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Case No: A3/2015/2646

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
THE HON MR JUSTICE BIRSS
[2015] EWHC 2097(Pat)

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 27/05/2016

Before:

LORD JUSTICE TOMLINSON
LORD JUSTICE KITCHIN
and
SIR TIMOTHY LLOYD

Between:

Samsung Electronics Co Ltd
(a company incorporated under the laws of the Republic of Korea)

Samsung Electronics (UK) Ltd **Appellants**

and

Telefonaktiebolaget L M Ericsson
(a company incorporated under the laws of Sweden)

Unwired Planet International Ltd
(a company incorporated under the laws of the Republic of Ireland)

Unwired Planet Inc
(a company incorporated under the laws of Delaware, USA)

Unwired Planet LLC
(a company incorporated under the laws of Nevada, USA)

Huawei Technologies Co Ltd
(a company incorporated under the laws of the People's Republic of China)

Huawei Technologies (UK) Co Ltd **<u>Respondents</u>**

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Official Shorthand Writers to the Court)

Jon Turner QC, Meredith Pickford QC and James Bourke
(instructed by Bristows LLP) on behalf of Samsung
Mark Brealey QC and Daniel Piccinin (instructed by Freshfields Bruckhaus Deringer LLP)
appeared on behalf of Ericsson and Unwired Planet
James Segan (instructed by Powell Gilbert LLP) appeared on behalf of Huawei

Hearing date: 28 April 2016

Judgment
As Approved by the Court

Lord Justice Kitchin:

Introduction

1. This is an appeal by the third and fourth defendants (together "Samsung") against that part of the order of Birss J of 21 July 2015 which struck out one of Samsung's competition law defences to this claim for patent infringement brought against it by the claimant ("UP").

2. The defence the judge struck out is founded upon the transactions by which UP acquired title to five of the patents which it claims have been infringed. Samsung contends that the eleventh party ("Ericsson") and three companies in the Unwired Planet group of companies, namely UP, the ninth party ("UP Inc") and the tenth party ("UP LLC") entered into arrangements comprising a master sale agreement (the "MSA") and various associated agreements and assignments (together with the MSA, the "MSA agreements") in order to transfer various patents and applications from Ericsson to UP, but that the MSA agreements failed fully to transfer an undertaking given by Ericsson to the European Telecommunication Standards Institute ("ETSI") to offer its standard essential patents, including the five patents in suit, on fair, reasonable and non-discriminatory ("FRAND") terms. Samsung alleges that the MSA agreements were therefore prohibited by Article 101 of the Treaty on the Functioning of the European Union ("TFEU") and are void. It also alleges that the MSA agreements were prohibited by Chapter I of the Competition Act 1998 but it has not been suggested that this allegation raises any issues different from those arising in relation to the allegation based upon Article 101 and so I shall say no more about it.

3. The judge held that there was no real prospect of the defence succeeding. Samsung contends that the judge erred in so doing. It says that this is a developing area of the law and that the defence depends upon factual issues that the judge could not resolve upon a summary application. Accordingly, it continues, the defence is properly arguable and the judge should not have disposed of it summarily in the way that he did.

The background

The parties

4. For the purpose of this appeal, the background may be summarised as follows. UP is a subsidiary of UP LLC which is in turn an indirect subsidiary of UP Inc. UP owns a portfolio of telecommunications patents. It is what is known as a patent assertion entity ("PAE"), that is to say, its sole or principal activity is the licensing of its patent portfolio and the collection of royalties. It does not practise the patents itself.

5. Ericsson makes and supplies telecommunications network equipment including radio base stations and core network infrastructure. It claims to own around 35,000 patents, many of which have been declared essential to various telecommunication standards including 2G standards (such as GSM/GPRS), 3G standards (such as UMTS) and 4G standards (such as LTE). Such standard essential patents are known as SEPs.

6. Samsung makes and supplies mobile devices and mobile telecommunications network infrastructure equipment. It is one of Ericsson's competitors in the network infrastructure equipment market.

