Unwired Planet v Huawei – Court of Appeal judgment 23 October 2018

Judgment of Lord Kitchin, Lord Justice Floyd and Lady Justice Asplin, available here

Background

Unwired Planet (**UP**) is a non-practising entity whose business is patent licensing. In 2013 it acquired over 2,000 patents from Ericsson, and just over a year later sued Huawei and others in the English High Court for infringing various UK patents. Five of the patents in suit had been declared as essential to ETSI telecommunications standards (2G/GSM, 3G/UMTS and 4G/LTE).

As well as raising the usual invalidity and non-infringement defences, the defendants claimed that UP had failed to offer a licence on fair, reasonable and non-discriminatory (**FRAND**) terms. Various competition law defences were also raised. Following a series of patent trials, UP and Huawei contested a seven-week FRAND trial at the end of 2016. Birss J's April 2017 judgment was the first in which FRAND issues were considered in detail by the English High Court, and the first globally in which a full FRAND determination was carried out for a portfolio of ETSI standard essential patents (**SEPs**).

In his remedies judgment of June 2017, Birss J issued an injunction prohibiting Huawei from selling wireless telecommunications products in the UK. The injunction – which was issued because of Huawei's failure to take a global licence to UP's SEP portfolio – was stayed pending Huawei's appeal to the Court of Appeal.

Huawei's grounds of appeal

Huawei appealed the High Court judgment of Mr Justice Birss (available here) on three main grounds:

1. **Global licensing** – that the High Court was wrong to hold that there should only be one set of FRAND terms and that those terms should be global. Huawei claimed it should have been able to enter into a national licence set by the Court.
2. **Non-discrimination (ND)** – that the High Court was wrong to decide that the ND limb of FRAND allows a SEP holder to charge similarly situated licensees such as Huawei and Samsung substantially different royalty rates for the same SEPs (provided neither rate is higher than the benchmark fair and reasonable rate).
3. ***Huawei v ZTE*** – that the High Court should have found that Huawei had a defence to UP's injunction claim under Article 102 TFEU, as UP had failed to comply with the steps set out in *Huawei v ZTE* by the CJEU.

The Court of Appeal's judgment

Ground 1 – Global licensing

The Court of Appeal (the '**Court**' or '**CoA**') rejected Huawei's first ground of appeal. It held that a global SEP portfolio owner can in principle meet its FRAND obligations by offering a worldwide licence. If the implementer refuses that offer, then it may be subject to an injunction preventing further infringement in the UK.

UP was entitled to offer a global licence on the facts of this case. In reaching this view, the CoA emphasised the following points:

- The ETSI standards and the ETSI FRAND undertaking are of international effect. [53]
- The ETSI FRAND undertaking applies not just to the declared patents themselves but also to the families of patents to which the declared patents belong. [53, 106]
- Global licensing makes sense in a market involving products with a global circulation. [53]

- A global licence is what reasonable companies in the position of UP and Huawei would have agreed. The CoA agreed with Birss J that UP's portfolio is substantial in size and scope and that Huawei's business is global in nature. [105, 115]
- Global licensing conforms to normal industry practice. [58, 96]
- Country-by-country licensing is inefficient and would condemn SEP owners with extensive portfolios to "impossibly expensive" litigation in every country in respect of which they seek to recover royalties. [55, 96, 110, 115]
- If country-by-country licensing were determined to be FRAND, the implementer would have an incentive to hold out country-by-country until it was compelled to pay. [88, 111]

The CoA disagreed with Huawei's arguments that Birss J's approach was wrong in principle. Birss J's findings did not involve (i) any alteration of the territorially limited characteristics of SEPs or (ii) any jurisdictional expansionism. [58]

- Birss J's decision that a global licence would be FRAND does not prevent the licensee from challenging the validity and essentiality of the SEPs in any country where it may choose to do so. Therefore Birss J did not usurp the right of foreign courts to decide issues of infringement and validity of foreign patents. [81, 104]
- While the licence settled by Birss J provides for payment of royalties in respect of UP's whole portfolio of SEPs, the royalty adjustment mechanism can take account of successful validity and/or essentiality challenges in respect of foreign patents. This mechanism was not challenged by Huawei on appeal. [89]
- Huawei is not compelled to take the FRAND licence settled by the Court. If it chooses not to, the only relief to which UP will be entitled is the usual relief available to a successful patent owner in the UK (including an injunction). [58, 105, 117, 127]

Only one set of FRAND terms?

- The CoA disagreed with Birss J on the question of whether there can be only one set of FRAND terms for any given set of circumstances. In the CoA's view, concepts such as fairness and reasonableness "do not sit easily with such a rigid approach", particularly given the complexity and range of terms involved in FRAND licensing. [121]
- However, this error in Birss J's reasoning had no material impact on his overall conclusion that in all the circumstances a global licence would be FRAND. [129]
- The Court noted that if there is more than one FRAND option, the SEP holder need only offer one to satisfy its ETSI obligations. [125]

Ground 2 – Non-discrimination

The CoA rejected Huawei's second ground of appeal.

a) <u>Equivalent or comparable transactions</u> [160 to 176]

