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FRAND ADR CASE MANAGEMENT GUIDELINES

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FOREWORD

The present FRAND ADR Case Management Guidelines[1] are a product of open exchange and discussions with international institutions, practitioners and scholars. Crafted in a process that was designed to incorporate arguments and experiences from SEP holders and standard implementers, lawyers and engineers, judges, arbitrators and mediators, standard-setting organizations and public offices, the Guidelines consolidate the input of various stakeholder´s representatives from the telecommunication and automotive sectors, interest groups and standardization organizations. Additionally, various renowned lawyers, economists, scholars, judges, arbitrators and mediators have been consulted. A special thanks is extended to a special thanks is extended to David Perkins, the WIPO Arbitration and Mediation Center as well as the ETSI Legal Department for having provided profound expert advice in relation to mediation and arbitration procedures, especially with regard to technology standards. The Guidelines aim to provide orientation for parties that are looking to utilize the benefits of ADR in an ongoing or upcoming FRAND dispute. They take the interests of patent holders and patent users as well as public policy implications into consideration. Their intention is to enable parties to agree to efficient and mutually beneficial proceedings, without influencing the material positions of either side. To assist parties in deciding on whether and under which circumstances FRAND disputes might be resolved by reference to ADR mechanisms, the Guidelines illustrate procedural options that are available at different stages of the process. Following an overview on standardization and ADR, section I of the Guidelines contains an introduction to the specific issues associated with SEP and FRAND disputes. Section II summarizes how FRAND disputes can be submitted to mediation, arbitration, expert determination or hybrid ADR procedures. Section III sets out principles for case management and offers guidance to parties and neutrals on which aspects to take into account.

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OVERVIEW

I. ICT-standards, FRAND-licensing of SEPs, and the digital future

The importance of standards and SEPs

Technical standards are an indispensable fundament for today's ICT (information and communication technologies) sector. They ensure interoperability of standard-based products, render these products more comparable for consumers and help to select the 'best' available technical solution for a given task. Standard setting is, to a large extent, driven by companies that contribute technology which is then – if the standard setting body approves – integrated into the standard and used by those who produce standard-based devices or implement the standard in some other way. As a large part of the contributed and standard-integrated technology is, at the same time, protected by patents (standard-essential patents – SEPs), standard-implementers need licenses for these SEPs to be able to run their market activity without committing patent infringements.

The FRAND system and its issues

The FRAND system is a mechanism frequently used for organizing the licensing of SEPs. In its prototypical form, the (IPR-)policy of the respective standard setting-organization (SSO) requires standard setting-participants to declare their SEPs and, as a prerequisite for integrating the patented technology into the standard, their commitment to license these patents at fair, reasonable and non-discriminatory (FRAND) conditions. In consequence, patentees can have their technology standardized and earn fair royalties in return for their innovative effort. Implementers know which patents to license and are ensured they will receive a license at fair terms. In reality, the FRAND-licensing of SEPs is more complex, oftentimes entailing many challenging issues and much potential for conflict:

- Who checks whether declared SEPs are indeed valid and standard-essential?
- Does a particular implementer use all or – for example because it produces only one sort of standard-based devices – only part of the SEPs relating to a standard?
- How to determine which license conditions are FRAND in a specific setting?
- How to identify and prevent undue conduct by either patentee or implementer, for instance attempts to delay the grant of a license and to create the risk of a patent injunction in order to negotiate higher royalties (hold-up), or attempts to avoid paying royalties by delaying negotiations (hold-out)?

While standard-setting organizations, SEP owners and implementers in general are all invested in creating a standardization environment that drives innovation and allows for fast implementation of standardized technology – and while there is a certain consensus that the FRAND-system can help to achieve that –, the above mentioned issues often lead to disputes between individual implementers and SEP owners.

Role of contract patent, and competition law – the *Huawei/ZTE*-decision

When trying to solve those issues parties, judges and arbitral tribunals have to take into account various contract, patent and competition law considerations. While, in the US, contract law and patent law tend to loom larger as a basis for deciding SEP/FRAND-cases, EU courts and

agencies attach more importance to competition law, in particular the concept of a competition law-based, compulsory FRAND-license to which implementers are entitled (at least where the patentee has made a FRAND declaration) and which they can raise in court as a defence against the claim for an injunction because of SEP infringement. In 2015 the European Court of Justice (CJEU), in its *Huawei/ZTE*-decision (C-170/13) laid out a framework for how parties ought to behave in negotiating a FRAND license.

Situation post-*Huawei/ZTE*

EU member state courts, but also arbitration tribunals are in the process of working out details of the *Huawei/ZTE*-framework, such as

- whether *Huawei/ZTE* requirements can be fulfilled even though a lawsuit has already been filed;
- whether a party must comply with the framework in spite of the other party not doing so;
- how and when exactly the notice of infringement and the respective licensing offers have to be communicated;
- whether the *Huawei/ZTE*-rules of conduct extend to claims for damages;
- how patent assertion entities are to be treated in SEP litigation;
- and – very importantly – by the use of which methods and criteria to determine the content of FRAND license conditions, a point on which the CJEU has provided much less guidance than on the procedural side of FRAND negotiations.

The role of Alternative Dispute Resolution

An active role for Alternative Dispute Resolution (ADR) in resolving disputes and developing the law on these issues runs by no means counter to the approach of courts and (competition) agencies in either the US or the EU. On the contrary, the EU Commission and the US Federal Trade Commission have endorsed ADR in recent communications as a means to resolve SEP/FRAND disputes, US courts have acknowledged FRAND license conditions set by arbitral tribunals as valid "comparables" in FRAND determination-cases, and the CJEU itself mandated the use of ADR by its concept of "independent third party determination" of FRAND license conditions. These positive views seem justified given the advantages – as outlined in the Guidelines (rec. 7) – of using ADR in the SEP/FRAND arena. At the same time, they create a responsibility – which the Guidelines try to take up – to develop rules and structures keyed to an appropriate resolution of SEP/FRAND disputes.

SEP/FRAND-ADR and the digital future

With the economic and social transformation described by labels such as "digitalization", "digital transformation", "Internet of Things" or "fourth industrial revolution", the FRAND-licensing of standard-essential ICT-patents will tend to grow in its relevance. This is because most areas of economy and society will increasingly be integrated into a world-wide digital communication infrastructure. Building blocks of this infrastructure will be the next generation of today's ICT standards, with the telecommunication standard 5G as a particularly prominent example. In consequence, the role of patents essential to these standards is likely to become even more key than today since not only smartphone or base-station producers will need to license these patents, but also private and public players in sectors such as pharma, mobility, or agriculture. The importance of fair and effective tools for resolving (cross-border) licensing disputes is likely to grow with the importance of SEP/FRAND licensing as such – and ADR will be one of these tools.

II. Alternative dispute resolution

Methods of Alternative Dispute Resolution

Due to the fundamental principle of party autonomy, parties to a commercial dispute may agree to attempt to resolve their dispute not in a state court, but by methods of Alternative Dispute Resolution (ADR). The most prominent mechanisms available to the parties are arbitration and mediation.

In Arbitration, the dispute will be decided according to the applicable law by one or more neutral persons. The result, the arbitral award, is legally binding on both sides. Due to the 1958 New York Convention, an international treaty with 159 states as parties (and a growing number of national arbitration laws containing similar provisions), an arbitral award can be enforced almost worldwide and may be challenged in state court only for a limited number of grave reasons, such as a violation of fundamental rights or ordre public.

Mediation is an informal process where one or more neutral persons assist the parties in resolving their dispute by focusing on interests instead of legal positions. While litigation and arbitration aim to decide a conflict, mediation is a mechanism that empowers the parties to settle amicably. Oftentimes, this allows the parties to identify common interests and resolve their dispute with a value-oriented agreement that might not be detrimental to either party. Mediation can be used at any stage of a dispute and even after judgment at first instance pending appeal. If the parties decide to settle, they may enter into a contract that stipulates the specifics of their agreement. In case a party does not comply with this settlement agreement, new proceedings may become necessary. It is therefore not unusual for settlement agreements to contain another dispute resolution clause.

Voluntary process

ADR Mechanisms are voluntary by nature: No party can be forced to pursue the resolution of a dispute without the possibility to seek a State Court judgment. Only if all parties to a dispute agree can they resort to mechanisms like mediation or arbitration (in some countries including the UK, judges can order parties to try to mediate a dispute as a first step). The parties may agree to resort to ADR after the disputes has arisen, or in advance, most notably by including a dispute resolution clause in their contract. Once the parties have entered into such a dispute resolution clause, they are, however, bound by it and a party may be forced to arbitrate a dispute or participate in an attempt to mediate. Whereas arbitration may result in an unfavorable award if the parties don't settle, no party can be forced to actually settle in a mediation, even if that mediation was required per prior agreement.

Flexibility

ADR offers the parties the possibility to agree on tailor-made solutions for their dispute. In doing so, they may select, combine and modify different ADR-mechanisms. In arbitration, this includes drafting case-specific procedural rules, including individual deadlines and timetables, as long as those rules comply with the applicable arbitration law (*lex arbitri*). Oftentimes parties design an escalation mechanism, requiring them to attempt mediation, before resorting to arbitration. Parties may also choose third-party neutrals with specific skill-sets or expertise that may prove beneficial for the dispute at hand. This includes language abilities as well as technical, commercial or legal expertise. In

order to get guidance on the conduct of ADR procedures, parties can seek the support of ADR institutions to administer the proceedings and to assist them in selecting suitable neutrals and provide tested procedural rules.

The parties can choose the law that governs the proceedings by naming a city as the seat of the proceedings and thereby determine which state court will be competent to supervise the proceedings, and which nationality an award or settlement will have. Nevertheless, the parties may opt to conduct the actual proceedings at an entirely different venue. This flexibility enables especially small and medium-sized enterprises (SME), to have their dispute resolved in a familiar environment and under a schedule that takes their ongoing activities and obligations into account. For that reason, they may choose a local or national ADR-Institution or rely on an international institution to provide them with local third-party neutrals and conduct the proceedings in a language of their choosing. In addition, the parties may also select the substantive law that governs the main contract.

The scope of the ADR mechanisms can be defined by agreement, within the limits of the law. Parties to international disputes may, rather than litigating in a number of different state courts, submit the entire dispute globally to arbitration or mediation. This eliminates the risk of inconsistent decisions from different competent state courts.

Confidentiality

Whereas litigation generally exposes the parties as a consequence of the principle of public trial, ADR offers parties a discrete way to deal with disputes and protect business secrets effectively. This established advantage of effective confidentiality protection has come under public scrutiny. Especially when dealing with standard essential patents at the intersection between intellectual property and competition law, public policy considerations have to be balanced with confidentiality as an established ADR-principle.

III. The FRAND ADR Case Management Guidelines – background and stakeholder interests

1. Process

Since November 2015 the Munich IP Dispute Resolution Forum has, together with its partners, conducted a series of events and workshops, each focusing specifically on disputes around standard essential patents (SEPs). Factual and legal questions relating to patent infringement, validity, standard essentiality, and the determination of FRAND terms and conditions, including appropriate royalty rates, are complex and controversial. Nonetheless, we noticed a clear lack of efficient guidance as to appropriate dispute resolution mechanisms in this field. While we believe that referring respective disputes to ADR can have several advantages, the use of ADR also implies considerable risks and disadvantages. It is against the background of this dichotomy that we have initiated the Guidelines project.

2. Purpose of the Guidelines

A combination of contract, patent and competition law subjects both parties in SEP disputes to FRAND licensing requirements. SEP owners must grant licenses at FRAND terms while standard implementers must be willing to take licenses at such terms. Both parties share a common interest in acting in a "FRAND-compliant" manner and they are, in principle, obliged to do so. In case of conflict, ADR mechanisms, in addition or as an alternative to state court litigation, may be considered as a particularly suitable way forward. The reason is that ADR procedures are characterized by a great degree of flexibility and are predominantly governed by the principle of party autonomy. Parties therefore can resolve their dispute in a self-determined and flexible way taking into account the individual circumstances of the particular case. This flexibility may prove particularly useful to reduce the complexity of SEP and FRAND disputes. Furthermore, self-determination and flexibility of procedural rules as inherent principles of ADR procedures square well with the FRAND concept as a negotiation-based and custom-fit dispute resolution approach.

The Guidelines intend to be a practical tool for parties, mediators, arbitrators and judges dealing with SEP and FRAND disputes. They first of all want to raise awareness of ADR mechanisms as these are still underexploited in the field of SEP and FRAND disputes. At the same time, the Guidelines intend to help parties to conduct FRAND compliant dispute resolution procedures by respecting core principles of effectiveness and fairness. A core goal is to bring about procedures that truly balance the interests of both SEP owner and implementer, as well as public policy. In doing so, the Guidelines want to point out different procedural options, so that dispute resolution procedures can be tailored to the needs of each individual case. It is not the intention of the Guidelines to prescribe the „one and only solution", but to enable parties and tribunals to consider different options and efficiently structure FRAND-related ADR-procedures.

3. Stakeholder interests

The following issues have proven to be particular critical and, accordingly, were subject to an intense and controversial discussion:

- Controversial feedback was received with regard to the determination of the scope of the dispute that shall be referred to ADR (Guideline 2). The determination of FRAND terms and conditions and in particular the FRAND compliant royalty depends upon the quality of the SEP (portfolio) in question. In many cases, SEP owners dispose of a portfolio of several hundreds of (allegedly) standard essential patents. It is obvious that neither courts nor arbitral tribunals can conduct a precise infringement, essentiality and validity assessment for such large patent portfolios. Therefore, parties have to find ways to manage the complexity of a portfolio dispute. ADR procedures allow parties to agree on certain sets of patents that shall be considered as representative for the whole portfolio ("sampling"). To this end, the Guidelines suggest that parties shall agree on an appropriate way of sampling patents. As a default, and in case no agreement on sampling patents could be achieved between the parties, the Guidelines advocate that a tribunal shall be entitled to determine in a procedural order the number of patents and the process to be applied to determine the relevant set of patents. In both cases, the tribunal shall then have the authority to apply the award to the totality of the SEP portfolio involved in the dispute (rec. 39 and 40 of the Guidelines). This approach was particularly criticized from the point of view of standard implementers for due process reasons. The drafting group still believes such sampling to be oftentimes necessary to make SEP and

FRAND disputes manageable. Due process principles are, at the same time, still maintained as implementers – to the extent patent validity is not included into an ADR proceeding or is held to be a non-arbitrable subject matter – can initiate revocation actions with the competent state courts (see rec. 42 of the Guidelines).

- Different views were further expressed in relation to the question of whether or not the Guidelines shall comment on the substance of the notion of FRAND. The approach of the Guidelines in this regard consists in Annex I listing a summary of FRAND determination approaches taken by courts in previous cases. Annex I is, however, only of a descriptive nature. In line with the objective and neutral approach followed in the Guidelines, no specific position is taken in relation to what FRAND substantially means (rec. 11 of the Guidelines).

