

## The Phenomenon Of Anti-Suit Injunctions And Extraterritorial Implications

By Valentina Piola

Extract by Valentina Piola (Sisvel) of the webinar organized by LES Italia on the theme “Anti-suit injunctions under different national laws—Italy, Germany, UK and U.S.,” 29 September 2021.

### Moderator:

- **Roberto Dini**, Metroconsult

### Panelists:

- **Mario Franzosi**, Studio Legale Franzosi Dal Negro Setti (Italy)
- **Sir Robin Jacob**, Retired Judge at the Court of Appeal of England and Wales and Sir Hugh Laddie Chair of IP Law, UCL (UK)
- **Judge Paul R. Michel**, Retired Chief Judge at the U.S. Court of Appeals for the Federal Circuit (USA)
- **Judge Randall Rader**, Retired Chief Judge at the U.S. Court of Appeals for the Federal Circuit (USA)
- **Cordula Schumacher**, Arnold Ruess (Germany)
- **Valentina Piola**, Sisvel (Italy)

### The Origins of the Anti-Suit Injunction Phenomenon

Whilst the patent licensing market has become increasingly global, patents are still governed by national or regional laws. Accordingly, one of the major debates currently characterizing Standard Essential Patent (SEP) litigation is its ever-increasing extraterritorial implications.

In 2020, the UK Supreme Court in the *Unwired Planet v. Huawei* case<sup>1</sup> issued a landmark decision, determining for the first time the value of a Fair Reasonable and Non-Discriminatory (FRAND) royalty to be paid globally for an entire SEP portfolio. This decision opened a heated debate on which national court was entitled to define a FRAND royalty rate. In particular, the Chinese courts, which regulate one of the largest consumer goods markets and where most of the manufacturing companies (implementers) are located, have not only felt entitled to do so, but have also started to issue extra territorial injunctions (the so-called ASI—Anti-Suit Injunction) to prevent other national courts from making their decisions. This approach has raised considerable concerns regarding the legitimacy of such actions.

1. [2020] UKSC 37.

There is, however, an important distinction between the decision made by the UK Supreme Court in the *Unwired Planet v. Huawei* case and the subsequent decisions from the Chinese courts, which deployed ASIs with the purpose of maintaining the right to establish a global royalty rate in China, thus interfering in the jurisdiction of foreign courts.

Sir Robin Jacob noted that the *Unwired Planet v. Huawei* case began as a patent infringement action, specifically an infringement of a SEP portfolio. After assessing that the patents were valid and infringed, the Court faced the choice of determining the cost of a single license for only UK patents or a global license based on the entire worldwide portfolio of SEPs. Relying on commercial and practical reasonings, the Court ruled that only a global license for the entire patent portfolio would make sense for both the patent holder and the licensee. Therefore, the court set the terms and the royalty rate for a global license and, if Huawei continued to refuse to take a license, it made available an injunction for SEP infringement, but only limited to the UK territory.

The *Unwired Planet v. Huawei* decision represents the application of existing principles and suggests that establishing a global license for the entire portfolio is the best solution when dealing with a large international SEP portfolio.

The decision has perhaps increased the phenomenon of forum-shopping, sparking a race towards courts deemed as “friendly” in defining royalty rates; a concept that also underlies recent Chinese lawsuits in which it seems to be sufficient to go to a court and ask to define the royalty rate, without there being any patent infringement lawsuit pending before that court. However, the *Unwired Planet v. Huawei* case certainly has not created any interference with the judicial power of other jurisdictions as in ASI cases.

Judge Michel pointed out that the concept of judicial interference was also highlighted by Judge Rodney Gilstrap of the Federal District Court of Texas, in the *Samsung v. Ericsson* case.<sup>2</sup> Judge Gilstrap affirmed that the use of ASIs is to be considered an interference

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with the administration of justice in other countries and with companies over which there is no jurisdiction. Although the Wuhan court issued an ASI against Ericsson, the intention was to basically prevent Judge Gilstrap from ruling on a U.S. patent infringement case. The judge ignored the Chinese injunction, in turn issuing an “Anti-Interference Order.”

