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EDTX: Bad Faith FRAND Negotiations Warrant Suspension but Not Revocation of Parties' Obligations Under French Law

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The Eastern District of Texas recently addressed two significant issues related to fair, reasonable and non-discriminatory (FRAND) negotiations under French law; namely, whether: (1) an implementer is entitled to damages resulting from a standard essential patent (SEP) holder's bad faith; and (2) an SEP holder can unilaterally discharge its FRAND obligations in view of an implementer's bad faith.

This case involves G+ Communications, a 5G SEP holder and Samsung Electronics, a 5G standard implementer. The European Telecommunications Standards Institute (ETSI) and the 3rd Generation Partnership Project (3GPP)–both standards setting organizations (SSOs)–developed the 5G standard. ETSI's Intellectual Property Rights Policy (IPR Policy) mandates that participants in the ETSI SSO declare all SEPs and irrevocably commit to negotiate in good faith and license the SEPs on FRAND terms. Furthermore, the IPR Policy's "construction, validity, and performance" and participants' declarations are "governed by the laws of France."

Early in the proceedings, Samsung filed a motion to dismiss certain aspects of G+ Communications' complaint. The court deferred issues regarding the scope of the French law, stating they were "not appropriately decided at this stage" and suggested resolution under Federal Rule of Civil Procedure 44.1, which states:

A party who intends to raise an issue about a foreign country's law must give notice by a pleading or other writing. In determining foreign law, the court may consider any relevant material or source, including testimony, whether or not submitted by a party or admissible under the Federal Rules of Evidence. The court's determination must be treated as a ruling on a question of law.

Samsung argued that G+ Communications (and its predecessor-in-interest) had violated FRAND obligations, including the duty to negotiate in good faith.[1] Based on these allegations, Samsung sought damages to cover all losses caused by the bad faith, including litigation costs.

Samsung filed a Rule 44.1 motion arguing that French law permitted such damages. The court, referencing the testimony from G+ Communications' own French law expert, largely sided with Samsung. It determined that G+ Communications had an obligation to negotiate in good faith and would be responsible for damages due to a breach of this duty. However, the court also found that French law required a reciprocal duty and potential liability for failure of that duty. Specifically, the court determined:

In a negotiation for a license to a patent where the patent has been contributed to an adopted standard (which patent is known as a standard essential patent), if either negotiating party (being either the patent holder or the implementer of the adopted standard) fails to negotiate in good faith and thereby prevents a license from being granted on fair reasonable and non-discriminatory terms, then the party who fails to act in good faith is liable to the other party for any reasonable damages which arise from such breach, including but not limited to attorney's fees and the cost of litigation.

The court also determined that, in this instance, G+ Communications' FRAND obligations were irrevocable, as Samsung argued, but noted that under French law, "the obligation to negotiate towards a FRAND license in good faith may be temporarily suspended." The court reasoned that suspending negotiation obligations is "both practical and logical" when a counterparty is acting in bad faith:

As a matter of practice, a contract for a license to an SEP on FRAND terms cannot be reached if one party is acting in bad faith. Bad faith negotiations are fundamentally incompatible with the notion of reaching a contract that is [FRAND]. Since, practically speaking, such a contract cannot be consummated in the presence of bad faith, going forward with negotiations to reach that contract is impossible, as a matter of practicality.

The court further reasoned this approach addresses both patent owner "hold up" and implementer "hold out" scenarios and ultimately determined French law requires:

Where a patent is contributed to an adopted standard established by a standard setting organization, such contribution contractually burdens the patent to thereafter be licensed on fair, reasonable, and non-discriminatory terms. This is known as the FRAND obligation. This obligation is irrevocable, and thereafter runs with the patent. However, if in negotiating for a license to a patent burdened by a FRAND obligation either the patent holder or the implementer of the adopted standard fails to act in good faith and thereby prevents a license from being granted, the other party's obligation to continue negotiations is suspended. This does not remove the burden of the FRAND obligation from the patent, but avoids obliging a party acting in good faith to continue negotiating with a party who fails to do so. If the bad faith actor ceases its bad faith and begins acting in good faith, the good faith negotiations must also resume.

Practice Tips: Early in a proceeding, litigants involved in SEP disputes need to identify if foreign law governs and, if the governing law is in dispute, potentially address the issue through Rule 44.1 motion practice with supporting foreign expert testimony. Litigants should also recognize the courts will generally consider the duties and conduct of both parties when assessing allegations of bad faith in SEP negotiations.

G+ Communications, LLC v. Samsung Electronics Co. LTD., et al., Case No. 2:22-cv-00078-JRG (EDTX Jan. 24, 2024) (J. Gilstrap).

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1 The original patent owner assigned the asserted SEPs to G+ Communications. As a participant in the ETSI SSO, the original owner declared each of the SEPs essential to the 5G Standard. In previous rulings, the court found that the original patent owner's FRAND obligations, pertaining to the SEPs, ran with the SEPs, but its alleged bad faith did not.

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