- Arbitration and mediation experts were particularly concerned about the proposal of an ADR Carve Out (rec. 18 of the Guidelines). The proposal was nevertheless adopted as combining litigation and ADR elements for a single dispute can contribute to a reduction of the complexity which is inherent to SEP and FRAND disputes. While courts can focus on patent infringement and validity issues, ADR mechanisms can be chosen to focus on the resolution of commercial issues such as the determination of a FRAND compliant royalty rate. The proposal can also contribute to making state court proceedings more effective and to reduce their caseload.

- A core element of the Guidelines is the attempt to introduce a certain level of transparency into FRAND ADR procedures. The IPDR Model Transparency Clause suggested in Annex III was criticized by arbitration experts for countering the confidential nature of arbitration proceedings. Indeed, confidentiality appears to be a major reason when and why companies prefer arbitration over state court litigation. However we feel that, at least in the field of SEP/ FRAND cases, a need for increased transparency results from the competition law and public policy based requirement of ensuring appropriate access to standards. To ensure such access, standard users need to be in a position to predict the investments they have to make in order to manufacture and sell standard compliant products. The drafting group believes, therefore, that 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. In the course of various workshop meetings, it became clear that many industry representatives accept the need for greater transparency SEP/FRAND ADR proceedings as well. Against that backdrop, the IPDR Model Transparency Clause wants to encourage parties to opt for more transparency, helping to develop a sustainable framework for future FRAND-disputes standard implementers put a particular emphasis on ensuring that SEP/ FRAND ADR remains voluntary and complies with due process requirements. This resulted in three core demands: First, the procedural schedule needs to give the parties sufficient time for presenting their case. Guideline 8, to this end, calls for a full compliance with due process requirements. At the same time, in order to ensure an effective dispute resolution, the Guidelines generally request parties not to engage in delaying tactics. Second, the non-willingness to engage in ADR proceedings shall not automatically imply that the respective party is not willing to comply with FRAND requirements. Inversely, the willingness of a party to accept the binding effect of a decision by an independent third party (such as an arbitrator or an expert determinator) should indicate that this party is willing to comply with FRAND requirements (rec. 17 of the Guidelines). Third, industry stake holders called for the possibility of an appeal against an arbitral award. While

implementers predominantly preferred a *de novo* appeal on all issues involved in the dispute, patent owners rather underlined the advantage of getting a final and binding decision in a single-step arbitration procedure. Guideline 14 suggests the possibility of a limited appeal as a compromise. Annex IV contains a proposal for a corresponding model appeal clause.

While all comments received were carefully taken into consideration, the Guidelines should not be understood as a document that seeks to reach the broadest consensus possible, but rather as the product of open discussions and an extensive review process by its authors. In line with the objective and neutral approach of the project as such, the Guidelines are a proposal for balancing the interests concerned, taking into account in particular public policy concerns. Some of the stakeholders involved in the review process may therefore not entirely agree with some of the proposals and wording of the Guidelines. The drafting group will continue to listen to them and to carefully follow the further development of SEP/FRAND disputes. It will adapt the Guidelines from time to time in line with relevant legal and factual developments. The drafting group therefore continues to welcome feedback and comments on the present version of the Guidelines and on how their application plays out in practice.

I. INTRODUCTION

1 Technology standards play an increasing role in today's economy. This role will become ever more important as industry digitalization and the "Internet of Things" (IoT) depend on the implementation of interoperable, standardized data and communication technologies. Such technologies are, however, often protected by intellectual property (IP) rights, particularly patents. In case a patent reads on technology that forms a compulsory part of an adopted industry standard (so called standard-essential patent, SEP), injunctions claimed on the basis of an alleged infringement of this SEP may constitute a significant impediment for the challenged user to compete in the market in question. On the other hand, depriving patent owners of equitable, proportionate and effective ways to enforce their SEPs could significantly reduce their incentives to contribute innovative technology to the process of standardization. A balance, therefore, has to be struck between the interest of SEP owners in obtaining a fair and reasonable compensation for their contribution of new technology to standardization projects and the interests of standard implementers to ensure the possibility of follow-on innovation and thereby make sure that standard-compliant products can ultimately be brought to market to the benefit of customers and consumers.

2 The tension between effective IP protection and accessibility of standards can be resolved by requiring SEP owners to grant licenses to standard implementers at fair, reasonable, and non-discriminatory (FRAND) terms. In turn, the implementer must be willing to take a license at such FRAND terms.[2] FRAND licenses are widely regarded as a viable compromise, as they can ensure both access to patented technologies at a reasonable price and an incentivizing compensation for technology owners. As a consequence, many standard-setting organizations (SSOs) require their members to license SEPs on terms that are FRAND.

3 Ensuring fair processes for the resolution of FRAND licensing disputes in order to achieve the right balance between accessibility of standards and incentivizing patent owners to contribute to standardization is of particular relevance in view of the progressing digitalization. Autonomous driving, the Internet of Things and digitalized automation and data exchange in industrial processes including initiatives such as Industry 4.0[3] and related applications rely on an increasing number of digitalized and interconnected products. This will accelerate the implementation of technical standards related to communication and data technologies in general and 5G standards in particular. An increasing number of standards which were originally developed in the information, computer and telecommunication (ICT) industry are now implemented in products of other industries, such as automobiles, household products, appliances and industrial facilities. While the licensing of SEPs under FRAND terms and conditions has been practiced in the ICT industry for many years, now SEP owners and standard implementers across industries will have to deal with licensing of SEPs at FRAND terms and conditions under this changing business environment. To make sure that standards are sufficiently accessible

2 The Guidelines are based on the current legal situation according to which access to global technology standards is ensured by a competition-law and contract-based FRAND concept.

3 This term describes the development of smart factories by digitalization of manufacturing processes to increase flexibility, mass customization, speed, quality and productivity, referred to as the *Catapult Program* in the UK, *Factory of the Future* in France and Italy and Industrie 4.0 in Germany. In an *Industry 4.0* scenario, "*everything in and around a manufacturing operation (suppliers, the plant, distributors, even the product itself) is digitally connected, providing a highly integrated value chain*", European Parliament, Briefing, September 2015, Industry 4.0 – Digitalization for productivity and growth.

for all implementers, particularly small and medium-sized enterprises, the FRAND concept needs to ensure that the playing field for the determination of FRAND terms and conditions is levelled for patent owners and standard implementers.

4 FRAND terms usually are not predetermined by public or private regulatory bodies for the reason that neither statutory or other regulatory specifications nor competition authorities or SSOs define what FRAND-compliant licensing terms or royalty rates are. Rather, it is usually the parties who are best positioned to define by good-faith negotiations what the specific meaning of FRAND is. While in practice, many SEP license agreements are concluded consensually, disputes do nevertheless arise in particular for the following reasons: Standardized products are often sold in large numbers across many different states, thereby generating high turnover and consequentially causing significant licensing costs. Party expectations as to the meaning of what constitutes a FRAND royalty can therefore differ considerably. In addition to differences in party expectations, causes of conflicts around the use of inventions contained in technology standards are often embedded in the technical and economic complexity of the subject as well as a challenging legal framework (e.g. applicability of various national laws to patent families). In addition, parties often have different views as to whether the alleged SEPs are actually valid or infringed by standard-compliant products.

5 Disputes can, for example, arise when an SEP holder sues for infringement after the parties have attempted to negotiate but have failed to agree on FRAND terms and conditions. FRAND disputes can also occur when it comes to the renewal or extension of term of an existing license agreement and the FRAND license needs to be adapted to changed circumstances, since over time SEPs expire, technologies develop and new standards emerge.

6 In recent years, courts in several jurisdictions have dealt with the determination of FRAND licensing terms under different applicable laws, and have developed different sets of approaches and methodologies.[4] Inconsistent national decisions can, however, be substantially disparate on the notion of FRAND-compliant licensing. Resolving FRAND disputes by state court litigation may therefore augment national fragmentation, thereby contradicting the global approach of many technical norms and standards.

7 Alternative dispute resolution ("ADR") mechanisms, especially mediation and arbitration,[5] can be a promising and accessible tool for the resolution of FRAND disputes. Consistent with the global nature of many SEP/FRAND disputes, mediation and arbitration can provide means for resolving disputes in one single procedure. For example, arbitration avoids the scope for different and, potentially, contradictory decisions by state courts and the continuing uncertainty which may result from additional appeal procedures. Arbitration tribunals can more easily decide on a combination of legal issues governed by different legal regimes (for instance patents granted in different jurisdictions). Arbitration awards are, in that sense, not limited by any one jurisdiction. They are enforceable under the New York Convention[6]

4 See, e.g. the decisions TCL v Ericsson (2017 U.S. Dist. LEXIS 214003, C.D. Cal. 8. Nov. 2017 – FFCL); *Unwired Planet International Ltd v Huawei Technologies*, High Court of Justice, London, UK, 5 April 2017, [2017] EWHC 711 (Pat); *Microsoft v Motorola* (WL 2111217 W.D. Wash. 25 April 2013, Case No: 10-CV-01823-ORD), *In re Innovatio IP Ventures, LLC Patent Litig.*, (2013 WL 427167, N.D. Ill. 4 February 2013), and *Ericsson v D-Link* (773 F3d. 1201 (CAFC 2014)) in the USA; IP High Court, Japan in *Samsung v Apple*, 16 May 2014, 2013(Ne)10043; and of the Guangdong High People's Court in China in *Huawei v InterDigital*, 16 October 2013.

5 Brief explanations on the different types of ADR mechanisms are provided in No. II.6 below.

6 Convention on the Recognition and Enforcement of Foreign Arbitral Awards, United Nations, 10 June 1958.

in 157 jurisdictions worldwide.[7] These possible advantages of ADR have been recognized by some SSOs that include ADR procedures in their respective IP policies.[8] Courts and competition authorities in the US and in Europe have also identified arbitration as a suitable mechanism to facilitate FRAND licensing agreements.[9]

8 Since SEP disputes are traditionally settled by state court litigation, parallel disputes pending in several jurisdictions at the same time are a common occurrence. Each of the different national courts must concern itself with often very similar questions surrounding infringement, validity, essentiality of the patents in suit and the determination of respective FRAND terms and conditions, including royalty rates. By contrast, referring the dispute to arbitration makes it possible to obtain a global solution and avoids the likely disparity of varying and sometimes conflicting decisions by state courts. In view of portfolio licenses being often considered as standard business practice, global solutions can potentially be of particular relevance in a standardization context. The same advantage applies *mutatis mutandis* if only specific parts of a matter in dispute, such as the determination of a FRAND license and royalty, are referred to ADR while the remainder of the dispute remains pending with competent state courts. While state courts may often only have jurisdiction to rule on a FRAND license and royalty for the territory of their jurisdiction, mediation, expert determination and arbitration generally allow for a determination of a world-wide FRAND license and royalty. [10]

9 ADR mechanisms modify the way a FRAND dispute is resolved. Apart from well-documented benefits, such as (partial) confidentiality, procedural flexibility and the possibility to have disputes managed and decided by neutral specialists, this approach poses a couple of challenges in particular with regard to the appropriate consideration of public policy interests, such as general competition law implications, transparency requirements and the avoidance of delaying tactics, while at the same time protecting legitimate confidentiality interests and ensuring compliance with the due-process principle. These challenges need to be overcome to realize the full potential of ADR and thereby arrive at sustainable solutions.

10 While competition law generally takes a positive view on ADR approaches to resolving SEP/FRAND disputes,[11] parties and tribunals have to thoroughly consider that the FRAND concept is,

7 See *www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html* for number of Member States (last accessed 15 May 2018).

8 Article 14.7 of the Memorandum of Understanding of the Digital Video Broadcasting (DVB), version of 25 February 2014, e. g. provides for ICC arbitration with a tribunal consisting of three arbitrators and seat of the arbitration in Frankfurt, Germany, with German law as governing law (downloadable at: *https://www.dvb.org/members/rulesandprocedures* (last accessed 15 May 2018); Art. Clause 16 (5) of the Blu-Ray Disc Association Bylaws – Version 2.0 rev., version of 01 October 2010, provides for AAA arbitration with a tribunal consisting of one arbitrator and seat of the arbitration in New York City, USA (available at: *http://blu-raydisc.com/Assets/Downloadablefile/BDA_Bylaws_%28v2.0%29-18618.pdf* (last accessed 15 May 2018); also, the Licensing Declaration contained in the Open Mobile Alliance IPR Procedural Guidelines for OMA Members provides for arbitration (version of 04 February 2004, available at: *http://openmobilealliance.org/wp-content/uploads/2013/01/Member_IPRGuidelines_v53006.pdf*, last accessed on 15 May 2018), but refers for the details to the terms of the Application Form which in its Clause 7.1 – somewhat confusingly – provides for "*exclusive jurisdiction of the English courts to settle any disputes which may arise out of or in connection with the Application Form*" (version of 1 June 2016", *https://www. omaspecworks.org/wp-content/uploads/2018/03/OMA-Reference-2018-0001R01-General_Application.pdf*, last accessed on 15 May 2018).

9 Motorola Mobility LLC and Google Inc., FTC File No. 121 0120, available at: *http://www.ftc.gov/opa/2013/07/google.shtm* (last accessed 15 May 2018); European Commission, 29 April 2014, case AT.39939 - SAMSUNG; CJEU, 16 July 2015, C-170/13 – *Huawei/ZTE*.

10 Note that dealing with potential post-award issues may be particularly relevant in such cases (see Guideline 3).

11 Cf. FTC, order of 23 July 2013, Docket Co. C-4410, M*otorola Mobility/Google*, according to which an implementer following the receipt of a license offer can decide to "*elect to have the Contested Terms resolved through a Request for a FRAND Determination or Binding Arbitration*"; CJEU, 16 July 2015, C-170/13 – *Huawei/ZTE*, para. 68: „*The parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay*"; European Commission, MEMO of 29 April 2014, according to which a safe harbor shall be provided for standard implementers by agreeing that *"a court or a mutually agreed arbitrator adjudicates the FRAND terms"*.

in particular in Europe, in part based on competition law. Consequently, awards by arbitral tribunals in FRAND disputes must recognize competition law as a matter of public policy. Parties may underline this aspect in their submission agreement. Whilst neither parties nor the arbitral tribunal have the standing to refer competition law issues to the CJEU if an arbitration award is alleged not to be consistent with competition law, the competent state courts of the place of the arbitration and of the place of enforcement of the award often have the competence to review awards to ensure compliance. On the basis of Art. V (2) lit. b) New York Convention, decisions arrived at by completing an ADR procedure may still be susceptible to an in-depth review on the substance of the case by competent state courts. In addition to the challenge of identifying and addressing corresponding aspects regulated by competition law, tribunals also have to anticipate and accommodate potential interventions of competition authorities. General standardization-specific aspects to be borne in mind in this regard in addition to the SEP owners' obligation to provide access to the relevant standard at FRAND terms are that the standard-setting process as such has to be open and transparent and that parties should not be bound by an obligation to comply with a standard.[12]

11 The FRAND ADR Case Management Guidelines ("the Guidelines") are based on the assumption that the use of ADR procedures for the resolution of FRAND disputes is still underexploited.[13] The Guidelines therefore intend to raise awareness for the optional referral of FRAND disputes to ADR and aim at providing procedural choices designed to produce an expeditious and enforceable cross-border/international solution for FRAND disputes. To this end, the Guidelines intend to give guidance on how to conduct voluntary ADR procedures in FRAND disputes in an effective and appropriate, competition law-compliant manner. This must include the fair-process principle for resolution of each party's claims and defenses[14] as well as a reference to appropriate methodologies for the determination of FRAND-compliant royalty rates and other license terms and conditions. The Guidelines in this regard do not intend to take a specific view as to the definition of what FRAND-compliant royalty calculation methodologies are. However, an overview shall be given on approaches which have already been applied by courts for FRAND determination purposes, recognizing however that such approaches may evolve over time (see Annex I). As regards the process of determining FRAND, the Guidelines intend to provide practical guidance on points which arbitrators and parties should consider taking into account. In light of the practical relevance for arbitrators, mediators and parties alike, emphasis has been put in this regard on how to avoid behavior that can potentially be considered as the employment of delaying tactics by taking into account the circumstances of each individual case. The Guidelines shall accordingly encourage a FRAND and competition law-compliant procedural framework.

