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The U.K. Court of Appeal's Unwired Planet Judgment: A Clear Roadmap for Global FRAND Licensing?

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In a long-running case concerning the obligation of an owner of standard essential patents (**SEPs**) to license on fair, reasonable and non-discriminatory (**FRAND**) terms, the English Court of Appeal (**CoA**) handed down its judgment in *Unwired Planet v Huawei* on 23 October 2018.² The CoA dismissed Huawei's appeal and Unwired Planet's (**UP's**) cross-appeal, upholding the first-instance decision of Mr Justice Birss³ on three key aspects of the SEP holder's FRAND obligation. In this article, we outline the CoA's main findings and consider the judgment's

implications for both owners and implementers of SEPs.

Background

UP has a portfolio of patents which it licenses to companies who manufacture and sell mobile phones and mobile telecommunications infrastructure equipment. In 2014, it sued Huawei and others⁴ in the English High Court for patent infringement. Five of the patents in suit were previously owned by Ericsson and had been declared as essential to various ETSI⁵ telecommunications standards. In its defence, Huawei claimed that UP had failed to offer a licence on FRAND terms and had breached competition rules by ignoring the requirements established by the European Court of Justice in *Huawei v ZTE*.⁶

The litigation was managed by Birss J in a series of trials. After two of the SEPs in suit had been found valid and infringed, UP and Huawei fought a seven-week FRAND trial at the end of 2016. In his groundbreaking April and June 2017 judgments,⁷ Birss J set the terms of a global FRAND licence and granted an injunction prohibiting Huawei from selling mobile devices and infrastructure equipment in the United Kingdom. The injunction would cease to have effect if Huawei entered into the FRAND licence settled by the judge. It was also stayed pending Huawei's appeal.

The appeal

Huawei's appeal focused on three main questions:

- i. Can a global licence be FRAND and was UP entitled to insist on one?
- ii. Had UP complied with the non-discrimination (ND) limb of its FRAND obligation?
- iii. Was Birss J right to apply a flexible approach to the *Huawei v ZTE* framework for licence negotiations?

UP also cross-appealed against some of Birss J's findings, arguing that:

- i. It did not have a dominant position in the relevant market (such that it did not need to adhere to the *Huawei v ZTE* framework at all); and
- ii. In the context of considering the ND limb of FRAND, the licence that UP agreed with Samsung in the summer of 2016 was not comparable to a licence between UP and Huawei.

Global licensing

The CoA held that an SEP owner with a global portfolio can in principle satisfy its FRAND obligation by offering a worldwide licence. If an implementer who operates globally refuses that offer, it may be subject to an injunction restraining infringement in the UK. Keen not to “condemn SEP owners to [...] impossibly expensive litigation in every territory in respect of which they seek to recover a royalty”, the Court rejected Huawei's proposed country-by-country approach. Such an approach would, in the CoA's view, constitute a “blue print for hold-out”. The Court was also unimpressed with Huawei's arguments that Birss J's ruling involved jurisdictional expansionism and lost sight of the territorially limited characteristics of SEPs. Although the Court acknowledged that patents have limited territorial scope, it emphasized that the position in respect of the ETSI FRAND undertaking is different: standards are “of international effect”—and so are the undertakings given by SEP owners. The CoA also noted that Birss J's approach chimed with the position adopted by the European Commission in its November 2017 Communication on SEPs.⁸ The Commission's Communication stated that “for products with a global circulation, SEP licences granted on a worldwide basis may contribute to a more efficient approach and can therefore be compatible with FRAND”.

The CoA held that Birss J had erred in deciding that there can only be one set of FRAND terms for a given set of circumstances. In the CoA's analysis, it should be possible for a court or arbitrator to declare two (or more) sets of terms to be FRAND—and in those circumstances, the SEP holder will satisfy its FRAND obligation if it offers any one of them. The CoA, however, found that this error in Birss J's reasoning had no material impact on his overall conclusion. Huawei's first ground of appeal was therefore rejected.

The non-discrimination limb of FRAND

Huawei argued that UP had failed to satisfy the ND limb of its FRAND obligation because it offered Samsung—a similarly situated implementer—a much lower royalty rate for a licence to the same SEP portfolio. The CoA was not persuaded by this argument, agreeing with Birss J that the ND limb of FRAND imposes a general, rather than a ‘hard-edged’, non-discrimination obligation. Noting that the core purpose of the FRAND undertaking is to ensure that the SEP holder cannot hold up implementers by demanding more than its SEP portfolio is worth, the Court stated that the SEP holder's main obligation is to make an objectively justifiable FRAND offer available to all. That entails setting a fair and reasonable ‘benchmark rate’ by reference to the value of the portfolio. Once a licence is available at a rate which does not exceed the benchmark rate, the FRAND framework should not of itself prevent the SEP holder from charging lower rates to a particular implementer if it wants to do so. Any discrimination below the benchmark rate can be addressed through the application of competition law. The CoA observed that a hard-edged approach to non-discrimination would be excessively strict, and would be tantamount to reinserting a ‘most favoured licensee’ clause into the FRAND undertaking. That had been considered and rejected by ETSI itself.