The MSA agreements

7. On 10 January 2013 Ericsson, a subsidiary of Ericsson called Cluster LLC, UP Inc and two other subsidiaries of UP Inc entered into the MSA, pursuant to which Ericsson agreed to transfer 2,185 patents and patent applications to UP LLC via Cluster LLC. Just over one month later, under a patent sale and grant back licence agreement dated 13 February 2013 (the "PSA"), Ericsson assigned this patent portfolio to UP LLC. On 27 February 2014, Ericsson, Cluster LLC and various UP companies, including UP itself, entered into an agreement which amended the MSA and added UP as a party to it. On that same day, UP LLC transferred the patent portfolio to UP.

8. As the judge explained, the MSA is not a simple sale agreement for it confers upon Ericsson a right to a share of the royalties generated from the licensing of the patent portfolio the subject of the agreement, and an obligation to transfer a substantial further body of patents, to be selected at Ericsson's sole discretion, to the UP group of companies. Moreover and importantly, Ericsson has described its motive in transferring the portfolio to UP LLC as being to enable it fairly to earn more revenue. It was concerned that while the patents and applications remained within its own very large patent portfolio, its ability to earn a fair revenue from them was hindered. It considered that the UP group companies, on the other hand, with their smaller patent portfolio, would be able to generate a greater but nonetheless still fair revenue from them.

ETSI

9. ETSI is an independent non-profit making organisation which is recognised by the EU as the standard-setting body in the EU telecommunications sector. It has adopted the GSM, UMTS and LTE standards to which I have referred. As the Court of Justice explained in Case C-170/13 *Huawei Technologies Ltd v ZTE Corp & anor. (re Smart Phone Standard Essential Patents)* [2015] 5 CMLR 14, one of the objectives of ETSI is to reduce the risk to its members and others applying ETSI standards that investment in the preparation, adoption and application of standards will be wasted as a result of essential intellectual property rights ("essential IPR") for those standards not being available. Accordingly, ETSI's rules of procedure include, as Annex 6, the ETSI Intellectual Property Rights Policy (the "ETSI IPR Policy"). At all material times this provided that owners of intellectual property rights should be adequately and fairly rewarded for the use of those rights; that each of the members of ETSI must use its reasonable endeavours to inform ETSI of that member's essential IPR in a timely fashion; and, by clause 6.1:

> "When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant

> irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions under such IPR …"

10. Samsung contends and I accept for the purpose of this appeal that the aim of such a FRAND undertaking is to ensure that, once the industry has become locked into a standard, SEPs and other essential IPR are accessible to the users of that standard on FRAND terms and conditions. In particular, FRAND undertakings are intended to prevent essential IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair, unreasonable or discriminatory licence fees (see the *European Commission Guidelines on the applicability of Article 101 TFEU to Horizontal Co-operation Agreements* (OJ C11, 14 January 2011) (the "Horizontal Guidelines") at [287].

11. Three particular points merit emphasis at this stage. First, a patent only obtains SEP status in return for the proprietor's irrevocable undertaking that it is prepared to grant licences on FRAND terms (see *Huawei* at [51]).

12. Second, the giving of a FRAND undertaking justifies the imposition on the proprietor of a SEP of an obligation to comply with that undertaking by not bringing an action against an infringer for a prohibitory injunction without alerting the alleged infringer and, if the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presenting to that alleged infringer a specific, written offer for a licence on such terms (see *Huawei* at [59]-[64]).

13. Third, the Commission has emphasised that, in order to safeguard the effectiveness of the FRAND commitment, the proprietor of a SEP must ensure that any company to which the SEP is transferred is bound by that commitment, for example through a contractual clause between buyer and seller (see the Horizontal Guidelines at [285]). This has now been recognised by ETSI which introduced into the ETSI IPR Policy in March 2013 a new clause 6.1 bis. This reads:

> "FRAND licensing undertakings made pursuant to Clause 6 shall be interpreted as encumbrances that bind all successors-in-interest. Recognizing that this interpretation may not apply in all legal jurisdictions, any Declarant who has submitted a FRAND undertaking according to the POLICY who transfers ownership of ESSENTIAL IPR that is subject to such undertaking shall include appropriate provisions in the relevant transfer documents to ensure that the undertaking is binding on the transferee and that the transferee will similarly include appropriate provisions in the event of future transfers with the goal of binding all successors-in-interest. The undertaking shall be interpreted as binding on successors-in-interest regardless of whether such provisions are included in the relevant transfer documents."