12 Standards are only sufficiently accessible if implementers are at least to a certain extent aware of what they may have to invest in return for getting access to a certain standard. Standard-based (follow-on) innovation may be hindered by a lack of transparency in relation to technical features of a standard, essentiality, validity and commercial value of standard-essential patents.[15]

12 European Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ 2011, C 11/1, rec. 280.

13 Confirmed by European Commission, COM(2017) 712 final, no. 3.4.

14 Including disputes regarding essentiality, infringement, validity and enforceability. Parties and arbitrators though should bear in mind that there is an ongoing debate about the arbitrability of disputes concerning the validity of patents.

15 The need for transparency is also highlighted in the European Commission Communication of 29 November 2017, COM(2017) 712 final: "*More accessible FRAND-related information could increase predictability for businesses such as IoT players, facilitate the licensing process in general and provide support and benchmarks in dispute settlement.*"

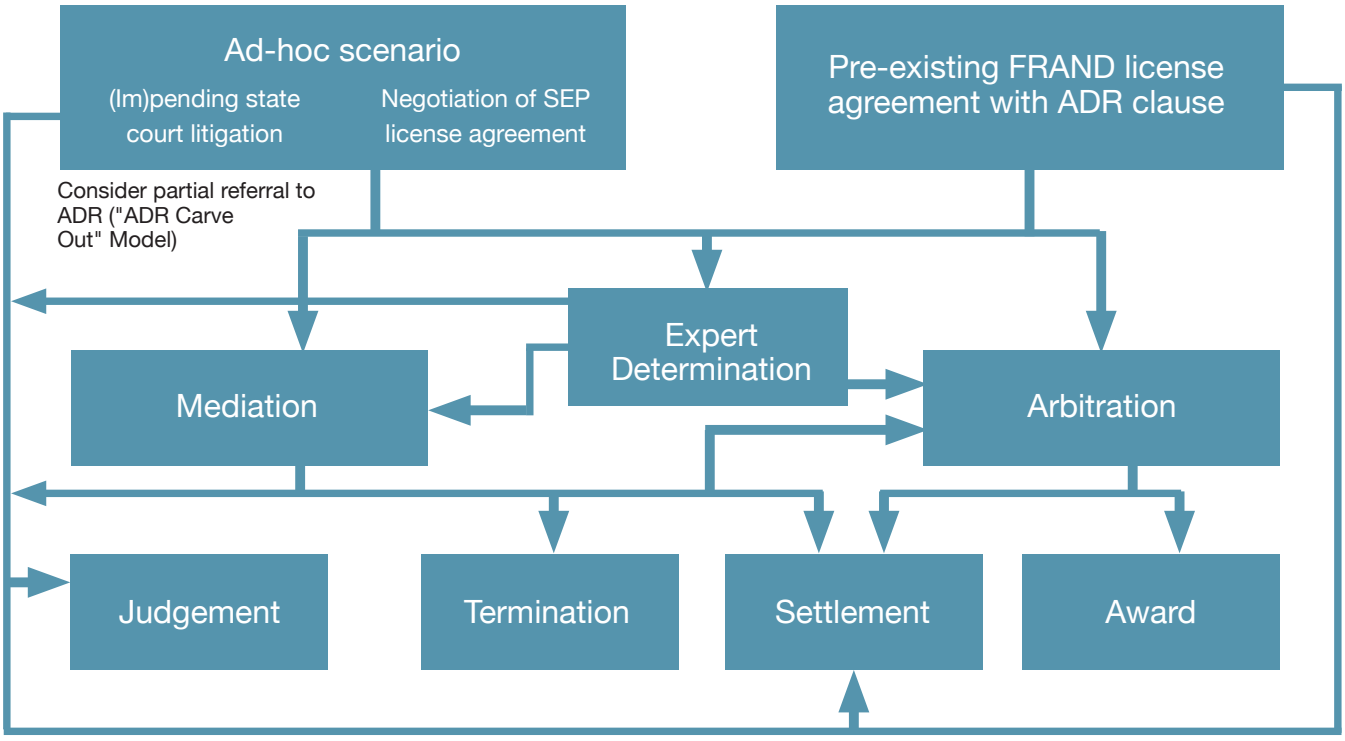
With a view to the public interest which that involves, the Guidelines suggest means to achieve the party confidentiality afforded by arbitration while at the same time providing other originators and implementers with information – for example, in relation to methodologies used to calculate the FRAND royalty – designed to help them in the context of future FRAND negotiations. The Guidelines, therefore, advocate a careful balance between confidentiality and public interest and therefore intend to assist arbitrators, mediators and parties to find smart solutions in order to agree on an approach to handling sensitive information or license agreements that stipulate confidentiality.

13 Irrespective of the benefits of transparent royalty figures, parties and the tribunal need to bear in mind that a mere publication of standard royalties as such does not assure compliance with FRAND requirements, as the amount of a published royalty may still be based on inappropriate commercial facts and assumptions. Therefore, any figures still need to be reviewed on a case-by-case basis. Published methodologies on the calculation of FRAND terms assist in a corresponding case-by-case assessment and also serve to promote the standard(s) in issue and continuing technical developments. The Guidelines, therefore, propose a mechanism for publishing the methodologies used by arbitral tribunals. Such publication intends to contribute to development of FRAND-determination principles, while at the same time allowing for flexibility in the future.

II. ROUTES TO ADR IN FRAND DISPUTES

1. Overview of SEP/FRAND ADR disputes

■ **14** The following figure outlines the different routes leading to ADR in disputes involving SEPs and the determination of FRAND licensing terms and conditions:



2. The principle of party autonomy and ADR as a voluntary dispute resolution mechanism

■ **15** Party autonomy is the guiding principle of ADR. Referral to ADR requires party agreement. Consequently, ADR is considered a voluntary procedure and cannot be chosen unilaterally by one party. There are basically three alternatives that can be chosen: Arbitration, mediation and expert determination. While arbitration, once agreed to by both parties, can neither be avoided nor terminated unilaterally, mediation allows the parties to abort the process at will. Expert determination usually refers to a specific issue of a broader subject matter in dispute and can be referred to in the course of all other dispute resolution mechanisms. Parties are alternatively to litigating or agreeing on either arbitration or mediation free to include escalation clauses in licensing agreements that require them to attempt to reach an amicable solution, for example via mediation or expert determination, before resorting to litigation or arbitration.

3. "*Ad hoc*" referral to ADR

16 If no contractual agreement exists between the parties (so-called "*ad hoc* situations"), the parties may agree *ad hoc* after a breakdown in negotiations – in particular if court litigation appears imminent, and even after court litigation has commenced – to submit their dispute, or specific aspects of it, to ADR by way of a submission agreement.

17 Where one party wishes to submit a dispute to ADR, but no agreement can be achieved, some institutional rules permit a unilateral initiation of ADR proceedings.[16] The institutions may then assist the parties in considering the request and ultimately appoint an external neutral to serve as mediator or arbitrator. In the context of SEP disputes, however, the question arises whether it can be inferred from the rejection of such a unilateral request for mediation or arbitration that the party rejecting the conduct of certain ADR procedures is not willing to comply with the obligation to conclude a license agreement at FRAND terms and conditions. The principle of party autonomy and the right to access to justice in this regard suggest that neither SEP owners nor standard implementers should be considered to be "unwilling" to grant or take a license at FRAND terms on the basis of the mere fact of not agreeing to the conduct of certain ADR procedures. "Unwillingness" in this regard rather requires an analysis of all circumstances of a specific case. *Vice versa*, however, a party subjecting itself for instance within a license offer unilaterally to the binding determination of FRAND terms by an independent third party such as a court, an arbitral tribunal or an expert arbitrator, could *per se* be considered as "willing" to grant or take FRAND licenses.[17]

4. ADR Carve Out

18 In case a dispute is already pending with a state court, the judge may encourage parties to agree on a referral of the dispute to ADR.[18] The fact that it is not necessary to refer the whole dispute to ADR can offer distinct advantages in SEP disputes. Carving out specific parts of the matter in dispute allows for reducing the technical and economic complexity of FRAND-related disputes. Using ADR specifically for FRAND determination can enable parties and courts alike to conduct the state court proceedings in a more efficient and timely manner. However, in view of the voluntary nature of ADR, a court may only support or suggest but not mandate a referral to ADR. A court may in this regard, as an example, rule on infringement, validity and essentiality of the relevant SEP, while suggesting that the dispute concerning the applicable FRAND terms and conditions be settled by mediation, expert determination, arbitration or an appropriate hybrid ADR procedure. In the interest of an efficient FRAND-determination process, ADR procedures could be conducted on the basis of the assumption that the SEPs in question are essential, valid and infringed. Settlement and license agreements as well as eventual awards would accordingly need to consider the inclusion of adjustment clauses in such cases or the determination of a royalty reflecting corresponding uncertainties on a commercial basis.

5. ADR clauses in pre-existing agreements

19 Parties may agree to submit FRAND disputes to ADR in the dispute resolution clause of pre-existing (licensing) agreements. Such

16 In accordance with Article 4 of the WIPO Mediation Rules, WIPO specifically offers such unilateral request for mediation in FRAND disputes; a corresponding form can be downloaded at ***http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/*** (last accessed 15 May 2018).

17 This approach for instance was suggested as a safe harbor solution for standard implementers to avoid injunctions by the European Commission in its MEMO of 29 April 2014: *"If they want to be safe from injunctions based on SEPs by the patent holder, they can demonstrate that they are a willing licensee by agreeing that a court or a mutually agreed arbitrator adjudicates the FRAND terms."*

18 Note: There are countries where a judge can mandate mediation as a procedural step in litigation. In Germany, Sec. 278(5) ZPO (Civil Procedure Code) may be considered as a legal basis in this regard.

agreements can also be included in IP policies of SSOs that require or encourage referral of disputes among members to ADR.

20 If FRAND disputes are to be referred to arbitration, the wording of the dispute resolution clause or – in *ad hoc* situations – of the submission agreement is of paramount importance.19 Clearly defined Terms of Reference are necessary to define the jurisdiction of the arbitral tribunal. In other words, the Terms of Reference must define precisely what it is the parties have agreed to decide by arbitration. If, as is likely, the parties agree on the use of certain institutional rules, the agreement to arbitrate may modify or supplement such rules.

6. Diversity of existing ADR means

21 ADR processes offer features that, if well managed, can translate into substantial time and cost savings, making it a more affordable and accessible avenue for resolving FRAND disputes. In FRAND scenarios, ADR means can therefore often be preferable to conventional court-based litigation or at least constitute an additional element as part of a broader dispute resolution strategy.

22 Bearing in mind the high settlement rates in some institutional mediations and arbitrations,20 it is understood that referral to ADR procedures may stimulate positive opportunities for party settlement and, in that sense, also may serve as a catalyst to unlock and facilitate FRAND licensing negotiations.

23 While parties themselves can handle FRAND ADR proceedings directly with the neutral, such *ad hoc* procedures require considerable ADR experience and effective cooperation between all parties to avoid delays and unnecessary costs. In an institutional ADR proceeding, the selected institution provides a tested framework for initiating and conducting the procedure, case management services, and access to qualified arbitrators and mediators.[21]

a. Arbitration and Mediation

24 While both arbitration and mediation are private dispute resolution procedures based on party agreement, they differ in a number of important aspects.

25 Arbitration is a consensual rights-based procedure in which the parties submit their dispute to one or more arbitrators of their choice for a binding and final decision (an "award") based on the respective rights and obligations of the parties and enforceable under arbitral law. The procedure itself is flexible and can be tailored to the parties' specific needs.

26 Mediation is also a consensual interest-based process in which a neutral intermediary, the mediator, assists the parties in attempting to reach a settlement based on the parties' interests. While a mediator cannot impose a settlement, any settlement agreement resulting from mediation has force of contract. Mediation, if unsuccessful or only partially successful, does not preclude a subsequent court or arbitration options. In practice, parties often choose mediation as a first

19 See Guideline 2.

20 General settlement rates in mediation amount to an average of 86% according to the CEDR's 7th Mediation Audit (*https://www.cedr.com/docslib/The_Seventh_Mediation_Audit_(2016).pdf*, last accessed 15 May 2018). With regard to IP-specific cases, for instance, 70% of the mediation procedures administered by the WIPO ADR Center were settled (even 37% of WIPO arbitration cases are settled before an award is issued).

21 For instance, the WIPO Arbitration and Mediation Center (WIPO Center) maintains a special list of mediators, arbitrators and experts for patent standards. The WIPO Center proposes candidates for appointment from that list to parties involved in WIPO ADR proceedings relating to FRAND disputes.

step in an escalation process, with arbitration or court litigation as a subsequent step. Given the complexity of FRAND disputes, parties may even consider appointing a co-mediator.

b. Expert determination

27 Parties may submit specific issues of a broader dispute to one or more neutral specialists (expert determinator), who make a final and binding determination on the specific matter that was referred to expert determination. Expert determination is usually considered to fall outside of the regime of the New York Convention. Results determined by an expert determinator may still become a binding basis for pending negotiations, court proceedings or alternative dispute resolution proceedings.[22] An expert determinator can also be appointed to prevent the breakdown of ongoing negotiations or adjunct to a mediator, an arbitral tribunal or a state court in order to deliver a solution on a specific issue in dispute. Due to its expeditious manner and narrowed scope, expert determination can in particular facilitate progress in broader processes, such as mediation, arbitration or litigation. The parties may also agree to a non-binding determination that serves as a mere recommendation to be used in pending or subsequent mediation, arbitration or litigation proceedings.

