

The UPC should follow German courts' pro-innovation approach to FRAND cases

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Litigation involving standard essential patents has spanned the globe in recent years. Prominent decisions include *Nokia v Oppo* in China, *Unwired Planet v Huawei* in the UK, as well as the *Panasonic v Oppo* case, decided by the Unified Patent Court in November 2024.

Given its wide-ranging jurisdiction, the UPC's decisions regarding FRAND issues have important ramifications, not only in Europe but also globally. In particular, it remains uncertain whether the UPC will continue to follow the approach of the German courts, which focus on the behavior of the parties applying the *Huawei-ZTE* framework, or instead follow the approach of the China and UK courts in setting global FRAND rates.

This article argues that the former – that is, the German court approach – represents the better policy for a number of reasons.

As an initial step, one must distinguish between cases where the parties agree to have a court set a FRAND rate, versus cases where only one party, or neither party,

asks the court to set a rate. In the rare case where both parties agree for a court to set a rate, the court should insist that the parties also agree on the other material terms of the licence to lessen the chances of further litigation.

If there are other material terms the parties cannot agree on, the parties should narrow the dispute's material terms to a minimum and identify them so that the court can decide these issues alongside the rate.

If only one party or neither party agrees, a court's attempt to set a FRAND rate is chock-full of pitfalls.

First, setting a price without knowing all the material terms of a licence is tantamount to shooting in the dark, given there are many material terms at stake in a licence. Such terms include:

- the licence scope (with respect to patents and products, geography and which entities are licensed);
- the nature of the payments, which directly affects several other provisions including reporting, record-keeping and audits;
- term and termination rights and survival of certain terms following termination;
- transferability of licence rights through assignment and/or sublicensing;
- impact of change of control of one party or the other;
- any additional rights (covenants not to assert, standstills, etc.) for patents and/or products not subject to the licence;
- release for past infringement and if a release is granted, all the same scope issues with respect to the release;
- the extent to which rights pass through to downstream customers or upstream suppliers or other third parties;
- any cross licences, covenants or defensive suspension or termination rights with respect to the licensee's patents; and
- governing law and dispute resolution.

Despite their best efforts and the competing expert testimony the adverse parties present to them, courts are inherently **not as good** at setting prices as the "marketplace" and are far too likely to set rates too high or too low.

Judicial decisions setting FRAND rates too high or too low will have adverse consequences, including slow adoption of standardised technologies or insufficient investment in R&D. Further, the setting of a worldwide rate by a single court raises comity issues and may lead to **conflicting decisions** from multiple jurisdictions for the same SEP portfolio.

Conversely, setting country-specific or regional rates is inefficient and constitutes a severe departure from standard commercial practice, as the UK courts recognised

in Unwired Planet v Huawei.

Another major pitfall to courts setting FRAND licensing rates (without the consent of both parties) lies in the fact that a case involving SEPs is, fundamentally, a patent infringement case, with the FRAND issue as an overlay. The FRAND issue must be decided one way or another as part of the case, and certainly before injunctive relief goes into force, but once it has been decided, if the case continues it should be treated like any other patent infringement case.

In a regular patent infringement case, the court does not impose licensing terms on the parties (which would amount to compulsory licensing) – rather, it decides the issues presented to it (infringement and validity) and, based on those rulings, awards damages for past infringement and injunctions to prevent future infringement. Thus, for a court to impose a SEP royalty rate amounts to treating a SEP infringement case in an entirely different manner than a non-SEP infringement case – a differential treatment which is not warranted simply because of the contractual FRAND commitment.

The German courts have recognised and avoided the foregoing pitfalls. The recent Munich Regional Court decision in *ZTE v Samsung* is exemplary, with rulings on SEP infringement, validity, and FRAND compliance guiding the parties toward a settlement (ie, a licence) without actually imposing the settlement terms on them. The German courts have also recognised that when an implementer chooses to settle a case by taking a licence rather than suffering the consequences of its infringement, that is not coercion.

The FRAND issue is always considered, one way or another, before an injunction goes into force. In deciding whether to issue an injunction in the *Conversant v Daimler* case, for instance, the Munich Regional Court took into account FRAND considerations in line with the *Huawei-ZTE* framework. Thus, under the German courts' approach, if an implementer is truly a willing licensee, it will have an opportunity to enter into a FRAND licence before being enjoined, and cannot be coerced into taking a non-FRAND licence.

Perhaps the most common criticism of the German courts is that they tend to find the implementer to be an unwilling licensee. This criticism is largely misplaced. To understand why, one must recognise the inherent asymmetry in motivations and incentives of the parties to a SEP licensing negotiation.

The SEP owner has sunk costs – its R&D investment, or the cost of acquiring SEPs from someone who made that R&D investment – and wants to be paid. The only way for the SEP owner to be paid is for a licence agreement to be concluded, so the SEP owner wants a licence agreement to be signed sooner rather than later.

The implementer, on the other hand, would just as soon never pay, and if that is not possible, delay payment as long as possible. The implementer, therefore, may be happy for negotiations to drag on at a slow pace or even better, to avoid negotiating

altogether in the hope that the SEP owner will move along to more promising targets.

In light of this natural and inevitable dynamic, it is unsurprising that in the rare cases where the SEP owner sues for infringement – knowing that this will take more time, and cost more money, before a licence is concluded, and will happen only after efforts to negotiate a license have failed – it is much more likely to be the implementer's actions or inaction that caused the negotiations to fail.

Finally, the German courts have **recognised** – or perhaps remembered – that a patent is a property right, and inherent in that property right is the owner's right to choose whether, where, and when to enforce it. A FRAND commitment does not change this; it is not equivalent to a commitment to let the courts of any one country decide worldwide licensing terms for the patent owner – rather, the patent owner retains the right to decide whether to enforce its SEPs against an infringing implementer and if so, where and when.

More specifically, when the patent owner made a FRAND commitment, it did not agree to let any court in the world where it has an SEP – regardless of the governing law of the FRAND commitment, and regardless of whether it has ever sought to enforce its SEPs in a particular country or ever sought to license a particular implementer – impose licensing terms for its SEPs on a worldwide basis.

The German courts' approach of deferring to the market to set FRAND rates is the most sensible and sustainable approach, and as such should be the approach the UPC continues to take. This avoids requiring a court to determine material terms of a licence from deficient information, treats SEP disputes the same as other patent infringement cases as appropriate, and rightly provides SEP owners with the right to decide where and when to enforce their SEPs.



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