The FRAND declarations and the commencement of proceedings

14. UP LLC and UP gave FRAND undertakings to ETSI on 14 June 2013 and 6 March 2014, respectively. Then, on 10 March 2014, UP brought these proceedings for patent infringement in the Patents Court against Samsung and various other

defendants. It asserted infringement of six patents, five of which had been acquired from Ericsson under the MSA agreements and had been declared by Ericsson to ETSI as SEPs. The FRAND undertaking which UP had given just a few days earlier extended to each of those five patents.

Three competition law defences

15. In its defence to the claim for patent infringement, Samsung has raised three competition law defences under Article 101 TFEU arising from the division by Ericsson of its patent portfolio and the transfer (or as Samsung would say, the attempted transfer) of a part of it under the MSA agreements to, ultimately, UP. It contends that in each case the object and effect of these agreements was and is unfairly and unreasonably to increase the returns that Ericsson is able to secure from the exploitation of its SEPs. The core of the anti-competitive conduct is said to be Ericsson's strategic division of its original portfolio of SEPs and the transfer of part of it to UP in such a way as to place UP and Ericsson in the position of being able to extract unfair and unreasonable royalties from potential licensees, thereby harming consumers, competition and innovation.

The first defence

16. Samsung contends that the MSA agreements failed fully to transfer the FRAND undertakings given by Ericsson to ETSI, so as to bind UP. As originally formulated, this defence had three elements: (a) that the MSA agreements did not require UP to give any FRAND undertaking; (b) that even if UP was required to give a FRAND undertaking, third parties could not enforce that obligation; and (c) that the MSA agreements did not limit UP LLC and UP to the obtaining of licence terms that were no more favourable than those that Ericsson could itself secure.

The second defence

17. The second defence focuses on the division by Ericsson of its patent portfolio. Samsung asserts that Ericsson has, by this division, engineered a situation in which both it and UP are unavoidable trading partners for third party undertakings in the markets in which they operate and that each of them is now able to make excessive royalty demands from those undertakings. Moreover, Samsung continues, the aggregate of the licence fees they can now demand is higher than the fees that Ericsson could have demanded before it entered into the MSA agreements. Indeed, says Samsung, the MSA agreements were entered into with the object and have the potential effect of allowing UP and Ericsson to avoid licensing the patents on FRAND terms, thus distorting and restricting competition. It is important to note that Samsung does not contend that any division of a portfolio of essential patents is unlawful but rather that the division effected by the MSA agreements is unlawful because of their particular characteristics. In that regard Samsung focuses on the retention by Ericsson of the right to a substantial share in the licensing revenue generated by UP, the fact that Ericsson is required by the MSA to transfer to UP a substantial body of patents to be selected at Ericsson's sole discretion and the fact that UP is a PAE and so can act aggressively and pursue potential licensees without regard to any need for a cross-licence.

The third defence

18. Samsung's third defence is directed to particular terms of the MSA. It contends that clauses 3.4 and 6.1(aa) of the MSA are stand-alone infringements of Article 101. Clause 3.4 operates to set a minimum payment by UP to Ericsson and is said artificially to impose a floor on the minimum royalty likely to be agreed by UP. Clause 6.1(aa) restricts the basis upon which UP can negotiate or agree licence fee royalty rates and is said to prevent parties from entering into licences with other types of royalty arrangement which may more appropriately match their particular circumstances. In the result, says Samsung, these clauses have the object or potential effect of increasing the licence fees paid by third parties such as Samsung to use the patents transferred by Ericsson to UP and thereby increasing the returns to Ericsson and UP from the exploitation of those patents above the level that would have been obtainable in the absence of the MSA agreements.

The judgment in outline

19. The judge was satisfied that the second and third defences do raise a properly arguable case that ought to go to trial. As for the second, he held that the MSA is not a straightforward agreement for the sale of patents to the UP group of companies because Ericsson retains a share in the royalties to be earned and can transfer a substantial further body of patents to UP if it chooses to do so. Moreover, UP, as a PAE, does not compete in the downstream market in the way that Ericsson does. In these circumstances the judge considered it was arguable that the MSA has as its object or would have as its effect the distortion or restriction of competition.

20. The judge reached the same conclusion in relation to the third defence. He considered it arguable that these clauses would contribute to the creation of an anti-competitive incentive to charge higher royalties.