Judge Michel also noted that Judge Gilstrap’s refusal to be bound by the injunction imposed by the Wuhan court also facilitated the resolution of the dispute between the parties, who settled on appeal. It is in fact important to note that the court can act as a facilitator in getting the parties to negotiate but, where possible, it is always preferable that the value of a royalty rate is established through an agreement between the innovator and the implementer. They certainly have a more complete and accurate view of the market and its future evolution than a court.

## ASIs as a Delaying Tactic (Hold-Out Behaviour)

The hold-out phenomenon, in which the implementer tries to delay the conclusion of a license agreement, is increasingly common in the current international context. Implementers of standardized technologies typically raise doubts about the SEP’s validity and essentiality or on the required FRAND royalty rate, citing a multitude of excuses to postpone the negotiation for as long as possible.

The hold-out phenomenon, intensified by ASIs, generates a distortion of the market that damages the entire innovation ecosystem.

Patent holders, who have invested heavily in R&D to develop new technological standards, are not rewarded for their efforts, and due to ASIs they are also deprived of the right to exclude or seek an injunction for the unauthorized use of their patented technologies. They would therefore be denied the right of access to the courts (right to justice), as foreseen by Article 47 of the Charter of Fundamental Rights of the European Union and by Article 6 of the Convention on Human Rights, which also applies to companies, and is also present in many European constitutions, such as Article 24 of the Italian Constitution and Article 101 of the German Grundgesetz.

The hold-out approach also discourages willing licensees who have duly signed a license agreement but, due to the increase in production costs, are now disadvantaged compared to other implementers who, through ASIs and other delaying techniques, act as

“free riders” by not stipulating a license agreement.

The Chinese courts consider themselves entitled to set global royalty rates and to issue ASIs as they believe it is in the interest of the market to keep the cost of innovation and technology as low as possible. Nothing could be further from the truth. Public interest isn’t just about having a low price; public interest is to have an improvement in our daily lives through increasingly improved and sophisticated products. In order to achieve this, huge investments in R&D are required.

ASIs are therefore emerging as a tool used by some national courts, and in particular Chinese courts, to defend the interests of their own industries. They can even be seen as a state aid or an unfair trade practice, which are not allowed by international trade treaties such as the WTO.

Unless this abuse is immediately stopped, it will be detrimental to technological progress and the public interest.

The most recent decisions, such as *Sisvel v. Haier*<sup>3</sup> before the German Federal Supreme Court ruled that after receiving a FRAND offer, the alleged licensee must act proactively to reach an agreement with the patent holder within a reasonable time. Otherwise, the company in question would be considered unwilling and therefore subject to an injunction.

In this context, even the request for an ASI, which intends to practically delay and interrupt the licensing negotiation process, cannot be considered as a proactive attitude from a potential licensee. This is also the position of the Regional Court of Munich. In fact, in the *Interdigital v. Xiaomi* case,<sup>4</sup> as noted by Cordula Schumacher, the court stated that anyone requesting an anti-suit injunction is showing a reluctance to negotiate in good faith and, as an unwilling licensee, loses the right to a FRAND defense and may be subject to an injunction in the case of infringement. If other courts were to adopt this strategy, this would have a strong disciplinary effect on many counterfeiters, who would be much more cautious before requesting an ASI.

## ADR to Solve Frand Disputes and Avoid Delaying Tactics

Sir Robin Jacob noted that ASIs and the Anti-Anti-Anti-... Suit Injunctions that often follow can create a sort of deadlock in which both parties are blocked by an injunction and cannot assert their rights.

The only way out of this mutual deterrence is represented by international arbitration to ensure that glob-

2. *Ericsson Inc. et al v. Samsung Electronics Co., LTD. et al*, No. 2:2020cv00380 - Doc 45 (E.D. Tex. 2021).

3. Az. KZR 35/17 & 36/17.

4. Az. 7 O 14276/20.

al FRAND royalty rates are defined fairly, free from any geo-political influences.

Arbitration, together with mediation, is an Alternative Dispute Resolution (ADR) mechanism that is fast (based on one single level of judgment), inexpensive, and which could take in consideration large patent portfolios belonging to different jurisdictions.

Unlike court judgments, as noted by Judge Rader, arbitration only binds parties who can resolve the dispute confidentially without creating any conflict between different national jurisdictions.

Arbitration is certainly the best way to resolve disputes, however, it does also have its drawbacks. For example, arbitration does not provide the possibility of invalidating patents. However, this should not be considered as an insurmountable obstacle. The current technological scenario is characterized by a huge number of SEPs; some are valid, and others are not. Every negotiation takes this issue into account, and the same can be done in an arbitration proceeding.