28 Expert determination may be particularly suitable for FRAND disputes which are limited to the determination of the specific royalty to be paid by a licensee but may also be considered for determining the overall terms and conditions for a license. In complex disputes involving infringement, validity or essentiality of patents, however, procedures allowing for a more detailed discussion and review of the mutual arguments is usually to be preferred.

c. Hybrid ADR Procedures

29 Hybrid ADR procedures generally combine and merge elements of two or more traditionally separate ADR mechanisms into one. Prime examples include processes that start out as mediation, but will be concluded by arbitration, if the parties cannot reach an agreement. In the case of hybrid ADR procedures, parties always need to carefully decide on the role of mediators and arbitrators. An arbitrator having served as mediator in the same case may be considered to lack the required impartiality. Lack of impartiality will trigger public policy concerns and consequently render an award unenforceable under Art. V (2) lit. b) New York Convention. Furthermore, institutional rules provide for procedures for challenging the impartiality and/or qualifications of an arbitrator.

30 Hybrid procedures can be chosen when parties expect the dispute to benefit from a process that incorporates elements from multiple ADR mechanisms. Parties may also opt for hybrid ADR procedures when they have jointly identified a forum that they perceive as competent and knowledgeable to manage and organize more than one ADR element and thus may offer significant savings of time and expense. In a broader sense, mechanisms such as mini-trial, dispute resolution boards, early neutral evaluation and baseball arbitration are considered to be hybrid ADR mechanisms as well.

22 The ICC points out that "parties may agree, subject to applicable law, that the expert's findings shall constitute a contractually binding expert determination." See ICC Expert Rules, December 2017, page 37, available online at *https://cdn.iccwbo.org/content/uploads/sites/3/2015/01/2015-ICC-Expert-Rules-ENGLISH-version-1.pdf* (last accessed on 15 May 2018).

III. FRAND ADR CASE MANAGEMENT GUIDELINES

Guideline 1

Consider the use of ADR means in disputes involving SEPs

31 To maintain flexibility and preserve possibilities for amicable solutions, parties should consider the use of ADR mechanisms at every step of a potential SEP conflict. Even if potential litigation or arbitration proceedings were pending already, parties should consider resorting to ADR mechanisms, be it for the overall dispute on a global, regional or national scale or on individual substantive aspects only in order to reduce the complexity of the pending dispute.[23] In addition to the potential of consolidating complex transnational disputes, ADR may have significant further benefits such as (i) the avoidance of likely jurisdictional limitations inherent in state court litigation, (ii) the opportunity to refer a dispute to dispute resolution personnel with sufficient expertise and knowledge on issues relevant for the specific case in dispute,[24] (iii) the avoidance of uncertainties associated with different, often multi-stage appeal proceedings and (iv) the avoidance of inconsistent judgments from state courts in relation to essentiality, validity and the approach taken for the determination of FRAND terms and conditions. Bearing in mind the potential benefits and requirements of such procedures, the conclusion of licensing agreements, negotiations and the initiation of possible court or arbitral proceedings should be carried out in a way that allows both parties to protect their interests and legal positions and at the same time enables them to choose the most efficient and suitable way to resolve the dispute.

32 Parties are encouraged to identify suitable ADR mechanisms as early as possible and should communicate the anticipated benefits to the other side. Hesitations and objections should be voiced unequivocally and as early as reasonably possible. At all times, the parties should act in a way that enables a goal-oriented, fair and reasonable dispute management and should encourage their counterpart, in appropriate situations, to explore possibilities to utilize ADR in order to prevent or resolve conflicts.

33 The range of possible procedural framework conditions and dispute resolution techniques is broad. It is of utmost importance for mediators and arbitrators, therefore, to carefully consider the circumstances of each case.

34 For instance, in a situation where the dispute is exclusively limited to determining the specific royalty to be paid by a licensee, a Tribunal may even consider using, with the consent of the parties, controversial variations of arbitral proceedings such as “baseball arbitration”. In this method, both parties submit a proposal for the royalty rate to the arbitral tribunal. These proposals are then made available for both parties to see, at which point they cannot be changed anymore. Against this backdrop, bilateral negotiations or mediations continue. If no agreement can be reached within a timespan agreed upon by the parties or envisaged by the ADR submission agreement, the tribunal or expert committee will decide which party’s proposal is the most reasonable from an objective point of view. The conditions

23 As to the flexibility regarding the referral of individual aspects of a FRAND dispute to ADR, see Guideline 2.

24 This is a particular benefit with regard to countries not having specialist patent courts but may be less relevant for countries such as Germany, the Netherlands or the UK whose court systems provide for specialist patent courts already at thefirst instance level.

of that proposal are then incorporated in the final award without any further modification.

35 Such ADR techniques shall however only be considered after careful consideration of all interests involved in a dispute. Therefore, in view of considerable due process concerns, tribunals should adopt corresponding controversial procedural techniques such as "baseball arbitration" if at all only subject to an express prior agreement by the parties.[25]

Guideline 2

Define the scope of the dispute referred to ADR as precisely as possible

36 In view of the complexity and variety of FRAND disputes, a clear definition of the scope of subject matters referred to ADR will be key. Parties should, if appropriate with the support of the tribunal, try to define the scope of the arbitration as early and as precisely as possible. The same applies *mutatis mutandis* to the procedural steps to be taken in case parties should envisage hybrid procedures consisting of mediation and arbitration techniques.

Submission agreements

37 Content and level of detail that may be addressed by parties in a submission agreement will depend on the procedural stage of a potential dispute:

- When negotiating contract clauses for future disputes, parties normally do not yet know details of the dispute that may arise much later, and may often include standard contract clauses recommended by arbitral institutions.[26] Using standard dispute resolution clauses may, however, lead to difficulties if a dispute arises later on. In that case, parties would need to agree on a FRAND-specific dispute resolution procedure *ad hoc* when such dispute arises.
- For license agreements relating to SEPs, parties are generally already aware of the need to comply with FRAND requirements. Therefore, FRAND-specific submission agreements as provided by the WIPO Arbitration and Mediation Center may be referred to in this regard.[27] Parties negotiating arbitration clauses in SEP licenses or an *ad hoc* submission should attempt to find mutually agreeable terms of reference suitable for the likely areas of future disputes or the actual areas of an existing dispute. Examples of limited terms of reference are given in para. 43 below.
- In the course of the proceedings, parties to an eventual arbitration can further tailor the process in consultation with the arbitral tribunal, who normally will encourage the parties to do so. Any procedural issues agreed by the parties normally will be reflected in a procedural order issued by the arbitral tribunal following consultation with the parties.

38 The following paragraphs identify some matters which parties and neutrals may in

25 The life science industry has for instance adopted a baseball arbitration mechanism for disputes involving licenses for plant breeding innovations: "The innovative aspect of the system is the method of arbitration. It uses a baseball arbitration model, whereby both parties submit their license fee proposal to the independent arbitrators, who then choose the most reasonable proposal. This forces both parties to adopt reasonable positions from the outset, because an unreasonable position will be rejected in favor of a more reasonable competing proposal. Once a license fee is set by the arbitrators, this fee is communicated to all other parties to increase transparency." (*https://www.ilp-vegetable.org/news/berichten/international-licensing-platform-vegetable-launched.html*, last accessed 15 May 2018).

26 See for example WIPO Model Clauses at *http://www.wipo.int/amc/en/clauses/index.html*; AAA Standard Arbitration Clauses at *https://www.adr.org/Clauses*; Standard ICC Arbitration Clauses at *https://iccwbo.org/dispute-resolution-services/arbitration/arbitration-clause/*; SCAI Arbitration Clauses at *https://www.swissarbitration.org/Arbitration/Arbitration-clauses* (each last accessed 15 May 2018).

27 See *http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/* (last accessed 15 May 2018).

particular wish to consider in tailoring a FRAND ADR process to parties' needs:

Set of patents

39 Parties are free to submit to ADR specific SEPs, a collection of SEPs, an entire SEP portfolio, or a "sample" of patents from an SEP portfolio. Such a sample may, for instance, be chosen consensually by the parties or be determined by the arbitral tribunal in a procedural order[28] subject to the parties having authorized a tribunal to do so in advance in an arbitration clause or a submission agreement or within the terms of reference. In identifying a potential sample, parties or – subject to prior authorization to do so by the parties – the tribunal may wish to consider other limitations, for instance whether to include SEPs granted in different jurisdictions or only SEPs from one jurisdiction. Where the selection of samples is expected to be cumbersome, which might be the case where the dispute involves large portfolios, parties could consider agreeing on a randomized selection of a certain number of patents. Parties further have the option to agree that patents held by both sides can be subject to the ADR proceedings (cross-licensing).

40 If parties agree on a selection of a set of patents, it is suggested that the tribunal should be entitled to apply the award to the totality of the SEP portfolio involved in the dispute. If parties fail to agree on the selection of a set of patents, the Guidelines suggest that the tribunal should be entitled to determine in a procedural order the number of patents and the process to be applied to determine the relevant set of patents. Reciprocity should in this case also be ensured for the process of the selection of the relevant set of patents. In this case, as well, it is further suggested that the tribunal should be entitled to apply the award to the totality of the SEP portfolio involved in the dispute.

Licensing conditions

41 Parties may agree to subject the determination of an entire FRAND license to ADR proceedings or may decide to limit the scope of the proceedings to the determination of a FRAND royalty rate for past and/or future use of SEPs and the modalities of rendering of accounts. The parties may further restrict, in particular within a mediation to be conducted in the first step of a complex dispute resolution procedure, the range of possible royalties by identifying a maximum and/or minimum rate or a total amount for the royalty. The scope may include a determination of several or all terms and conditions of a FRAND-compliant license agreement, including for example the geographical scope of the licensing agreement. In cases of cross-licensing, a potential requirement for the grant of licenses on the basis of reciprocity needs to be considered.[29] For the avoidance of future disputes, parties should further agree on the application of certain methodologies for the determination of FRAND royalties.

Claims and defenses

42 Unless otherwise agreed by the parties in the submission agreement or arbitration clause, it should be assumed that parties have the right to present all claims and defenses in relation to the SEP in dispute (including essentiality, validity, infringement, enforceability), FRAND licensing requirements (including alleged competition law violations, amount of FRAND royalties, terms and conditions of the contract, scope of the license), and the products at issue (including patent exhaustion, pass-through license rights). However, in the interest of time and cost-

28 Cf. also Art. 16(1) of the UNCITRAL Model Law, Art. 21 UNCITRAL Rules.

29 Various SSOs provide for so-called reciprocity clauses in their respective IPR Policies, according to which the licensing declaration may be made subject to the condition that those who seek licenses agree to reciprocate. See for example ETSI IPR Policy para. 6.1. or Patent Statement and Licensing Declaration for ITU-T or ITU-R Recommendations.

efficiency of the proceedings, the parties should consider agreeing to limit the claims or defenses that they may bring in the ADR proceedings, including or excluding patent essentiality, validity, infringement, and enforceability. In case patent validity is excluded from an arbitration, parties should ensure that such limitation is not construed in a manner that prevents either party from challenging the excluded issue such as validity outside the context of the respective ADR proceeding.[30] In case patent validity is included, the Guidelines take the view[31] that the patent owner should be entitled to invoke the arbitration agreement if the alleged infringer has initiated revocation actions. Revocation proceedings would accordingly be excluded in such a case if a tribunal confirms the validity of a patent. Parties, however, need to keep in mind that in some jurisdictions patent validity is not considered an arbitrable matter, and therefore invalidation actions could still be initiated with the respective state courts, irrespective of an arbitral award confirming the validity of a patent. In this case, awards pertaining to validity might further be enforceable only to a certain extent in corresponding jurisdictions. Even in cases when parties do not want a binding decision on validity, they often might feel that validity should be taken into consideration when determining FRAND terms. Options arbitration can offer may consequently include the following:

- Determination of FRAND terms whereas arguments concerning validity, infringement and/or essentiality may be heard and, if requested, decided in a binding manner;
- Determination of FRAND terms whereas arguments concerning validity, infringement and/or essentiality may be heard but no binding decision regarding these issues may be taken;
- Determination of FRAND terms whereas arguments concerning validity, infringement and/or essentiality may not be heard or decided upon.

Expedited arbitrations

43 For expedited arbitrations,[32] the Guidelines suggest limiting the proceedings to a small number of SEPs to ensure that the envisaged time and cost efficiency of this procedure can be achieved. Especially small and medium-sized enterprises (SMEs) may benefit from expedited arbitrations.

FRAND determination methodologies

44 During the preparatory conference, the tribunal also may consult with the parties on methodologies to determine FRAND licensing terms in the arbitration. In the interest of reducing complexity of a dispute, parties would ideally agree on a specific FRAND determination methodology at such early stage of a dispute already. Failing such agreement on an appropriate FRAND determination methodology, the parties shall be free to present their arguments for consideration by the tribunal.

45 The Guidelines do not propose any methodology to be relied upon in this regard. Rather, full authority to determine the appropriate FRAND determination methodology rests with parties and neutrals. To assist parties and neutrals in this regard, Annex I lists decisions of different

30 A corresponding no-challenge clause could amount to an infringement of competition law; see e.g. in a European law context Art. 5(1) lit. b Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.

31 This view is, however, no guarantee that state courts or competition authorities will accept such a defense.

32 See for example the WIPO Model Agreement for Expedited Arbitration for FRAND Disputes at *http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/annex2/* (last accessed 15 May 2018) and the ICC Expedited Procedure Provision at *https://iccwbo.org/dispute-resolution-services/arbitration/expedited-procedure-provisions* (last accessed 15 May 2018).

international courts relating to methodologies to be used for the calculation of FRAND royalties. Agreeing on methodology at an early stage has various advantages: it provides predictability for parties and neutrals, facilitates the structuring of proceedings and allows for a targeted production of documents.

Hybrid approach for controversial issues

46 In many instances, when defining the scope of the dispute and determining certain aspects regarding i.a. methodology some topics might prove to be highly contentious between the parties. In such cases the Guidelines propose considering a hybrid approach, where parties agree on an interposed mediation or expert determination phase to solve these issues in a constructive way. Such mediation phase can be conducted by a mediator appointed by the tribunal subject to the parties having authorized the tribunal accordingly. The mediation phase should be seen as a way to create a solid and mutually agreed upon basis for the arbitration proceedings.

Guideline 3

Make sure that arbitral awards can cover all relevant legal claims and remedies and consider potential post-award developments

47 In arbitration proceedings, parties should ensure that the tribunal is sufficiently empowered in the relevant agreement to arbitrate to decide all relevant claims and remedies which the parties of the respective case at dispute might apply for. This is of particular importance if behavioral remedies (e.g.: injunctions, measures for the preservation of evidence, measures to get access to information such as disclosure orders, corrective measures such as recall from the channels of commerce, definitive removal from the channels of commerce and destruction) might be requested or if declaratory relief might be sought by any of the parties on the basis of any national arbitration laws adopting a restrictive approach as to the enforceability of corresponding awards unless parties have expressly authorized a tribunal accordingly.