21. The judge was not impressed by the first defence, however. He dealt with each of its three elements in turn. As for the first, he recognised that the parties to the MSA were Ericsson, Cluster LLC and various UP companies including UP Inc and UP LLC but not UP itself. However, he continued, the UP parties acknowledged by clause 6.7(a) that the SEPs were subject to existing encumbrances, including FRAND commitments to ETSI; by clause 6.14(a) that all encumbrances would continue after assignment; and by clause 6.14(b) that within a reasonable time after closing they would provide declarations to ETSI including FRAND undertakings in accordance with the ETSI IPR Policy. On 14 June 2013, that is to say, just a few months after the transfer to it of the patent portfolio, UP LLC gave the FRAND undertaking to ETSI to which I have already referred. Nor was there anything in the point that UP was not itself a party to the MSA because, under the terms of the MSA, Ericsson had to give consent to an assignment of the patents to UP. When the patents were assigned to UP on 27 February 2014, the relevant agreement modified the terms of the MSA to fix UP with the same obligations as the other UP parties. UP itself gave the FRAND undertaking very soon thereafter.

22. Turning to the second element, the judge considered that this was unarguable because once UP had given a FRAND undertaking any third party could require UP to license the patents the subject of that undertaking to it on FRAND terms.

23. Finally and as for the third element, the judge rejected as unarguable the contention that Ericsson's own FRAND obligations should have been assigned to and become

binding on UP. I must return to the judge's reasons for reaching these conclusions in considering the issues raised by this appeal.

The appeal

24. Samsung appeals against the judge's findings in relation to the second and third elements of the first defence. It now accepts that the MSA agreements contain a number of provisions which ensure that UP LLC and, more recently, UP are subject to FRAND obligations. In other words, it no longer contends that the MSA agreements did not require UP to give a FRAND undertaking in relation to the five SEPs alleged to be infringed in these proceedings. However, it maintains that the MSA agreements failed fully to transfer the FRAND undertakings given by Ericsson to ETSI in the following two respects: first, the provisions of the MSA agreements concerning the FRAND obligations of the UP parties were not enforceable by third parties; and secondly, the MSA agreements fell short of fully transferring Ericsson's FRAND obligation, and here it focuses on the non-discrimination aspect of FRAND. I shall address these two issues in turn.

Enforceability of the FRAND obligation by third parties

25. Samsung has developed its submission under this head as follows. It focuses upon section 8.11 of the MSA and section 6.17 of the PSA, each of which provides that the rights and obligations created by the agreement are only enforceable by the parties to it, and that the agreement confers no rights on third parties. It follows that, so far as the FRAND obligations of the UP parties are concerned, the agreements can only be enforced by Ericsson. Accordingly, continues Samsung, prospective licensees are given no protection under the terms of either the MSA or the PSA. Moreover, a FRAND undertaking given by UP, which is not a member of ETSI, is not enforceable by third parties. By contrast, a FRAND undertaking given by a member of ETSI, such as Ericsson, can be enforced by third parties.

26. The judge dismissed this submission in short order at [27]:

> "As to the first point, it is true that the MSA includes a term (clause 8.11) which provides that the terms are for the benefit of the parties and not third parties but that does not matter. Ericsson submitted that once a party has made a FRAND declaration to ETSI, that commitment to license on FRAND terms will be enforceable by a third party against the declarant. Samsung disputed this but I agree with Ericsson. Anyone seeking a licence under the patents will be entitled to require Unwired Planet to license on FRAND terms."

27. Samsung contends that the judge fell into error in this paragraph in two significant ways. It submits first, that the judge failed to grapple with the substance of a major dispute between the parties as to the difference between a FRAND undertaking given by an entity which is a member of ETSI, such as Ericsson, and one given by an entity which is not, such as UP. A FRAND undertaking states on its face that it is governed by French law. It contends that under French law, a FRAND undertaking given by a non-member of ETSI does not create the same third party rights as one given by an ETSI member. By contrast, it continues, Ericsson's case is that there is no difference

in the legal effect of an undertaking depending upon whether the entity giving it is or is not a member of ETSI. There being a dispute as to French law, the issue must be determined as a question of fact and on the basis of expert evidence which the judge has given the parties liberty to adduce. It follows that the judge was not in a position finally to adjudicate on this issue on a strike out application.