Alternatively, as suggested by Roberto Dini, the arbitrator panel can delegate the task of assessing the validity of SEPs to an international patent authority such as the EPO. The EPO can easily evaluate whether a patent is still valid despite new prior art (which had not been assessed during the examination process) identified by the implementer.

In a recent pilot study, the EPO has expressed its opinion on the essentiality of patents. According to the EPO's reasoning, if a standard were to be published before the priority of the SEP application, such standard would nullify the supposed essential patent due to lack of novelty. Therefore, if the standard, considered fictitiously as a prior art, destroys the novelty of a patent, it means that the claim of the patent fully covers a characteristic of the standard and is therefore essential. Companies like Sisvel offer arbitration as a priority to resolve issues and disputes raised by a potential licensee. As noted by Valentina Piola, Sisvel also regularly makes use of mediation before the WIPO, which, unlike arbitration, has the advantage that, after having unilaterally filed the request, the WIPO mediator reaches out to the counterpart to facilitate the discussion.

However, arbitration and mediation, as alternatives to judicial disputes before national courts, have so far yielded rather limited results. Although there are several well-established systems in the world, such as the WIPO Mediation and Arbitration Center or the Japanese system, some implementers, especially Asian companies, do not find them as convenient as their own national courts.

It is therefore important that institutions like Standard Setting Organizations (SSOs), Competition Authorities and other government institutions support this form of alternative dispute resolution.

Roberto Dini indeed noted that the Digital Video Broadcasting (DVB), a standardization body that includes almost all developers of new video and audio codecs, states that if members have any problems with obtaining a license, they are encouraged to resolve this through arbitration (see DVB's Memorandum of Understanding - Art. 14.7). Such arbitration is subject to the rules established by the International Chamber of Commerce and takes place in Frankfurt, Germany. This provision is valid for a transitional period of time: from when the standard is created up to the next three years or until a patent pool with at least 70 percent of the essential patents is established. In fact, the DVB believes that when a patent pool with at least 70 percent of essential patents is formed, there is an obligation to take a license, and whoever refuses to take a license for a pool that includes almost all essential patents must be considered an unwilling licensee.

However, SSOs are consensual bodies and cannot impose on their members the choice of arbitration in the resolution of disputes, unless there is unanimity. For this reason, it is acknowledged that the role of the Competition Authorities is also fundamental. Competition Authorities should request arbitration from the SSOs, who in turn can request it from their members, which is similar to the procedure already adopted for the FRAND declaration. The Competition Authority must in fact recognize that hold-out is anti-competitive. By delaying the payment of royalties or not paying any at all, some companies enjoy a competitive advantage over companies who regularly pay royalty fees.

Courts can also play an important role in promoting mediation between parties who come before them for a SEP dispute.

The refusal to arbitrate as a tool to solve disputes over the value of the FRAND royalty should be clearly considered by the courts as a sign of unwillingness.

For the well-being of the entire innovation ecosystem, it's important that licensing agreements are primarily concluded without resorting to litigation. However, at present, arbitration cannot be imposed and therefore the consent of the parties or a contractual clause is required. So, to date, the choice of arbitration remains unfortunately rather limited.

## Conclusion

Although the licensing market is increasingly global, patents are still national or regional. It is therefore common practice that anyone who violates a patent in a specific country is subject to the jurisdiction of

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such country. Therefore, in order to avoid an injunction, companies either conclude a license or stop infringing a patent.

International competition between courts should be avoided. It is not appropriate that companies file a lawsuit in their own jurisdiction and then another party tries to solve the matter in his own court in a more advantageous way, thus interfering with the decision of the former party.

Defensive actions such as ASI disturb the innovation ecosystem. They are detrimental for both patent holders, who have made significant investments in R&D and expect a reward for their new patented technologies,

and also for implementers, who have an economic interest in entering new product markets and need to legally use innovations.

Courts, standardization bodies, and other government institutions such as the European Commission and the Competition Authority have a fundamental role in stopping this market distortion and supporting the innovation process, for example, by promoting international arbitration and mediation as the most suitable tools to solve disputes and establish a FRAND royalty rate globally. ■

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