48 In terms of a tribunal's jurisdiction, parties should further take into account that the tribunal may lose its jurisdictional powers with the rendering of the final award. Parties should therefore consider empowering the tribunal to retain its jurisdictional power to deal with post-award interpretation or change-of-circumstances issues. As an alternative, the tribunal can consider ordering the payment of penalties in case of non-compliance with its award subject to the parties having – exceptionally – authorized the tribunal to do so.

Guideline 4

Consider a stay of parallel state court proceedings

49 If parallel court proceedings are pending, the arbitral tribunal may encourage the parties to consensually stay such proceedings, or the SEP holder to refrain from enforcing an injunction granted by a court.[33] Furthermore, where parties have agreed to arbitrate and, this notwithstanding, one party initiates court proceedings in relation to the same dispute, the other party may apply to the court to stay its proceedings. Whether such stay or suspension of enforcement actions is possible

33 This may be of particular relevance if parties have agreed to submit to ADR only parts of an SEP-related dispute, in particular concerning the determination of a FRAND license and royalty.

34 For instance, German law provides for a consensual stay according to Sec. 251 Civil Procedure Code and in the UK, a stay may be possible subject to the preconditions set out in Sec. 9 of the English Arbitration Act 1996.

has to be answered on the basis of the respective national law.[34] Irrespective of a corresponding stay of parallel state court proceedings, parties should bear in mind that the *lex arbitri* as well as many institutional arbitration rules expressly state that applications to state courts for interim measures – provided these courts are competent to order such measures – are not excluded by an agreement to arbitrate.

50 In carve-out scenarios[35] where the FRAND determination is referred to ADR while the remainder of the dispute is to be dealt with by the competent state courts, however, the Guidelines suggest continuing litigation and ADR procedures in parallel. While parties may still wish to consider a stay of the pending litigation to focus on the determination of FRAND terms and conditions, they should – in the interest of an efficient and effective determination of FRAND terms and to avoid undue delays in this regard – not stay the ADR procedure until the issues of essentiality, infringement and validity are resolved by the competent courts. As indicated above, settlement and license agreements as well as eventual awards would accordingly need to consider the inclusion of adjustment clauses or the determination of a royalty reflecting corresponding uncertainties on a commercial basis in such cases.

Guideline 5

Provide for an efficient appointment procedure

51 An efficient appointment procedure is crucial in order to initiate the respective ADR procedure. Efficient appointment procedures are usually best achieved by referring to institutional rules of established arbitration institutions. Having to resort to *ad hoc* appointment procedures without institutional support can often be time and cost consuming. Reference to institutional rules also entails the advantage that respective institutions are generally experienced in assisting parties with the appointment of appropriate dispute resolution personnel.

52 A controversial issue in this regard is whether mediators and arbitrators should dispose of certain SEP and FRAND-related qualifications.[36] The present Guidelines take the view that procedurally experienced neutrals with specialized expertise in patent disputes and patent licensing can contribute fundamentally to achieving high-quality outcomes while limiting the time and cost of the proceedings. Ideal candidates would have specific expertise in the field of standardization and related competition law issues. To identify suitable neutrals the parties should consider referring to special lists of mediators, arbitrators and experts on patent standards provided by neutral institutions.[37] Similar lists might also provide predetermined FRAND tribunals consisting of three arbitrators with complementary expertise in the fields of patents, standardization and licensing.

53 For FRAND arbitrations, the Guidelines propose that the tribunal consist of three arbitrators. To this end, each party will be requested to appoint one arbitrator; the two arbitrators thus appointed will then appoint the presiding arbitrator. In order to make sure that the appointment of the tribunal does not unduly delay the arbitration process, parties should agree on reasonably short time periods for the establishment of the tribunal and provide for an appropriate default appointment mechanism

35 For a corresponding carve-out scenario (so-called ADR Carve Out) see above para. 18.

36 For an example where parties request a specific qualification on the side of the neutrals see EU Commission, Case COMP/C-3/39.939 – SAMSUNG ELECTRONICS, Enforcement of Standard Essential Patents, Commitments offered to the European Commission, lit. B, no. 9(b).

37 For example the WIPO Arbitration and Mediation Center maintains such a list.

38 Such neutral institution can be a competent state court or the Permanent Court of Arbitration (PCA) in The Hague.

entitling a neutral institution or personality to appoint the tribunal.[38]

54 Prior to any appointment, each arbitrator or mediator should be requested to confirm his or her impartiality and independence and, by accepting appointment, undertakes to make available sufficient time for an expeditious conduct of the proceedings.

Guideline 6

Establish an efficient and realistic procedural schedule

55 Parties and the tribunal are encouraged to jointly establish a time schedule to facilitate a fair and efficient conduct of the arbitration already in their submission agreement. This schedule should detail the procedural steps and set out time periods for disclosures, production of documents, witness and expert reports, briefs, the hearing and the written decision. Early submission of claims and arguments should be encouraged. It should not be assumed, however, that there will only be one hearing and written decision. The parties or the tribunal may decide to use a phased approach where some issues are decided in an initial phase and the rest is decided with the benefit of determinations resulting from the initial phase. Such an approach may lead to more efficient, orderly and better-supported outcomes. It should be noted that appropriate procedural schedules may vary significantly depending on the circumstances of the specific case including in particular agreements of the parties, the scope of the arbitration, the issues referred to and the number of patents included in the proceeding. To the extent that parties have not agreed such schedule in the submission agreement or the arbitration clause, it will be developed by the arbitral tribunal, once appointed, in consultation with the parties. The parties and the tribunal in this regard shall take into account the circumstances of each individual case. Appropriate process and time management requires in particular that the complexity of issues in dispute be reasonably taken into account. The length of time periods to be determined for the preparation and filing of party submissions, hearings and decisions to be taken by the tribunal may in particular depend on the scope of the respective arbitration and the number of SEPs involved.

56 In arbitrations in a European context, the timeframe for FRAND arbitration proceedings should take into consideration that the *Huawei/ZTE* decision of the CJEU requires a third-party determination of FRAND licensing conditions to take place "*without delay*".[39] While the CJEU has not specifically listed types of third-party determination procedures, parties should assume that employment of delaying tactics as criticized by the *Huawei/ZTE* decision must be avoided in all FRAND determination procedures, as also expressly required for the negotiation of a FRAND license.[40] Delaying tactics can, for instance, be avoided not only by the tribunal performing an active case management but also by an agreement on a reasonably strict procedural schedule for the conduct of the ADR procedure which is established in line with the considerations referred to in para. 54 above.

Guideline 7

Consider agreements and orders on evidentiary issues

57 Disputes surrounding technology standards and related FRAND licenses typically involve a significant amount of fact-related arguments. An efficient taking of evidence is,

39 CJEU, 16 July 2015, C-170/13 – *Huawei/ZTE*, rec. 68.

40 CJEU, 16 July 2015, C-170/13 – *Huawei/ZTE*, rec. 65.

therefore, of particular importance due to the large amounts of potentially relevant technical and managerial documentation and possible legal issues related to the production.In particular, facts related to the standard setting process as such, technical details in relation to the standardized technology, corresponding inventions and whether such inventions are essential to the standard, patents and relevant prior art, the economics of the relevant markets as well as specific business and licensing practices may play a vital role for deciding these disputes. With a view to reducing the factual complexity of a case, the parties should bear in mind that in view of the principle of party autonomy they enjoy a broad degree of discretion as to the possibility to agree on relevant evidentiary issues, as well. The relevance of procedural directions issued by the arbitral tribunal should not be neglected either. It should be borne in mind that especially in arbitration, also the taking of evidence including in particular the efficiency of eventual production of document proceedings may hinge on the defined scope of arbitration.[41] The present Guidelines in this regard support the approach of and recommend reference to the IBA Rules on the Taking of Evidence in International Arbitration according to which the tribunal and the parties should try to agree on an efficient, economical and fair process for the taking of evidence at the earliest appropriate time.[42] The following should be taken into account in particular:

Try to reach out for agreement

58 As a general guidance, the tribunal should at all times try to reach agreement on evidentiary issues, including the means of evidence as well as how such evidence shall be taken. If no agreement is reached, however, the tribunal will need to take a clear order as to the taking of evidence after having duly heard and taken into account the parties views and concerns.

Early identification of relevant issues

59 In general, it can be assumed that the power conferred upon an arbitral tribunal includes the power to determine – e.g. in a case management conference or a procedural order number one – the admissibility, relevance, materiality and weight of any evidence.[43] The tribunal should address evidentiary issues already in the initial case management conference and call for a corresponding list of issues after exchange of the first written pleadings. In view of the multiple aspects to be considered in SEP and FRAND disputes and in order to structure and thereby reduce the complexity in this regard, early identification of the relevant issues in dispute is a particular concern and a decisive factor for an efficient resolution of those disputes. However, this requires that in a first instance, the relevant issues have been clearly identified already in the parties' initial submissions. The tribunal should therefore require the parties to submit a list of issues in dispute prior to the conduct of the case management conference.

60 Tribunals should also consider the conduct of written preliminary proceedings, combined with an active case management approach allowing the tribunal to identify and focus proceedings and hearings on those issues in dispute which are of material relevance for the decision of the dispute. Active and efficient case management at the same time requires a sufficient degree of transparency. The Tribunal should therefore clarify e. g. in a first procedural order that following the parties' written submissions it is entitled to actively guide parties by addressing specific questions in writing as a preparation for the oral hearing. The benefit of this approach is that the tribunal would

41 For the definition of the scope of an ADR procedure see Guideline 2.

42 Article 2 (1) IBA Rules on the Taking of Evidence in International Arbitration, adopted by a resolution of the IBA Council on 29 May 2010, available at *https://www.ibanet.org/Publications/publications_IBA_guides_and_free_materials.aspx* (las accessed 15 May 2018).

43 See for instance Art. 19 (2) 2 UNCITRAL Model Law.

acquaint itself with the details of the dispute at an early stage of the proceedings and consequently, the oral hearing may then focus on the disputed issues rather than having to repeat the overall case in detail.

Subject of agreements on evidentiary matters

61 Agreements on evidentiary matters may refer to the production of documents and other means of evidence such as inspections and the need for technical and economic experts, including tribunal appointed experts, and testimonies of witnesses of fact and expert witnesses. It is recommended that such agreements be made under the direction of the tribunal or with the tribunal's consent. One question the tribunal should deal with is which means of evidence may be opportune for a specific case. A second question is how such evidence shall be taken procedurally.

Determination of appropriate means of evidence

62 As regards the determination of appropriate means of evidence, the tribunal first of all needs to consider due process requirements and principally allow parties to decide on how they want to present their case including in particular on which claims and defenses they wish to present, and thus which evidence they may ultimately need to rely on to sufficiently present such matters. Still, in order to reduce the amount of information and documents to be included in an arbitration, the tribunal and the parties can also consider – subject to due process (cf. also Guideline 8) – limiting the time frame which the documents to be relied upon in the proceedings shall refer to (e. g. it can be agreed to only produce certain agreements and related emails and other correspondence for a specific time period). To this end, active case management is oftentimes essential to achieve agreement on the amount and means of evidence which the parties mutually intend to rely upon. In view of due process requirements, however, corresponding agreements, which may for instance provide for the exclusive use of written evidence or a limitation of the numbers of expert witness per party, should only be made in coordination with the parties.

63 For the determination of appropriate means of evidence, on the one side the nature of the relevant issues in dispute needs to be considered. While e. g. royalty rates agreed upon previously for relevant SEPs might be demonstrated by reference to comparable license agreements, the question of what a certain standard business practice in a specific industry is might rather be demonstrated by reference to witness statements by experts or competent licensing practitioners. On the other side, in order to find – where possible[44] – an agreement on evidentiary issues, the tribunal needs to pay particular attention to the respective legal backgrounds of the parties. While for instance production-of-document requests may still be a particular concern from a continental European perspective, UK and US parties and lawyers might, on the contrary, expect to have the possibility of asking for a rather broad production of documents in view of due process requirements. The tribunal's challenge in this regard is to find a middle ground and establish a fair and equitable procedural framework allowing each party to sufficiently present its case while at the same time reducing the complexity of the fact-finding process and limiting this to the issues which are relevant for deciding the respective dispute. In case of disputes over the relevance and breadth of production-of-document requests, a tribunal should typically require written submissions and

44 If no agreement can be reached, the tribunal must apply the agreed rules of evidence or apply those it determines to be applicable after having heard the parties.

conduct a telephone conference hearing before making its production-of-documents order.

How to take the relevant evidence

64 The question of how to take evidence first of all depends on the nature of the respective evidence. Document production can be an important form of taking evidence, but it is by no means the only or the default approach. It is generally advisable to refer to the IBA Rules on the Taking of Evidence in International Arbitration,[45] which summarize the general practice in international arbitration. If an order to produce documents is issued, defining the corresponding scope clearly and unambiguously and respecting the principle of proportionality is crucial to provide for a transparent and due process and to avoid potential abuse of production of document request proceedings to unduly delay the proceedings.

65 In view of increasing electronic correspondence as well as electronic file and document management, particular attention needs to be paid to the question how electronic documents and information shall be produced. The IBA Guidelines provide general guidance on electronic documents and how to deal with requests for the production of documents or information maintained in electronic form (so called "e-disclosure").[46] In terms of active case management, with regard to Article 3 No. 3(a)(ii) IBA Guidelines on the Taking of Evidence it is generally advisable for tribunals to address the question of e-disclosure in detail. Considering that electronic search requests can involve an overly burdensome effort, it can often be useful to discuss and, if no agreement can be achieved, to determine the use of certain search terms and limit the scope of an e-disclosure accordingly. Further, arbitrators and parties may consider referring to the CPR Protocol on Disclosure of Documents and Presentation of Witnesses in Commercial Arbitration, which specifically addresses "e-disclosure" issues in its Schedule 2,[47] or the ICC Commission Report Managing E-Document Production.[48]

66 In relation to fact and expert witnesses, it is frequent practice in international ADR proceedings to request the submission of written witness statements in the first step and cross-examine them in a second step in the evidentiary hearing. In particular in case of conflicting expert witness statements, one method to reduce complexity of technical and other specialized evidentiary issues that may be considered for FRAND disputes in particular is to ask the party-appointed expert witnesses to meet and confer on specific issues within the scope of their expert reports, such as the calculation of a reference license fee in the relevant field of technology, and submit to the tribunal and the parties a joint report summarizing the aspects on which they have achieved agreement upon and those on which they still disagree.[49] Opposing counsels and, subsequently, the tribunal would then cross-examine the respective expert witnesses in relation to the unresolved aspects of the relevant evidentiary issue. For FRAND disputes in particular, the arbitral tribunal may also take a more proactive role and address the methodology and the mission of the party-appointed experts before they start preparing their respective

45 Cf. also the ICC report on eDisclosure, available at *https://iccwbo.org/publication/icc-arbitration-commission-report-on-managing-e-document-production/*.