28. Samsung's second contention is that the MSA agreements failed to ensure the full and effective transfer of Ericsson's original FRAND obligation because, had UP LLC or UP chosen to sue Samsung and not give undertakings to ETSI, Samsung would have had no contractual rights against either of them. Furthermore, the legality of the MSA must be assessed at the time it was entered into and cannot depend upon subsequent events. It follows too that the MSA cannot be repaired retrospectively by a FRAND undertaking given by UP LLC on 14 June 2013, still less such an undertaking given by UP on 6 March 2014.

29. It is convenient to deal with these two contentions separately. As for the first, it seems to me that the following matters are material. First, the Commission is plainly acutely conscious of the risk that holders of SEPs may behave in anti-competitive ways by refusing to license those SEPs or by charging excessive royalty fees. Yet the Commission has not sought to draw a distinction between rights holders that are members of ETSI or other standard setting organisations and those that are not. As we have seen, the Horizontal Guidelines state simply that there needs to be a requirement on all participating IPR holders who provide a FRAND commitment to ensure that any company to which that IPR is transferred is bound by that commitment, for example through a contractual clause between buyer and seller. This is now reflected in clause 6.1 bis of the ETSI IPR Policy as of March 2013.

30. Secondly, our attention was drawn during the hearing of the appeal to the decision of the Commission in *Case No COMP/M.6381-Google/Motorola Mobility* issued on 13 February 2012 concerning the acquisition by Google Inc ("Google") of Motorola Mobility Holdings Ltd ("Motorola Mobility"), including Motorola Mobility's patent portfolio which contained various SEPs. The decision records that on 8 February 2012 Google sent to various standard setting organisations ("SSOs") and published on its website a letter (the "SSO letter") regarding its intended acquisition of Motorola Mobility's SEPs stating that it would honour Motorola Mobility's pre-existing commitment to license its SEPs on FRAND terms. It also stated that it would continue to honour the maximum royalty rate at which Motorola Mobility had been prepared to grant licences for those SEPs. The Commission was clearly conscious that Google was likely to have some ability after the transaction to impede competition significantly, including by seeking and enforcing injunctions and by trying to extract onerous licensing terms from good faith potential licensees. Nevertheless the Commission was satisfied that the transaction did not raise serious doubts as to its compatibility with the internal market. In reaching that conclusion the Commission explained at [120]:

> "Third, the Commission considers that Google would be bound by Motorola Mobility's FRAND commitment with respect to its SEPs and considers that this would constrain Google's incentives to raise the royalty level. In the Form CO [the notification of merger], Google represented that it would be bound by the FRAND commitments given by Motorola

> Mobility. This is in line with the view that a purchaser company acquiring a SEP portfolio from a vendor company should be bound by a FRAND commitment previously given by that vendor company."

31. A little later, it continued at [135]:

> "Without prejudice to the question of whether or not the SSO letter is binding and irrevocable, the Commission considers that Google's incentives to significantly impede effective competition, including by forcing licensees to grant cross-licences under the threat of injunctions, is limited by that letter. In particular, given that the letter itself states that it is "irrevocable", and that it has been sent to various SSOs and posted on Google's website, the Commission considers it unlikely that Google would subsequently renounce that letter. Moreover, it is difficult to see how a court hearing a patent action brought by Google on the basis of Motorola Mobility's SEPs would allow Google to backtrack from the principles that it has publicly enunciated in the letter. Thus, Google will know that it could harm itself – and damage any argument made before a court or competition authority that it is acting in good faith – if it reneges on the letter in the future."

The judge expressed his respectful agreement with the sentiments expressed by the Commission in this paragraph, and so do I.

32. I would also refer to the Commission's view as expressed at [147]:

> "Overall, Google's incentives to forcibly extract cross-licences will be reduced because Google will be aware that if it breaches its FRAND commitments, by either refusing to offer a cash-only option or making that offer on non-FRAND terms, it could be in breach of Motorola Mobility's FRAND obligations and in any event potentially subject to proceedings under Article 102 TFEU and/or court proceedings."