In examining non-discrimination, the CoA also considered UP's argument that its licences with Samsung and Huawei were not comparable and that therefore the ND obligation did not arise. The Court disagreed: it held that the focus should be on the transactions themselves, rather than the circumstances in which they are entered into. Noting that UP's subjective reasons for offering Samsung a lower rate were not relevant features of the transaction itself, the CoA concluded that the licences were comparable for the purpose of considering the ND limb of FRAND. (This did not disturb the first instance judge's finding that the licence to Samsung was *not* good evidence of the market value of the portfolio.⁹)

Dominance and the *Huawei v ZTE* framework

The CoA rejected UP's cross-appeal on the issue of dominance, agreeing with Birss J that there is a rebuttable presumption that a SEP owner with a 100% market share holds a dominant position. The Court recognized that the FRAND undertaking and the potential for hold-out by implementers may limit

a SEP owner's market power, but in its view UP had provided insufficient evidence to overturn the first-instance judge's conclusion.

The CoA, however, also rejected Huawei's appeal against the finding that UP had not abused its dominant position. The CoA fully upheld Birss J's interpretation of the requirements established by the CJEU in *Huawei v ZTE*, and agreed with the first-instance judge that UP had not abused its market power by bringing proceedings when it did. Echoing Birss J's pragmatic view, the Court found that only one part of the *Huawei v ZTE* framework is mandatory: the SEP owner's obligation to notify the implementer before starting litigation.¹⁰ If the SEP owner fails to provide such notice, its conduct will necessarily be abusive. According to the CoA, the remainder of the CJEU's framework simply provides a 'safe harbour'—the SEP owner may deviate from it, but in doing so risks breaching Article 102 TFEU and being unable to obtain an injunction.

Implications

The CoA's judgment is likely to cement the UK's place as the current jurisdiction of choice for SEP owners looking to obtain a global FRAND determination for their patent portfolios. In endorsing Birss J's 'FRAND injunction' approach, the Court has essentially reversed the burden of proof in SEP licensing disputes: the SEP owner is absolved of the need to prove patent infringement in every country in which it seeks to recover royalties; the implementer is instead tasked with challenging the validity and/or essentiality of the patents in any country in which it feels it should not be paying licence fees. SEP owners are also likely to welcome the CoA's finding that in circumstances where a tribunal decides there is more than one set of FRAND-compliant terms, it is open to the SEP owner to choose which set of terms it prefers.

The judgment sends a clear message that the English courts have jurisdiction to determine global licence terms in cases of this kind. However, whether England will always be the appropriate forum for

such cases is a different matter. The CoA will have the chance to consider this issue in detail in another appeal which is due to be heard in December 2018. Huawei and ZTE are challenging Carr J's April 2018 ruling that the English court had jurisdiction to hear proceedings brought by Conversant, a patent licensing company based in Luxembourg.¹¹ That appeal will require the CoA to assess how best to characterize SEP infringement claims which seek relief in the form of a global FRAND licence, and to assess whether England is necessarily the appropriate forum for such claims.

It also remains to be seen whether the courts of other countries will sit back and allow the UK court to play the role of global ringmaster on FRAND issues. Recent guidelines issued by the courts of Guangdong—an important technology centre in China—indicate that global FRAND disputes could also be resolved in other jurisdictions. We may start to see more races to sue between SEP holders and implementers. At the same time, anti-suit injunctions may become an increasingly prominent feature of the SEP litigation landscape.

Finally, it is worth remembering that the *Unwired Planet* case did not deal with all of the controversial issues that arise in a SEP licensing context. One question that remains unresolved is whether FRAND requires SEP holders to grant a licence to any party who asks for one. This issue did not arise in *Unwired Planet*, but as the number of connected devices increases with the rollout of 5G and the continuing evolution of the Internet of Things (IoT), questions about who in the supply chain should take a global licence and how to value the licence for that supply chain are likely to be keenly contested. Future cases will have to grapple with the complex mixture of FRAND undertakings, licence and supply agreements and indemnity obligations which characterize the legal relationships between IoT device manufacturers, connectivity suppliers and SEP owners. Given the high prices of products such as connected cars, there is considerable value at stake. One thing seems certain: the CoA's judgment in *Unwired Planet* will not be the final word on FRAND.

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2. [2018] EWCA Civ 2344.
3. The first-instance decision was examined by Sophie Lawrance and Helen Hopson in the June/July 2017 edition of *The Licensing Journal*.
4. UP also sued Samsung and Google, but the FRAND case only went to trial against the Huawei defendants.

5. European Telecommunications Standards Institute—the officially recognized European standards body for telecommunications.
6. ECLI:EU:C:2015:477.
7. [2017] EWHC 711 (Pat) and [2017] EWHC 1304 (Pat).
8. Commission Communication, 'Setting out the EU approach to Standard Essential Patents', COM(2017) 712 final.
9. [2017] EWHC 711 (Pat), paragraph 409.
10. Precisely what notice must be given will depend on the circumstances of the case.
11. [2018] EWHC 808 (Pat).

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