  - Birss J was right to regard the licences to Samsung and to Huawei as equivalent transactions [172] and to hold that the non-discrimination limb of the FRAND undertaking is engaged in this case. [176]
  - In deciding whether two transactions are equivalent it is important to focus on the transactions themselves, rather than the circumstances in which the transactions were entered into. A change in market conditions between two otherwise identical transactions would not make the transactions themselves non-equivalent. [169]
  - However, a change in market conditions could amount to an objective justification for a difference in treatment. [169]

b) <u>General or 'hard-edged' non-discrimination obligation?</u> [177 to 210]

- Birss J was right to hold that the ND part of FRAND is a "general non-discrimination" obligation [194, 196] and that the licence on offer to Huawei was on non-discriminatory terms [207].
- A SEP owner is required to offer terms which reflect the proper valuation of the portfolio (i.e. the FRAND benchmark rate), and to offer those terms generally (i.e. in a non-discriminatory manner) to all implementers seeking a licence. This approach ensures that the SEP owner is not able to "hold-up" implementation by demanding more than its patent or patent portfolio is worth. [196]
- Once the hold-up effect is dealt with by a "general non-discrimination" obligation, there is no purpose in preventing the patentee from charging less than the licence is worth if it chooses to do so. An effects-based approach to non-discrimination is therefore appropriate, particularly as differential pricing is not per se objectionable. [197]
- The potential exists for discrimination below the benchmark rate, however, this may be redressed through the application of competition law where it causes competitive harm. [200]

Ground 3 - Huawei v ZTE and FRAND negotiating obligations

The CoA rejected Huawei's third ground of appeal.

a) <u>Dominant position</u> [213 to 229]

- Birss J was entitled to find that UP had a dominant position in the market. [229]
- The CoA acknowledged that the FRAND undertaking and potential for hold-out may constrain an SEP owner's market power. [229]
- There is a presumption that an SEP owner with a 100% market share holds a dominant position, but this can be rebutted if the SEP owner presents a positive case supported with specific detailed evidence. [226]

***b)* <u>*Huawei v ZTE* framework</u>** [230 to 290]

- An SEP owner must give notice to, or consult with, an alleged infringer before commencing proceedings, and if it fails to do so its conduct will necessarily be abusive. Precisely what notice must be given and the nature and extent of the consultations which must be carried out will depend on all the circumstances of the particular case. [271]
- However, the other steps in the *Huawei v ZTE* framework are not mandatory conditions. Compliance with the framework gives the SEP owner 'safe harbour' protection against a finding of breach of a dominant position arising from the commencement of proceedings for an injunction. If the SEP owner steps outside the protocol, the question whether its behaviour has been abusive must be assessed in light of all of the circumstances. [269, 282]
- The CoA indicated (without expressing a concluded view) that it may have been disproportionate to refuse an injunction in this case after the trial of the infringement, validity and FRAND proceedings, when the *Huawei v ZTE* framework is focused on whether the commencement of proceedings amounts to an abuse. [283]

Initial comments on the implications of the Court of Appeal's judgment

Overall, the CoA's judgment is more favourable for SEP owners, who will continue to see the UK as a good forum for seeking to close global FRAND licensing deals.

Significantly, the CoA has confirmed that an SEP owner can meet its FRAND obligations by offering a worldwide licence in circumstances where the portfolio has global coverage and the implementer operates globally. The CoA's endorsement of Birss J's 'FRAND injunction' approach gives SEP owners a means of resolving global disputes where the implementer has sufficient sales in the UK not to want to withdraw from the UK market. SEP owners are also likely to welcome the CoA's finding that in circumstances where a court or arbitrator decides there is more than one set of FRAND-compliant terms, it is open to the SEP owner to choose which set of FRAND terms it prefers.

However, more generally, it is important to recall that this judgment is specific to the facts between these particular parties. It does not follow that *every* future court-determined SEP licence will necessarily be global. The Court was careful to emphasise the relevance of recognised commercial practice, which may lead to significantly different decisions in future, depending on the evidence presented. The UP case also turned on the particular geographic spread of patents held by UP and of Huawei's activities Other licensors may have a different spread of patents, which may read less well onto a particular implementers activities - notably, a claimant which does not hold patents in the jurisdiction in which manufacturing takes place, will have a much weaker claim to a global licence.

The Court's approach to non-discrimination suggests that SEP holders can offer bespoke deals to particular implementers without falling foul of the ND limb of FRAND, and without it becoming inevitable that equivalent deals will need to be offered to all comers. However such licences are still likely to be relevant in any comparator licence analysis under the "fair and reasonable" head of FRAND.

In holding that only one part of the *Huawei v ZTE* framework is mandatory, the CoA's judgment gives SEP holders flexibility over how to conduct licence negotiations. However, the CoA also recognises the significance of proper FRAND negotiations, as also recently supported in the Commission Communication (to which the Court refers approvingly). SEP holders do still risk non-compliance with competition law obligations if they seek excessive licence fees, or stray outside the *Huawei v ZTE* safe harbour. Non-compliant conduct may also remain high-risk if litigation occurs in the courts of other EU member states.

Finally, later this year the Court of Appeal is scheduled to hear a further appeal raising similar issues, in the context of a jurisdiction challenge raised by Huawei and ZTE against a claim by Conversant. The CoA will need to look again to consider the proper characterisation of claims involving global FRAND licences, and to consider when the English Court is the appropriate forum for such claims.

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24 October 2018