33. Thirdly, the Commission issued a further decision in *Case No COMP/M.7202 Lenovo/Motorola Mobility* on 26 June 2014 concerning a transaction under which Lenovo Group Limited ("Lenovo") would acquire a portion of Motorola Mobility's patent portfolio. The Commission noted in that regard that Lenovo had also acquired, in April 2014, a body of patents from UP, including various SEPs. Lenovo is not a member of ETSI yet the Commission was satisfied that no competition concerns arose in light of the imposition by UP on Lenovo of a contractual obligation to honour FRAND principles and Lenovo openly accepting that obligation. In that regard, the Commission said this at [43]:

> ".. the Commission notes that the FRAND commitments which Unwired Planet has given for the SEPs acquired by Lenovo will continue to apply and constrain Lenovo in the exercise of these

> patents. These commitments have been transferred with the patents and are also binding on Lenovo as acquirer …"

34. Fourthly, as the Court of Justice explained in *Huawei* at [58] to [64], an undertaking to grant licences on FRAND terms given to ETSI by the proprietor of a SEP does not undermine the substance of the rights granted to that proprietor but it does justify the imposition on that proprietor of an obligation to comply with specific requirements when bringing actions against alleged infringers for a prohibitory injunction or for the recall of products. In particular, the proprietor of a SEP cannot, without infringing Article 102 TFEU, bring an action for a prohibitory injunction or the recall of products against the alleged infringer without notice or prior consultation and, if the alleged infringer has expressed a willingness to conclude a licensing agreement on FRAND terms, offering to that alleged infringer a licence on such terms.

35. I recognise that this explanation was given in response to questions from a referring court asking for guidance as to the circumstances in which the bringing of an action for infringement by the holder of a SEP in a dominant position and which has given a FRAND undertaking might constitute an abuse, but they appear to me to be of more general application for if a party such as UP which holds SEPs were to refuse to honour a FRAND commitment it had given it would at least be at risk of infringing Article 102.

36. Fifthly and importantly, Ericsson submits and I agree that Samsung's position on this issue is entirely artificial. Not only has UP made a FRAND declaration to ETSI in the same terms as that of Ericsson but it has also pleaded in these proceedings that the declaration is enforceable by Samsung and by any other potential licensee. The only party in these proceedings disputing that it can enforce UP's FRAND declaration is Samsung itself.

37. Drawing the threads together, it can be seen that ETSI has addressed the competition concerns which arise from the transfer of SEPs from one company to another by requiring the transferor to include in the relevant transfer documents appropriate provisions to ensure that the FRAND undertaking of the transferor is binding upon the transferee. It has not, however, sought to distinguish between transferees that are members of ETSI and those that are not. Moreover, the Commission has adopted a practical and realistic approach to any FRAND undertaking that the transferee of a SEP has given and has assessed the likelihood of the SEP being used significantly to impede legitimate competition despite that undertaking. We have been shown nothing to suggest that in carrying out that assessment the Commission attaches any importance to whether the transferee is or is not a member of ETSI.

38. Applying these principles to the present case, I am satisfied that the decision of the judge on this issue is unimpeachable. He properly considered the reality of the present case. UP LLC and UP were required to give FRAND undertakings and they each did so shortly after the SEPs in issue were transferred to them. It is true that UP is not a member of ETSI but it is just as constrained by the FRAND undertaking it has given as it would be if it were such a member and the judge was right to hold that, as a practical matter, any third party may require UP to grant it a licence under the SEPs on FRAND terms.

39. I must now deal with Samsung's second contention. It argues that the MSA needed to ensure the full and effective transfer of Ericsson's original FRAND obligation but that it did not do so because third party rights were excluded. Specifically, it continues, had UP LLC or UP simply chosen to sue Samsung, and not given an undertaking to ETSI, Samsung would have had no contractual rights against either of them. Further, the illegality of the MSA must be considered as at the time it was entered into. The fact that, at some point after the purported transfer of the SEPs pursuant to the MSA, UP chose to give a FRAND declaration does not retrospectively repair the fatal flaw in the MSA.

40. I reject this submission. There is no basis for suggesting that there was ever any real prospect of UP LLC or UP ignoring their obligations under the MSA agreements to give a FRAND declaration. As Ericsson submits and I accept, it is unreasonable to suggest that UP LLC and UP should have given their FRAND undertakings before acquiring the SEPs. As it was, UP LLC gave its declaration on 14 June 2013, a few months after the execution of the MSA and UP gave its FRAND declaration on 6 March 2014, just one week after acquiring the patents from UP LLC.

41. I also agree with the judge that these aspects of the first defence are not improved by considering any possible interaction between them and the second and third defences. I am conscious that this is a developing area of the law and that not all of the facts are known but I am satisfied that they depend upon arguments which have no real prospects of success and the judge was right so to hold.