46 Also consider pages 4, 5, 9, 10 and 12 of the Commentary on the revised text of the 2010 IBA Rules on the Taking of Evidence in International Arbitration, available at *https://www.ibanet.org/Publications/publications_IBA_guides_and_free_materials.aspx* (last accessed 15 May 2018).

47 Available at *https://www.cpradr.org/resource-center/protocols-guidelines/protocol-on-disclosure-of-documents-presentation-of-witnesses-in-commercial-arbitration* (last accessed 15 May 2018).

48 Available at *https://cdn.iccwbo.org/content/uploads/sites/3/2016/10/ICC-Arbitration-Commission-Report-on-Managing-E-Document-Production-2012.pdf* (last accessed 15 May 2018).

49 Article 5 (4) IBA Rules on the Taking of Evidence in International Arbitration.

reports. This can and should normally be done in consultation with the experts in the presence of the parties at the case management conference stage or as soon as practicable thereafter.

Guideline 8

Make sure the procedure is fair, reasonable and compliant with due process requirements

67 To ensure enforceability of the award the parties together with the tribunal should pay close attention to and observe overall reasonableness, fairness and due process requirements at every stage of the arbitration.

68 That means, in particular, that a party´s right to be heard should not be unduly limited. The procedure adopted by the tribunal must provide for equal treatment, fair hearing and the right of each party to adequately present its case and be given the opportunity for contradiction. While parties involved in FRAND disputes are generally bound to avoid delaying tactics, the individual circumstances of each case need to be taken into account carefully. Information disadvantages and the complexity of the proceedings need to be considered carefully by the tribunal, in particular as regards the determination of timelines for the procedural schedule.

69 Ensuring compliance with due process requirements and finding the right balance with the avoidance of delaying tactics is a particular challenge in FRAND disputes. Particularly in view of the complexity of FRAND disputes, the tribunal must be given room for flexible and robust case management. Reasonable case management decisions by the tribunal should not be unnecessarily challenged. It is the parties´ responsibility to keep within the time limits agreed upon in the procedural order or otherwise set by the tribunal.

Guideline 9

Consider use of electronic case administration tools

70 In view of the technical, economic and legal complexity of FRAND disputes and in the interest in conducting the proceedings effectively, it is generally advisable to make use of electronic case administration tools as may be provided for by ADR institutions.[50]

Guideline 10

Consider use of institutionalized ADR facilities

71 The parties should consider the use of institutionalized ADR facilities. The Federal Trade Commission in a specific FRAND-related dispute[51] considered the American Arbitration Association (AAA),[52] the ICC International Chamber of Commerce,[53] the Judicial, Arbitration and Mediation Services Inc. (JAMS),[54] and

50 For instance, the AAA offers an online case management tool WebFile (*https://apps.adr.org/webfile*, last accessed 15 May 2018). WIPO offers electronic case administration facilities (ECAF) including an online docket and video conferencing facilities (*http://www.wipo.int/amc/en/ecaf/index.html*, last accessed 15 May 2018). For general comments on the use of information technology in arbitration see the ICC Commission Report Information Technology in International Arbitration (available at *https://cdn.iccwbo.org/content/uploads/sites/3/2017/03/icc-information-technology-in-international-arbitration-icc-arbitration-adr-commission.pdf*, last accessed 15 May 2018).

51 Federal Trade Commission, order of 23 July 2013, docket no. C-4410 – Motorola/Google, page 5, available at: *https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf* (last accessed 15 May 2018).

52 For details refer to *www.adr.org* (last accessed 15 May 2018).

53 For details refer to *https://iccwbo.org*/dispute-resolution-services (last accessed 15 May 2018).

54 For details refer to *www.jamsadr.com* (last accessed 15 May 2018).

55 For details refer to *http://www.wipo.int/amc/en/* (last accessed 15 May 2018).

the WIPO Arbitration and Mediation Center[55] as "Qualified Arbitration Organizations". The European Commission, also in a FRAND-related dispute[56], referred to arbitration by the ICC or the arbitration center as to be established under Article 35 (1) of the Agreement on a Unified Patent Court. Since parties are, however, in principle autonomous, they are free to refer to other arbitration institutions, such as the China International Economic and Trade Arbitration Commission (CIETAC),[57] the Chinese European Arbitration Center (CEAC),[58] the German Institution of Arbitration (DIS),[59] the Hong Kong International Arbitration Center (HKIAC),[60] the London Court of International Arbitration (LCIA),[61] the Singapore International Arbitration Center (SIAC),[62] the Swiss Chambers' Arbitration Institution,63 or the Vienna International Arbitral Center (VIAC).[64] At every stage of a negotiation or conflict, institutionalized ADR facilities may offer experienced guidance and formal services that enable the parties to allocate their resources towards an efficient management of anticipated or actual disputes.

72 The parties have the responsibility to educate themselves on possible options and take each other's needs and circumstances into consideration when selecting an institutionalized ADR facility. Bilateral communication with an institutionalized ADR facility should be avoided, by including the other side or making the respective communication available.

Guideline 11

Make use of existing soft law and guidelines

73 To avoid unnecessary efforts in tailoring an ADR procedure to their specific needs, the parties should consider agreeing on or using in practice existing soft law and guidelines. The use of soft law and guidelines can also be determined in the case management conference where parties and arbitrators jointly map out the procedure. An overview of corresponding soft law and guidelines is included in Annex II. With particular respect to FRAND disputes, parties having opted for ADR pursuant to WIPO rules should take the "Guidance on WIPO FRAND Alternative Dispute Resolution" into account.[65] Established soft law and guidelines have been developed with expertise and scrutiny and minimize the risk of potentially ambiguous or incomplete rules. The parties are encouraged to opt for the latest edition of the soft law or guidelines in question.

74 The parties should strive to include suitable soft law and guidelines in or in connection with the dispute resolution clause. If a standard dispute resolution clause from an ADR institution is modified by reference to soft law and guidelines, the parties should coordinate with the selected institution at the time of the conclusion of the contract containing the altered clause to avoid pathological wordings.

56 European Commission, 29 April 2014, case AT.39939 – SAMSUNG, rec. 98, available at: *http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf* (last accessed 15 May 2018).

57 For details refer to *http://www.cietac.org/?l=en* (last accessed 15 May 2018).

58 For details refer to *https://www.ceac-arbitration.com/* (last accessed 15 May 2018).

59 For details refer to *www.disarb.org/en/* (last accessed 15 May 2018).

60 For details refer to *http://www.hkiac.org/* (last accessed 15 May 2018).

61 For details refer to *www.lcia.org* (last accessed 15 May 2018).

62 For details refer to *http://www.siac.org.sg/* (last accessed 15 May 2018).

63 For details refer to *https://www.swissarbitration.org/* (last accessed 15 May 2018).

64 For details refer to *http://www.viac.eu/en/* (last accessed 15 May 2018).

65 For details see *http://www.wipo.int/publications/en/details.jsp?id=4232&plang=EN* (last accessed 15 May 2018).

Guideline 12

Consider exclusion of interim measures

75 Generally, institutional arbitration rules provide that, unless the parties have agreed otherwise, the arbitral tribunal may, at the request of a party, grant not only final injunctions but also interim injunctions.[66] Similarly, many arbitration laws provide that unless the parties have agreed otherwise, the tribunal may, at the request of a party, grant interim measures or provisional orders.[67] Tribunals, in addition, also have the power to demand, in connection with such interim measure or provisional order, that the party applying for such measure or order provide reasonable security. With regard to FRAND disputes, however, careful use should be made of interim measures in general.

76 In SEP dispute scenarios where the SEP owner has complied with its FRAND obligations and accordingly has first informed the implementer of the alleged infringement prior to the initiation of legal actions and second submitted a FRAND license offer,[68] arbitral proceedings can be tailored such that SEP users are required to provide – usually after they have refused the SEP owner's offer and submitted a counter-offer – an appropriate security and render accounts in relation to allegedly patent-infringing commercial use of the SEPs in dispute. The standard implementer should consider that in such a situation it might only be acknowledged to be a willing licensee if it followed such order by providing an appropriate security and rendering accounts accordingly.[69]

77 At the same time, however, in the context of FRAND disputes parties may wish to exclude a tribunal's power to render interim injunctions.[70] SEP owners, in particular, should pay careful attention to eventual competition law implications which applications for interim injunctions might have. In view of the competition law-based requirement to provide for sufficient access to standardized technologies, injunctions should generally be available only subject to an in-depth review of both infringement and validity of the patent in suit. In particular, injunctions should not be used to unduly influence the FRAND determination process, irrespective of whether this process is driven by negotiation, mediation, litigation or arbitration. Besides interim injunctions, other conservatory measures and other interim relief may be considered.

Guideline 13

Balance confidentiality protection and public policy interests involved in FRAND disputes by considering transparency provisions

Confidentiality

78 Confidentiality is one of the major advantages commonly associated with and at the same time one of the major criticisms voiced against alternative dispute resolution. This is particularly true for SEP and FRAND-related disputes. Parties will therefore usually put much weight on the availability of effective

66 Article 28 (1) ICC Arbitration Rules (2017) provides: "Unless the parties have otherwise agreed, as soon as the file has been transmitted to it, the arbitral tribunal may, at the request of a party, order any interim or conservatory measure it deems appropriate." Art. 48 (a) WIPO Arbitration Rules (2014) provides: "At the request of a party, the Tribunal may issue any provisional orders or take other interim measures it deems necessary, including injunctions and measures for the conservation of goods which form part of the subject matter in dispute, such as an order for their deposit with a third person or for the sale of perishable goods."

67 Arts. 17 et seqq. UNCITRAL Model Law on International Commercial Arbitration (2006).

68 This consideration is based on the ruling of the CJEU, 16 July 2015, C-170/13 – *Huawei/ZTE*. In case of international disputes, the tribunal must make sure that other applicable competition law regimes are complied with as well.

69 CJEU, 16 July 2015, C-170/13 – *Huawei/ZTE,* rec. 67.

70 This approach is e.g. adopted within the framework of WIPO Arbitration for FRAND Disputes, Model Submission Agreement, No. 8 (*http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/annex1/*, last accessed 15 May 2018).

confidentiality protection measures to be taken by the competent mediator or tribunal. It is a widespread misconception in this regard that arbitration proceedings are *per se* confidential. In fact, while mediation is generally understood to be a confidential process in nature, unless otherwise agreed by the parties, arbitration proceedings are not *per se* subject to confidentiality. Business secrets and confidentiality interests would insofar only be protected on the basis of the applicable statutory law, including laws on the protection of personal data, the protection of trade and business secrets and the protection of privacy.

79 Efficient confidentiality protection in arbitration proceedings consequently requires an express agreement between the parties. Corresponding confidentiality agreements can be included in the agreement to arbitrate, in particular by reference to a set of established arbitration rules imposing upon the parties and the tribunal confidentiality obligations. In this regard, parties should note that different arbitration rules can provide for significantly different standards of confidentiality protection.[71]

Transparency

80 The parties' confidentiality protection interests are contrasted by the general public interest in transparency in particular against the background of arbitral awards' lack of contribution to the further development of the law.

81 In FRAND disputes, transparency interests are even more relevant.[72] The competition law-based requirement for access to standards at FRAND terms underlines the public (and, potentially, legitimate industry) interest in having access to information concerning methodologies used by arbitral tribunals to determine FRAND terms. It is therefore advisable that arbitrators and mediators consider with parties to agree on a disclosure of the method applied to calculate a certain FRAND rate while otherwise maintaining the confidentiality offered by applicable institutional rules and the applicable law. Such agreement could be made in the arbitration agreement or at any stage of the arbitration proceedings. Annex III suggests an exemplary disclosure procedure which parties may agree upon in this regard.

82 A further transparency-related concern often raised in the context of FRAND disputes is that courts and tribunals tend to apply different methodologies to determine FRAND terms and conditions. As a consequence, there is a high degree of uncertainty as to the reliability of FRAND determination methodologies. The Guidelines acknowledge that different methodologies may be relied upon and consequently do not advocate a specific methodology as the appropriate and correct approach to determine FRAND terms and conditions. Therefore, in order to ensure a "non-discriminatory" FRAND licensing practice, transparency as to the different methodological approaches adopted in practice should be encouraged. Annex I to this end provides an overview of those court decisions having applied specific FRAND determination methodologies. This Annex is neither meant to be conclusive nor to advocate a specific methodology, but aims to shed some light on the existing FRAND determination practice.

71 Under the WIPO Arbitration Rules the existence of the arbitration, information on disclosures made during the arbitration, and the arbitration award itself enjoy high standards of confidentiality protection, Art. 54, 75 to 78 WIPO Arbitration Rules. Similar standards are provided for in Article 15 to 18 of the WIPO Mediation Rules. In contrast, Art. 22 (3) ICC Arbitration Rules provides that confidentiality protection measures are generally subject to a decision of the Tribunal upon a corresponding request being made by a party. It is only with regard to the work of the ICC Court as such that Art. 6 of the Statutes of the International Court of Arbitration provides for general confidentiality.

72 See para. 12/13 above.

Reference to existing license agreements in FRAND disputes

83 A further common issue in FRAND disputes is the reference to earlier license contracts agreed upon by the SEP owner in relation to the patent in dispute or its respective patent portfolio. While existing license agreements generally need to be taken into account to ensure "non-discriminatory" terms and conditions, it is important to note that licenses are coined by the particular situation. It is therefore all the more important to carefully review which "comparable licenses" to take into account – and, for that matter, how to "unpack" them to achieve comparability – for the determination of FRAND terms and conditions in a specific case. Confidentiality protection interests on the side of SEP owners often conflict with transparency interests on the side of potential licensees. In order to strike a balance between those conflicting interests and comply with public policy requirements, the Tribunal may consider appointing a confidentiality advisor or conducting an *in camera* procedure in the course of which confidential license agreements are only submitted to the tribunal. This approach, however, can be problematic from a due process perspective as this may be considered as a breach of the right to be heard under some jurisdictions. An alternative can, therefore, be to order the submission of confidential license agreements to the licensee's attorneys' eyes only. Also, the tribunal can consider taking a separate confidentiality protection order to further protect the parties against disclosure of business secrets to third parties not involved in the respective dispute.

Guideline 14

Consider possibility of appeal proceedings

84 By agreeing to arbitration, under most institutional rules the parties waive their right to any form of appeal.[73] Arbitral awards are therefore in general binding on the parties and, in view of the New York Convention,[74] enforceable internationally.

