said wireless interface in accordance with a protocol low-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 to this high level signaling protocol”.

LTE terminals are able to access both “IPv4” and “IPv6” network protocols, which implies, according to the plaintiff, implementing the selection step targeted by this claim. The court ruled that the patent itself did not distinguish between IPv4 and IPv6, but only referred 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 and not essential? A priori, in such a case, he would no longer be bound by a FRAND commitment. The patentee could then be free to set the royalties of his choice. However, this hypothesis will only come into being if the patentee proves infringement independently of the sole implementation of the standard. We would therefore return to the rules of “standard” patent law, as it was already the case in *Vringo* judgment.

Despite the disappointment generated by the commented decision, we must also underline the contribution to the protection of NDAs.

Trade Secrets Act protects NDAs

Succeeding an interim order issued in October 2018,¹⁶ the Paris Court of Appeal had decided to apply the Trade Secrets Act of 30 July 2018, and more particularly the new art.L153-1 of the French Commercial Code.¹⁷ Access to certain documents (including licence agreements) has thus been reserved for the parties’ lawyers and certain designated persons who have signed confidentiality agreements (in particular interpreters and economists). Two versions of the written submissions have also been filed: a complete one and one without any reference to

confidential information relating to the various licence agreements in question. Finally, the hearing took place over three days. During the first day, access to the courtroom was restricted to the parties’ lawyers and some representatives of the parties. This session was devoted to the most sensitive parts (notably the Nokia-Qualcomm agreement). On the second day, the determination of the FRAND rate was discussed. Again, access to the courtroom was limited to the above-mentioned individuals, as well as a number of designated experts, when comparable licensing agreements were disclosed. On the third day, the validity, essentiality and counterfeit of the patents were discussed, without any access restriction this time.

The issue of the confidentiality of comparable licences is particularly sensitive because the parties do not wish to disclose the rates that result from often lengthy and arduous negotiations. Thus, it should be noted that the transposition of the Trade Secrets Directive has not yet been completed in Germany, the country hosting the vast majority of FRAND litigation in Europe, and that the Oberlandesgericht Düsseldorf stated, in the *Sisvel v Haier* decision in 2017,¹⁸ that a SEP was required to produce comparable licence agreements, although covered by a non-disclosure agreement (NDA).¹⁹ On the contrary, not only the confidentiality of an NDA is not questioned by the French judge, but parties are also likely to discuss royalty rates with all the necessary elements. Therefore, we can only approve this ruling on confidentiality since it provides all we need to compare royalty rates without breaking the confidentiality of an NDA.

Finally, we did not get what we want (FRAND calculation), but the introduction of the procedure of the trade secrets act offers another satisfaction, as it will be a great tool for discussing royalty rates in the near future. And you can be sure that we will have this discussion very soon, since the new judges of the Paris courts seem more and more patent-owner friendly ...

Patents Court Hoses Down Allegation of Prior Use

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¹⁷ European patents; Infringement; Inventive step; Prior art; Prior use; Validity

¹⁶ CA Paris, interim order, 9 October 2018, and 26 January 2019, *Conversant v LG*, RG n° 15/17/037.

¹⁷ See our articles “La loi n° 2018-670 du 30 juillet 2018 relative à la protection du secret des affaires” [2018] D. 1817; and “Le décret n° 2018-1126 du 11 décembre 2018: l’heure du premier bilan pour la protection du secret des affaires en France [2018] Propr. industr., étude 11.

¹⁸ OLG Düsseldorf, 30 March 2017, *Sisvel v Haier*, aff’d n° I-15 U 66/15.

¹⁹ On the whole issue see V. Kathuria and J.C. Lai, “Royalty Rates and Non-Disclosure Agreements in SEP Licensing Implications for Competition Law” (2018) 40 E.I.P.R. 357.

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