Failure to transfer the non-discrimination obligation

42. That brings me to the second respect in which Samsung contends that the MSA fell short of fully transferring Ericsson's FRAND obligation. Here Samsung focuses on the non-discrimination aspect of FRAND and submits that where, as here, Ericsson has entered into licences under certain SEPs and has then transferred them to another entity, the permissible terms of licences which the new entity may strike with other businesses, consistently with its non-discrimination obligation, must depend upon the terms of Ericsson's licences. Put another way, if an owner of SEPs sells them on, then it should do so on terms which avoid discrimination occurring between, on the one hand, commercial undertakings which have taken licences from the seller, and, on the other hand, commercial undertakings which in future take licences from the purchaser. Such discrimination could damage the process of competition downstream and so harm consumer interests.

43. The judge thought the point a subtle one and he described it in these terms at [28]:

> "… Samsung contend that when the Unwired Planet patents were part of Ericsson's portfolio, the obligation to license them on FRAND terms, with particular emphasis on the non-discriminatory bit of FRAND, meant that such a licence took into account their inclusion within a much bigger portfolio. That was Ericsson's FRAND obligation. Now that the patents have been divided out, Unwired Planet's FRAND obligation does not take into account the other patents held by Ericsson. So when Unwired Planet license them more money is likely to be earned from licensees than would have been the case if they

> had remained within Ericsson's portfolio. What should have happened, contends Samsung, is that Ericsson's FRAND obligation should have been assigned to and become binding on Unwired Planet. Elements of this argument are related to the second breach but at this stage I am considering the terms of the transfer itself. It is plainly correct that the transfer did not transfer what Samsung calls Ericsson's FRAND obligation to Unwired Planet. The question is whether that is something which could have as its object or effect a distortion or restriction of competition."

44. The judge thought it hopeless, however. The heart of his reasoning is set out at [35]:

> "If I consider the argument on its merits, in my judgment it must fail. It would be unreal and commercially unworkable for competition law to require that the transferor's own FRAND obligation should somehow be transferred in the manner alleged by Samsung. That would mean looking back at the position of the transferor in order to decide what FRAND terms were today. So many questions arise. Some are the following: What happens if the patents are assigned more than once? When considering these patents now in the hands of Unwired Planet does one look at Ericsson's portfolio today or as it was at the date of transfer? Neither makes much sense when you start thinking about it. How does the transferee or putative licensee get access to information about the predecessor's portfolio? What happens when patents are acquired by someone with their own existing portfolio?"

45. Samsung contends the judge has here fallen into error for his reasoning fails to take into account that Ericsson's and UP's position robs FRAND of much of its substantive content. It points out, entirely correctly, that if the original owner of a SEP licenses it to a first licensee then it must adopt non-discriminatory terms when licensing it to a second licensee, for otherwise competition between the licensees is likely to be distorted. Its argument then proceeds as follows. Suppose that the original owner now transfers the SEP to a new owner. When dealing with a third licensee, the new owner must also adopt non-discriminatory terms, judged by reference to the terms struck by the first owner, for otherwise competition between the third licensee and the first and second licensees is again liable to be distorted. Furthermore, if the second owner does not need to take into account the first owner's licensing conduct, SEP owners could contract out of the non-discriminatory part of FRAND by transferring their SEPs to new corporate entity shells, not bound by their original FRAND undertakings.

46. Ericsson responds that the judge was right to conclude the defence was hopeless for the reasons he gave and that Samsung's interpretation of the obligation imposed on a new owner of a SEP is indeed unreal and commercially unworkable because SEPs are often licensed as a part of larger patent portfolios. It provides this alternative illustration. Consider a business that acquires a portfolio of SEPs from a number of different sources over a period of years and gives a FRAND declaration to ETSI in respect of them all. When that business comes to negotiate terms for a licence to that

entire SEP portfolio, it cannot possibly ensure that the terms which it offers are the same as or are no more onerous than the terms upon which the SEPs have been licensed by all of their different previous owners. It would present that business with an impossible task.