85 However, agreeing on an appeal procedure may be an option[75] in FRAND disputes for the following reasons:

(i) In view of the relevance of the patents involved for standardized technologies, concluding respective license agreements is of fundamental importance for the production and sale of the license products. The generally high number of products sold and the correspondingly high turnover generated thereby underlines the commercial and economic importance of license agreements.
(ii) The royalty rates ultimately agreed upon or determined by a tribunal impact on the evaluation of licenses to be concluded with third-party SEP owners at least indirectly, as corresponding FRAND license agreements to be agreed upon with regard to those third-party SEPs will need to take into consideration earlier license agreements to ensure the license strategy is "non-discriminatory".

73 For instance see: Article 35(6) ICC Arbitration Rules; Article 66 WIPO Arbitration Rules; Article 59 WIPO Expedited Arbitration Rules.

74 See fn. 6 above.

75 Cf. also the commitments to the EU Commission made by Samsung in a FRAND case, and which contained an appeal procedure, *http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1502_5.pdf* (last accessed 15 May 2018).

86 In case parties should therefore agree to an appeal procedure, they further need to agree upon the respective scope of these proceedings. In view of the principle of party autonomy, parties enjoy a broad range of choice in this regard as well. An appeal procedure can be construed as a so-called *de novo* appeal. In this case, the whole procedure will basically be repeated under the auspices of a new tribunal. Alternatively, parties may only wish to provide for the possibility of an appeal in relation to selected issues addressed in the award. Annex IV proposes as an example a sample appeal clause for scenarios where parties may wish to limit the appeal procedure to a review of the determination of the FRAND royalty rate.

87 In view of an appeal procedure's potential to unduly delay the resolution of a FRAND dispute, the appeal respondent should consider requesting the Appellate Tribunal to subject the conduct of the appeal procedure to prior provision of an appropriate security by the party having filed the appeal. In case of an appeal filed by a standard implementer, an appropriate security may amount to the royalty referred to by the standard implementer in its initial license offer. Failing such offer or in cases where an implementer's license offer refers to binding third party determination of the license fee, the Appellate Tribunal can order the security in an amount as it deems appropriate in view of the circumstances of the specific case. Failing provision of the security in line with the Appellate Tribunal's order, the appeal shall be deemed withdrawn and the award of first instance shall become final and binding.

88 Discretionary binding expert determination with a possibility of a review ab initio by an arbitral tribunal to be appointed subsequently may constitute an alternative to the appeal procedure sketched above.

ANNEX I

Overview of court decisions applying specific methodologies for the determination of FRAND terms and conditions[76]

Introduction

In this appendix we explain the various methods that have been used to estimate FRAND royalties in legal cases. We consider seven cases:

1. TCL v Ericsson;[77]
2. Unwired Planet v Huawei;[78]
3. Apple v Samsung;[79]
4. Apple v Motorola;[80]
5. Innovatio;[81] and
6. Microsoft v Motorola;[82] and
7. Ericsson v D-Link.[83]

Before explaining the court's findings for each case, we first explain two different approaches which the courts have used in more than one case. The courts used a different, third approach in Innovatio. We explain the third approach in the Innovatio subsection.

Top-down approach

The top-down approach involves determining:

1. the aggregate royalty burden for all patents in a standard, i.e. the royalty rate one would pay to license the entire standard;[84] and
2. a way of apportioning this royalty between the different SEPs in the standard, (often referred to as methods of determining portfolio/patent strength).

Different courts have arrived at different conclusions on these two factors. For example, the courts may disagree on the size of the aggregate royalty burden and the merits of different 'strength' metrics.

Comparables approach

The comparables approach sets a royalty by reference to other licenses agreed between a willing licensor and a willing licensee. When using this approach, the key issues are deciding: (i) which licenses are comparable; and (ii) how to scale from one license to another, to adjust for differences in the patents licensed under each license. Different courts have arrived at different conclusions on these issues.

76 Annex I drafted and therefore copyright insofar co-owned by Andrew Wynn and Mark Bezant, both: FTI Consulting, London.

77 TCL Communications v. Ericsson (SACV 14-341 JVS (DFMx) and CV 15-2370 JVS (DFMx)), 21 December 2017.

78 Unwired Planet International Ltd v (1) Huawei Technologies Co. Ltd and (2) Huawei Technologies (UK) Co. Ltd. ([2017] EWHC 2988 (Pat), Case No: HP-2014-000005), Original version handed down on 5 April 2017, updated version handed down on 30 November 2017.

79 Apple v. Samsung, Japanese IP High Court, Decision of 16 May, 2014, Case No. 2013 [Ne] 10043.

80 APPLE INC. and Next Software, Inc. v. MOTOROLA, INC. and Motorola Mobility, Inc. Nos. 2012–1548, 2012–1549.

81 In re Innovatio IP Ventures, LLC, United States District Court For The Northern District Of Illinois Eastern Division, 11 C 9308.

82 Microsoft Corp. v. Motorola Inc., United States District Court Western District Of Washington At Seattle, 10-1823JLR.

83 ERICSSON, INC. v. D-LINK SYSTEMS, INC. (773 F.3d 1201 (2014)), United States Court of Appeals, Federal Circuit, December 4, 2014.

84 The aggregate royalty burden is also referred to as the 'royalty stack'.

85 *http://home.tm.tue.nl/rbekkers/TCL_v_Ericsson_Decision.pdf*, pages 25 and 26 (last accessed 15 May 2018).

TCL v Ericsson

Background

In 2011 and 2013, TCL attempted to obtain a license for Ericsson's 3G and 4G patents, respectively. However, the two parties were unable to agree on terms and Ericsson sued TCL for infringement of its SEPs in six non-US jurisdictions. In response, TCL sought a declaration that Ericsson had breached its obligation to offer TCL a license on FRAND terms in the Central District Court of California. TCL also agreed to abide by the Central District Court of California's determination of FRAND terms for a worldwide license.
The court primarily relied on a combination of the top-down and the comparables approach to determine the appropriate FRAND rates for 2G, 3G and 4G.

Calculation

(1) Top-down approach

The court found that, based on public statements from SEP owners, the aggregate royalty was somewhere between 6% and 10% for 4G and 5% for 2G and 3G.[85]
The court found Ericsson's share of the aggregate royalties by first considering how many of Ericsson's unexpired patents were declared to a given standard compared to the total number of patents declared to the standard. The court further adjusted this share by a regional strength ratio. The court calculated three FRAND rates; one for the US, one for Europe, and one for the rest of the world ("RoW"). The court explained that it did so because Ericsson's patent strength varied between geographic regions. Specifically, the court calculated that rates for other geographies in relation to the US rate as Ericsson's patent portfolio is strongest in the US. For example, if Ericsson held 60% of their US patent portfolio in Europe as well, the European rate would be 60% of the US rate.[86]

Thus, the formula for the three FRAND rates from the top-down approach was
Rate $= A \times (E/S) \times P$, where:

- A = Royalty burden for the standard;
- E = Ericsson's number of SEPs in the standard;
- S = total number of patents in the standard; and
- P = Ericsson's regional patent coverage compared to the US.

The court found that the rate for China would form the 'floor' of any rate payable by TCL because TCL manufactures its products in China.[87]

(2) Comparables approach

The court also considered comparable licenses. The court converted the rates from these licenses to a US rate (rather than a global rate) before comparing them.

For 4G, the court found that the formula for this conversion should be:
US Rate = (Global Rate × Global Revenue) / (US Revenue + (RoW Revenue × 69.80%)).[88]

86 *http://home.tm.tue.nl/rbekkers/TCL_v_Ericsson_Decision.pdf*, pages 45-47 (last accessed 15 May 2018).
87 As Ericsson's 4G portfolio in Europe is weaker than in China the court set European 4G rate to be the 0.314% RoW rate.
88 69.80% is the court's finding of Ericsson's Chinese portfolio strength relative to its US portfolio.

For 3G, the court found that the formula for this conversion should be:
US Rate = 1.25 × Global Rate.

Overall

The court found that it was unable to reliably estimate the global royalty rates in the 2G licenses. It therefore relied on the top-down approach only for 2G rates. The court noticed a considerable discrepancy between the FRAND rates found in the top-down and comparable approaches for 3G. It concluded that the top-down approach was unreliable for 3G and instead relied on the comparables approach. The court found that rates implied by the top-down and comparables approaches were "*largely congruent*" for 4G.[89] It found that it could not "*determine an appropriate FRAND royalty with exactitude*" but found an 0.45% to be an appropriate FRAND rate for Ericsson's 4G portfolio in the US.
The FRAND rates found by the court are shown in the table below.

Region	2G	3G	4G
US	0.164%	0.300%	0.450%
Europe	0.118%	0.264%	0.314%
ROW	0.090%	0.224%	0.314%

Unwired Planet v Huawei

Background

Unwired Planet owns a portfolio of 2G, 3G and 4G SEPs and claimed, amongst other things, that Huawei refused to license Unwired Planet's SEPs on FRAND terms.
Birss J, of the UK Patent Court, considered how to set FRAND royalty rates for these portfolios. Birss J primarily relied on comparables approach, using the top-down approach as a cross-check. Birss J concluded that the top-down approach should only be used as a crosscheck because statements made by SEP holders are "*obviously self-serving… the person making the statement says at the same time that the cake is quite small but they are entitled to a large piece of it*." [90] This contrasts with TCL v Ericsson where, as explained above, the court found it appropriate to rely on public statements from SEP owners to conclude on the aggregate royalty stacks for 4G, 3G and 2G. Birss J calculated that the aggregate royalty burdens implied by his benchmark FRAND rates for Unwired Planet were 8.8% for 4G, 5.6% for 3G and 4.9% for 2G. Birss J considered that his top-down cross-check supported his benchmark FRAND rates. [91]

89 *http://home.tm.tue.nl/rbekkers/TCL_v_Ericsson_Decision.pdf*, page 99 (last accessed 15 May 2018).

90 Unwired Planet International Ltd v (1) Huawei Technologies Co. Ltd and (2) Huawei Technologies (UK) Co. Ltd. ([2017] EWHC 2988 (Pat), Case No: HP-2014-000005), para 269.

91 Unwired Planet International Ltd v (1) Huawei Technologies Co. Ltd and (2) Huawei Technologies (UK) Co. Ltd. ([2017] EWHC 2988 (Pat), Case No: HP-2014-000005), para 476 to 479.

92 Birss J also calculates FRAND infrastructure rates in a similar way.

Calculation

Birss J calculated FRAND handset rates for Unwired Planet's 2G, 3G and 4G portfolios in six key steps. [92]

First, he concluded what he considered to be appropriate rates for Ericsson for 4G (0.80%) and for 2G/3G (0.67%) based on Ericsson's licenses (most of Unwired Planet's patents were acquired from Ericsson).

Second, he calculated Unwired Planet's patent strength relative to Ericsson according to various patent counting methods put forward by the parties.

Third, he multiplied his rates for Ericsson by his view on Unwired Planet's relative strength to Ericsson. This resulted in his benchmark FRAND rates for Unwired Planet's portfolio. This is summarized in the table below.

Standard	Ericsson's rate *E*	Strength ratio *R*	Benchmark rate *E × R*
2G	0.67%	9.52%	0.064%
3G (Dual mode)	0.67%	4.76%	0.032%
4G (Multimode)	0.80%	7.69%	0.062%

Fourth, he defined major markets ("MM") and other markets ("OM") by reference to the number of SEPs declared by Unwired Planet in each jurisdiction. Birss J considered that any jurisdiction where Unwired Planet declared less than two 2G or 3G SEPs, or less than three 4G SEPs, would be OM for that standard.

Fifth, he set the MM rate as the benchmark rate multiplied by most SEPs declared in a single country for a particular standard, divided by the total number of SEPs declared to that standard globally. This is shown in the table below.

Standard	Benchmark rate *A*	SEP families used to derive benchmark *B*	Relevant MM SEP families *C*	Rate for MM *A × (C/B)*
2G	0.064%	2	2	0.064%
3G (Dual mode)	0.032%	1	1	0.032%
4G (Multimode)	0.062%	6	5	0.052%

93 *http://www.ip.courts.go.jp/eng/vcms_lf/25_ra_10008zenbun.pdf*, page 3 (last accessed 15 May 2018).

Sixth, he set the OM rate equal to half the benchmark rate (based on evidence from other licenses that rates in China are half those achieved elsewhere) multiplied by the number of SEPs declared for each standard in China, divided by the total number of SEPs declared to that standard globally. This is shown in the table below.

Standard	Bench-mark rate *A*	China bench-mark *A × 50%*	SEP families used to derive benchmark *B*	Relevant SEP families in China *C*	Rate for OM (including China) *A × 50% (C/B)*
2G	0.064%	0.032%	2	1	0.016%
3G (Dual mode)	0.032%	0.016%	1	1	0.016%
4G (Multi-mode)	0.062%	0.031%	6	5	0.026%

Birss J's final rates are summarized in the table below.

Standard	MM rate	OM rate
2G	0.064%	0.016%
3G (Dual mode)	0.032%	0.016%
4G (Multimode)	0.052%	0.026%

Apple v Samsung

Background

Samsung alleged that Apple had infringed Samsung's Patent No. 4642898 and filed for an injunction against Apple's production and import of the infringing products. Apple alleged that Samsung was abusing their patent rights by seeking an injunction, but this was dismissed by the Tokyo District Court. [93]

Calculation

Apple alleged that the aggregate royalty rate cap for the patent rights essential to the 3G standard should be 5% of the product sales revenue. Samsung said that it would not dispute this to speed up the judicial decision.[94] The parties also agreed that 529 of the 1,889 declared patents were 'truly' essential.[95]
Samsung considered that the value of a SEP is its proportion of the 529 patents that are 'truly' essential. On this basis, Samsung considered that the royalty rate for the patent in question should be calculated as:

$$5\% \times (1/529) = 0.0095\%.$$ [96]

Apple considered that the value of an SEP is its proportion of all 1,889 SEPs declared to the overall standard, not just the 529 that are 'truly' essential. On this basis, Apple considered that the royalty rate for the patent in question should be calculated as:

$$5\% \times (1/1889) = 0.00265\%.$$ [97]

The court agreed with Samsung's approach to calculating the FRAND rate.

Apple v Motorola

There were six patents at issue in this case. However, only Motorola's U.S. Patent No. 6,359,898 (the "898 patent") was subject to a FRAND commitment. The case was originally heard by the US District Court for the Northern District of Illinois. Motorola subsequently appealed the district court's ruling in the United States Court of Appeals for the Seventh Circuit.
The district court excluded all of Motorola's proposed testimony relating to the '898 patent, and found that Motorola was entitled to no damages in relation to this patent. The district court also excluded Motorola's expert testimony on damages. However, this was overturned by the Court of Appeals for the Federal Circuit, which found that the evidence was admissible because "*Motorola's analysis of comparable*

94 *http://www.ip.courts.go.jp/eng/vcms_lf/25ne10043full.pdf*, page 63 (last accessed 15 May 2018): "The appellee [Apple] alleges the aggregate royalty rate cap for the patent right that is an essential IPR to be 5% of the product sales turnover. From the standpoint of a speed-up of the judicial decision, the appellant [Samsung] raises no objection to this point."

95 *http://www.ip.courts.go.jp/eng/vcms_lf/25ne10043full.pdf*, page 63 (last accessed 15 May 2018).

96 *http://www.ip.courts.go.jp/eng/vcms_lf/25ne10043full.pdf*, page 64 (last accessed 15 May 2018).

97 *http://www.ip.courts.go.jp/eng/vcms_lf/25ne10043full.pdf*, page 64 (last accessed 15 May 2018).

98 *http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/12-1548.Opinion.4-23-2014.1.PDF* (last accessed 15 May 2018).

licenses used 'reliable principles and methods,' and Motorola reliably applied them to sufficient facts and data to estimate the overall value of the 898 patent." [98]
The appeal court did not determine a reasonable royalty but instead stated that this was "*a factual question reserved for the jury.*"[99] However, to the best of our knowledge, there have been no further proceedings in this case.

Innovatio

Background

Innovatio owned 23 SEPs that read on the 802.11 wireless standard and sued numerous US commercial users of wireless internet technology such as hotels and retailers for infringing its patents. Various equipment manufacturers also claimed that Innovatio's patents were invalid or that their equipment did not infringe. Innovatio then counterclaimed against these manufacturers and the various cases were consolidated into a single case in the Northern District Court of Illinois.

Calculation

The District Court estimated a FRAND rate in four steps. It:

1. calculated the average profit on a Wi-Fi chip ($1.80);
2. assumed that profit was all available for SEPs ($1.80);
3. assumed that 84% of the profit available for SEPs was for the 300 best SEPs ($1.51); [100] and
4. gave Innovatio its pro-rata share of 84% of the total profit, assuming that nine of Innovatio's SEPs were in the best 300 SEPs ($0.05).

Microsoft v Motorola

Background

Motorola owned patents which were used in the video coding technology standard H.264 and in the Wi-Fi standard 802.11. Microsoft used these standards and so needed a license to Motorola's patents. However, the two parties could not agree on a RAND rate. Instead, a US District Court ruled on a RAND rate as part of wider proceedings. Motorola unsuccessfully appealed the court's RAND ruling at the Court of Appeals for the 9th Circuit. [101]

99 *http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/12-1548.Opinion.4-23-2014.1.PDF*, page 67 (last accessed 15 May 2018).

100 The court assumed this based on a study bill by Mark Schankerman in 1998 which found that the "top 10% of all electronics patents account for 84% of the value in all electronics patents". (Mark Schankerman, How Valuable is Patent Protection? Estimates By Technology Field, *https://econpapers.repec.org/article/rjerandje/v_3a29_3ay_3a1998_3ai_3aspring_3ap_3a77-107.htm*, last accessed 15 May 2018).

101 Microsoft Corp. v. Motorola, Inc., No. 14-35393.

The court determined that the parties in a hypothetical negotiation would set RAND royalty rates by looking at the importance of the SEPs to the standard and the importance of the standard to the products at issue. After establishing this as the framework, the court analysed each of Motorola's H.264 SEPs in turn and then determined the relative importance of Motorola's H.264 portfolio to the standard. It repeated this process for Motorola's 802.11 SEPs.

Calculation

The court relied on the rate charged for the MPEG LA H.264 patent pool (0.185 cents per unit) as a reliable indicator of the RAND rate for Motorola's H.264 portfolio. The court also found that the patent pool licensed at lower rates than found in a bilateral agreements because pool membership included additional benefits beyond royalties. The court adjusted for that finding by multiplying the royalty rate charged by the MPEG LA H.264 patent pool by three (0.555 cents per unit).
The court found that three different 802.11 licenses were reliable as indicators of the RAND rate for Motorola's 802.11 portfolio. The court found that the RAND rate for Motorola's 802.11 portfolio was the average rate from these three licenses (3.471 cents per unit).

Ericsson v D-Link

In September 2010, Ericsson accused D-Link of infringing nine patents which Ericsson claimed were essential to the Wi-Fi standard 802.11. The case was heard by a jury who decided that D Link had infringed three patents and ordered that D-Link pay Ericsson a royalty rate of 15 US cents per product. To the best of our knowledge there is no public explanation of how the jury arrived at this royalty rate.
However, D-Link appealed the ruling and successfully overturned the damages awarded by the jury. In particular, the U.S. Court of Appeals for the Federal Circuit found that the jury had not been properly instructed on several issues and therefore was not in a position to determine a RAND rate.

ANNEX II

Established arbitration / SEP soft law and guidelines

The term "soft law", oftentimes also referred to as "para-regulatory texts", lacks a universally acknowledged definition. In general, soft laws are rules, principles and practices that are codified, yet neither binding nor enforceable without the consent of the parties. Some soft law regimes merely aim to compile existing customs and best practices, whereas others intend to further international arbitration by introducing new suggestions or supporting specific legal opinions.

If parties have consensually identified any such soft law as a desired addition to an existing set of rules, they can vest it with binding force by contractually agreeing to have it applied to their existing or anticipated arbitration. Consequently, soft law cannot supersede in areas where party autonomy is limited by mandatory stipulations by the *lex arbitri*. If no such agreement exists, underlying principles of soft law codifications are often used unilaterally by parties for orientation and to support legal arguments. Arbitrators may consult para-regulatory texts as a starting point for procedural orders and other decisions, for example, examining any challenge to the appointment of an arbitrator on the grounds of conflict of interest. Indeed, national courts generally recognize and give effect to certain para-regulatory texts, such as the IBA Guidelines on Conflict of Interest in International Arbitration, to determine whether an award is enforceable under the public policy constraints of the New York Convention.

Parties and arbitrators are strongly advised to research thoroughly before agreeing on the use of soft law or utilizing soft law in their legal reasoning. In general, the newest version of the soft law regime should be referred to. The following list of arbitration soft law and the footnotes are intended as a starting point for research, and the items listed are not part of the FRAND ADR Case Management Guidelines.

SEP soft law and guidelines

European Commission Communication COM(2017) 712 final: Setting out the EU approach to standard-essential patents

Based on the assumption that the parties are best placed to develop a common understanding on FRAND terms and that it is therefore of fundamental importance to ensure a good faith negotiation process, the EU Commission sets out the following general principles for FRAND licensing terms:

- No one-size-fits-all solution: FRAND terms may differ from sector to sector. Consequently, sector-specific common licensing practices may be established.
- License terms must reflect the economic value of the patented technology.
- Royalties must take into account the present value added by the patented technology without taking the market success of the product into consideration, which is unrelated to the patented technology.

- Valuation must maintain incentives for SEP holders to contribute their best available technology to standards.
- Valuation must take into account a reasonable aggregate rate per standard, assessing the overall added value of the technology.
- Consideration of comparable license agreements.
- Country-by-country licensing approach is generally not FRAND.
- FRAND usually requires portfolio licenses.

Japan Patent Office Guide to licensing negotiations involving standard-essential patents

The Japan Patent Office published a draft guide on how to negotiate FRAND licenses in March 2018.[102]

Arbitration soft law and guidelines

Supplementary Guidelines and Commentaries on institutional arbitration rules [103]

ADR Institutions that offer specific Arbitration Rules have often also released additional guidelines or comments to assist parties and arbitrators with working efficiently towards an enforceable award. Parties and arbitrators are encouraged to contact the selected ADR Institution to inquire about additional materials regarding the arbitration rules in question.

Notable examples are, amongst others:

- ICC Note to Parties and Arbitral Tribunals on the Conduct of the Arbitration
- LCIA Notes for Parties / LCIA Notes for Arbitrators
- SIAC Practice Notes for Administered Cases / UNCITRAL Cases
- Commentary on WIPO Arbitration Rules

Drafting Arbitration Clauses and Commencing Arbitral Proceedings

- IBA Guidelines for Drafting International Arbitration Clauses
- CIArb Guideline on Jurisdictional Challenges
- CIArb Guideline on Applications for Interim Measures
- CIArb Guideline on Applications for Security for Costs
- UNIDROIT Principles on International Commercial Contracts

In addition to model clauses, many ADR Institutions offer guidelines on drafting dispute resolution clauses or on commencing ADR proceedings. Parties are usually advised not to deviate too far from the wording of the model clauses of the selected ADR institution and take additional guidelines into consideration.

102 Available online at: *https://www.jpo.go.jp/iken/pdf/180308_hyoujun/sep_guide_draft_en.pdf*. More details on the drafting process can be found at *https://www.jpo.go.jp/torikumi_e/hiroba_e/eigo_iken_hyoujun_180308.htm* (both links last accessed on 15 May 2018).

103 Links to the following supplementary guidelines and commentaries can be found at www.ipdr-forum.org/adr-soft-law.

Notable examples are, amongst others:

- AAA Drafting Dispute Resolution Clauses: A Practical Guide
- ICDR Guide to Drafting International Dispute Resolution Clauses
- Guidance on WIPO FRAND ADR
- WIPO Case Filing Guidelines

Conduct in the proceedings and ethical implications

- ABA/AAA Code of Ethics for Arbitrators in Commercial Disputes
- CIArb Guideline on Interviews with Prospective Arbitrators
- CPR Code of Ethics for Arbitrators in Commercial Disputes
- IBA International Principles on Conduct for the Legal Profession
- IBA Guidelines on Conflicts of Interest in International Arbitration
- IBA Guidelines on Party Representation in International Arbitration
- SIAC Code of Ethics for an Arbitrator

Organizing the arbitral proceedings

- College of Commercial Arbitrators Protocols for Expeditious, Cost-Effective Commercial Arbitration
- CIArb Guideline on Managing Arbitrations and Procedural Orders
- CIArb Guideline on Documents-only Arbitration Proceedings
- CIArb Guideline on Party Non-Participation
- CPR Guidelines for Arbitrators Conducting Complex Arbitrations
- CPR Guidelines for Early Disposition of Issues in in Arbitral Proceedings
- UNCITRAL Notes on Organizing Arbitral Proceedings

Additionally, several ADR Institutions offer guidance on how to utilize their respective rules to foster efficient proceedings.

Notable examples are, amongst others:

- ACICA Guideline on the Use of Tribunal Secretaries
- ICC Techniques for Controlling Time and Costs in Arbitration
- JAMS Efficiency Guidelines for the Pre-Hearing Phase of International Arbitrations

Taking of Evidence, Disclosure of Documents and Exchange of Information

- CIArb Guideline on Party-appointed Experts and Tribunal-appointed Experts
- CIArb Protocol for e-disclosure
- CIArb Protocol for the Use of Party-appointed Experts
- CPR Guidelines on Early Disposition of Issues in Arbitration
- CPR Protocol on Disclosure of Documents and Presentation of Witnesses in Commercial Arbitration
- IBA Rules on the Taking of Evidence in International Arbitration (Commentary on the Rules available)

Several ADR Institutions offer additional guidance on the taking of evidence with specific regard to their respective arbitration rules.

Notable examples are, amongst others:

- ICC Techniques for Managing Electronic Document Production When it is Permitted or Required in International Arbitration
- ICDR Guidelines for Arbitrators Concerning Exchanges of Information
- JAMS Recommended Arbitration Discovery Protocols for Domestic, Commercial Cases

Drafting Awards

- CIArb Guideline on Drafting Arbitral Awards
- CPR Protocol on Determination of Damages in Arbitration

In addition, some ADR Institutions offer checklists to provide arbitrators with guidance when it comes to drafting awards.

One example is:

- ICC Award Checklist

ANNEX III

IPDR Model Transparency Clause

Transparency – Disclosure of FRAND determination methodology

(1) The parties agree that the arbitral tribunal shall be entitled to disclose the methodology used for the calculation of a FRAND rate to the [name and address of a neutral forum] which will compile corresponding information in academic publications and which will make such disclosure accessible to antitrust authorities, courts and other interested parties including owners and licensors of standard essential patents.

[OPTIONAL FOR PARTIES TO CONSIDER]

(2) No information on the name of the parties, patent registration or application numbers nor on specific rates, turnover nor profit shall be disclosed.

OR

(2) Information on the name of the parties, patent registration and application numbers, and on specific licensing rates determined, but no third party confidential information or other party confidential information shall be disclosed.

(3) Prior to disclosing the relevant FRAND calculation methodology [and the information under para. 2], the arbitral tribunal shall provide a document summarizing all information which it intends to publish to the parties to seek their agreement or comments. The arbitral tribunal shall reconsider the information to be published by taking into account the parties' eventual comments. Each party shall be given the opportunity to comment on the information to be published twice within a time period of 15 days in each case. Should the parties not agree on the publishable information, the arbitral tribunal shall decide on the disclosure by a supplemental award to be serviced to the parties and the [name and address of neutral forum]."

ANNEX IV

IPDR Model Appeal Clause

FRAND Appeal Procedure

(1) Purpose: The parties may appeal to an arbitral appeal tribunal (Appellate Tribunal) the royalties determined in the award, in particular regarding their FRAND compliance.

(2) Appointment of the Appellate Tribunal: The award pursuant to Art. (…) of the (…) Arbitration Rules shall only be subject to review through an appeal to an Appellate Tribunal consisting of (…) arbitrator(s) appointed pursuant to Art. (…) of the (…) Arbitration Rules. An arbitrator in the arbitral tribunal must not be an arbitrator on the Appellate Tribunal.

(3) Jurisdiction of Appellate Tribunal: The Appellate Tribunal shall only have jurisdiction to review and decide *de novo* on the amount of royalties due under FRAND terms and conditions including the legal and factual determinations made by the arbitral tribunal in this regard but shall otherwise be bound by the award of the arbitral tribunal. The Appellate Tribunal shall in particular not be entitled to take any further evidence or order any further production of documents.

(4) Initiation of appeal proceedings: An appeal must be initiated by submission of a Request for Appeal to the (...). The rules for commencing an arbitration pursuant to Art. (…) of the (…) Arbitration Rules shall apply *mutatis mutandis* in this regard.

(5) Appeal deadline: The Request for Appeal must be submitted in line with para. (4) above within [30] calendar days following receipt of the award, at the latest within [two] months following the date of issuance of the award. Otherwise, the award shall become a final award pursuant to the (…) Arbitration Rules.

(6) Appeal procedure: The appeal procedure shall be governed by the (…) Arbitration Rules which shall apply *mutatis mutandis* subject to the limitations of the Appellate Tribunal's jurisdiction as set out in para. (3) above.

(7) Security: Upon request of the appeal respondent, the Appellate Tribunal may make the conduct of the appeal procedure subject to provision of an appropriate security to be furnished by the party having filed the appeal.

THE MUNICH IPDR FORUM E.V.

The Munich IP Dispute Resolution Forum (Munich IPDR Forum) is a public interest research association founded on 25 September 2015 by a group of academics, judges and lawyers in Munich (for details see www.ipdr-forum.org). Its core mission is to conduct research on the use of alternative dispute resolution (ADR) mechanisms for IP related disputes and their interaction with respective state court litigation actions.

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FRAND ADR CASE MANAGEMENT GUIDELINES

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