47. I recognise the force of all of the points made by the judge and they are indeed supported by Ericsson's illustration. I am not satisfied that they provide a complete answer to Samsung's submissions, however; and that is particularly so in circumstances such as those of the present case. Samsung argues that Ericsson's object in entering into the MSA arrangements was and remains to allow it to maintain a continuing involvement in UP's licensing strategy and to benefit on an ongoing basis from the increased royalty rates that UP, a PAE, is able to charge for the SEPs now they have been stripped from the rest of Ericsson's patent portfolio. As I have explained, the judge has accepted that it is arguable that the division by Ericsson of its patent portfolio in this way was precluded by Article 101. However, it seems to me that another aspect of this arrangement which is arguably just as objectionable is the ability it confers on UP to charge licence fees which are significantly higher than those which Ericsson itself charged and which would have been discriminatory having regard to Ericsson's existing licensees had Ericsson sought to charge them directly. Moreover, it is, I think, arguable that the effect of these higher licence fees will be to distort or restrict competition in downstream markets to the detriment of consumers.

48. I believe that some support for Samsung's contentions can also be derived from the decision of the Commission in *Case No COMP/M.6381-Google/Motorola Mobility* to which I have referred. Significant features of this case were the recognition by Google in the letter it sent to the SSOs and published on its website that Motorola Mobility had been prepared to grant licences for its SEPs at a maximum per-unit royalty rate of 2.25% of the net selling price for the end-product, subject to offsets for any cross-licences or other consideration, and the statement by Google in that letter that it would continue to honour that rate in the future. Further, in the context of the Commission proceedings, Google made clear that it would be bound irrevocably by Motorola Mobility's FRAND commitment, and this was a matter to which the Commission attached some importance as can be seen from its decision at [120] (set out at [30] above). Much the same is apparent from its reasoning at [133] in considering cross-licences:

> "Third, and in a similar vein, Google's incentives to use Motorola Mobility's SEPs in a way which would significantly impede effective competition are further constrained by the FRAND obligation which Google is assuming with respect to Motorola Mobility's SEPs. As noted in paragraphs 120 and 122 above, Google represented in the Form CO that it would assume Motorola Mobility's FRAND commitments and has also publicly declared that it considers itself irrevocably bound by that FRAND obligation in its letter of 8 February 2012 to the SSOs."

49. I am conscious that the four questions posed by the judge at [35] in relation to the practical consequences of imposing upon the parties to any transfer of SEPs an obligation to ensure that the FRAND undertakings given by the transferor are binding

on the transferee provide powerful support for Ericsson's position. But I believe that Samsung is right to say that, while these questions are entirely legitimate, it cannot be said at this stage that they are necessarily unanswerable and justify the dismissal of Samsung's case on a summary basis. Taking them in turn, Samsung contends that if the patents are assigned more than once then the original FRAND commitment must accompany each transfer. Secondly, when considering the patents now in the hands of UP, one has to consider the terms on which they were previously licensed by Ericsson and have appropriate regard to the dates of those licences, just as one would with any comparator. Thirdly, the transferee could be provided with the information it needs by the transferor under the terms of their agreement; as for putative licensees, they will often be under an informational disadvantage compared to the putative licensor but this is not a function of Samsung's approach to the non-discrimination obligation. Finally, if the patents are acquired by an entity with its own existing portfolio then that is a matter which must be taken into account, just as it would have been if the portfolio of the original owner was itself evolving.

50. In light of all of the foregoing I have come to the conclusion that the judge fell into error in finding that this aspect of Samsung's first defence was unarguable. This is, as I think all parties were disposed to accept, an area of law which is in the course of development and in my judgment Samsung has a realistic prospect of persuading a judge at a full trial that in the circumstances of this case Article 101 TFEU required the effective transfer to UP of Ericsson's FRAND obligation so that UP could not obtain more favourable terms from its licensees than Ericsson could itself have obtained. Moreover there is in my judgment a degree of inter-relationship between this aspect of the first defence and the second and third defences for it is arguable that the matters complained of act together to allow Ericsson to circumvent its own FRAND obligations by increasing licence fees and weakening the competition between Ericsson and other users of its SEPs.

Conclusion

51. I would allow the appeal to the extent that I have explained. It is arguable that in breach of Article 101 TFEU the MSA agreements fell short of a full transfer of the non-discrimination aspect of Ericsson's FRAND obligation and that the anti-competitive nature of this breach renders the MSA agreements as a whole anti-competitive and void.

Sir Timothy Lloyd:

52. I agree.

Lord Justice Tomlinson:

53. I also agree.