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The UK Supreme Court Approves Global FRAND Licensing in Judgment on Unwired Planet *and* Conversant *Appeals*

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Introduction

On 26 August 2020, the UK Supreme Court (UKSC) handed down its judgment[2] on the combined appeals in the *Unwired Planet v Huawei*[3] and *Conversant v Huawei & ZTE*[4] cases (*Unwired* and *Conversant* respectively). The appeals had been heard across four days in October 2019, and judgment was eagerly awaited given the potential for it to have a significant impact on the world of standard essential patent (SEP) licensing and the obligation to offer to license SEPs on fair, reasonable and non-discriminatory (FRAND) terms.

In particular, the judgment was expected to resolve finally the issues of whether the English courts can (and should) set the terms for a global FRAND licence, as well as dealing with questions relating to the meaning of non-discrimination and how to interpret the negotiation framework set down by the Court of Justice of the European Union (CJEU) in *Huawei v ZTE*.[5]

Background

In *Unwired*, proceedings were brought by Unwired Planet (UP) in 2014 against Huawei, Samsung, and Google alleging infringement of five SEPs, which it had acquired from Ericsson. The SEPs had been declared as essential to standards set by the European Telecommunications Standards Institute (ETSI) for 2G (GSM), 3G (UMTS), and 4G (LTE) used in mobile telecommunications.

After a number of patent trials, and with Samsung and Google both having reached settlements, the High Court held a trial of the FRAND issues as between UP and Huawei. The judgment settled the terms of a FRAND licence, notably holding that the only licence that UP was required to offer was global in scope and covered UP's portfolio of SEPs. Huawei had not committed in advance to take the global licence which had been settled by the High Court and, accordingly, an injunction was the appropriate remedy, following the earlier finding of patent infringement.

Pending Huawei's appeal to the Court of Appeal, Huawei agreed to act as if the licence settled by the High Court was in force, so the injunction was suspended.[6] The Court of Appeal upheld Birss J's judgment. The only significant point on which the Court of Appeal disagreed with Birss J was that the Court of Appeal held that the FRAND rate for a portfolio may be a range, overturning Birss J's finding that there was only one true set of FRAND terms for any given set of circumstances. The Court of Appeal stated that if the outcome of proceedings is that two sets of terms are each found to be FRAND, the SEP owner will satisfy its obligations to ETSI if it offers either one of them. It held that in this case, Birss J had been entitled to find that only a global licence was FRAND. Huawei appealed again to the UKSC.

In *Conversant*, proceedings were brought by Conversant Wireless Licensing (Conversant) in 2017 against Huawei and ZTE. Conversant alleged infringement of four SEPs, which it had acquired from Nokia, and sought declarations that the licensing offers it had made to Huawei and ZTE were FRAND (or, in the alternative, a declaration as to what licensing terms would be FRAND).

Huawei and ZTE both issued jurisdiction challenges. Their applications alleged among other things that the English courts could not, or in the alternative should not, exercise jurisdiction over Conversant's claim(s). Henry Carr J determined that the action was properly characterized as a patent infringement claim and that consequently the English courts should exercise jurisdiction.

Huawei and ZTE appealed to the Court of Appeal, which upheld Carr J's judgment. Huawei and ZTE appealed again to the UKSC, with the appeal being listed to be heard together with the appeal in *Unwired*.

Judgment

The UKSC's approach

In the early part of its judgment, the UKSC explains the legal and factual background to the disputes in significant detail, considering the broad commercial context in which the disputes arose, and noting the importance of the issues in question to the global market in mobile communications.

The UKSC discusses the tension between the fact that technology incorporated in communications devices is often covered by patent rights (which are primarily national) and the need for such devices to interoperate on an international basis.[7] It explains the role of Standard Setting Organisations (SSOs), like ETSI, in developing standards to further the development and deployment of advanced technologies and summarized how such organizations have sought to find a suitable balance between the need to ensure that: (i) patented technology which is essential to make standard-compliant products is available to those who wish to use it; and (ii) those who own such essential technology are fairly rewarded.[8]

The UKSC considers the role of the ETSI IPR Policy, the means by which SEP owners agree to grant licences to their patents on FRAND terms, concluding that these "*contractual modifications to the general law of patents are designed to achieve a fair balance between the interests of SEP owners and implementers, by giving implementers access to the technology protected by SEPs and by giving the SEP owners fair rewards through the licence for the use of their monopoly rights.*"[9]

This initial discussion makes clear that the UKSC's approach was influenced significantly by the context in which the ETSI IPR Policy had been developed and by overall commercial and policy considerations. Rather like the CJEU in *Huawei v ZTE*, the UKSC had considerable regard for actual industry practice, and emphasized its importance as part of the overall context relevant to the construction of the ETSI IPR Policy (which is governed by French law).[10] Having set the context for the substantive part of its judgment, the UKSC then turned to the five main issues on appeal.

1. Jurisdiction

The first question for the UKSC was whether or not the English courts have the power to set the terms of a global or multinational FRAND licence, and whether they have the power to grant an injunction restraining infringement of a UK SEP unless a defendant enters into a global FRAND licence.[11] Huawei and ZTE argued that if the English courts were to set the terms of a global FRAND licence and enforce this with an injunction, this would compel an implementer to take a licence in respect of foreign patent rights, even if the implementer might dispute the validity and infringement of those foreign rights, or even if a foreign court might have a different view on the appropriate royalty rate for a licence to patents in that jurisdiction.

The UKSC recognized that questions relating to the validity and infringement of a national patent fall within the exclusive jurisdiction of the relevant national court. It stated that "*in the absence of the IPR Policy an English court could not determine a FRAND licence of a portfolio of patents which included foreign patents*".[12] The UKSC, however, held that the contractual arrangements created by the IPR Policy give the English courts jurisdiction to determine global FRAND licences, even in the absence of consent by the parties.[13]

In reaching this finding, the UKSC noted that it is common industry practice for parties to agree global licences and echoed the lower courts' view that ETSI's IPR Policy is intended to have an international effect.[14] It analyzed a number of cases from other jurisdictions and held that the English courts' approach was not out of line with these.[15] On this basis, it agreed with the observation of Birss J at first instance that, as Huawei had been held to have infringed UK patents and was before the court without a licence in circumstances when it had the means of obtaining one, there was no basis for declining jurisdiction, subject to the question of appropriate forum.[16]

2. Forum

The second question for the UKSC related to "forum non conveniens" arguments, that is, whether China rather than England was a more appropriate forum to hear the *Conversant* proceedings. Under English law, this requires the court to decide which is the: "*forum in which the case can be suitably tried for the interests of all the parties and for the ends of justice*".[17] The UKSC framed this question as requiring it to analyze the nature of the dispute between the parties, and then to decide which jurisdiction was best suited to deal with it. There was considerable disagreement between the parties as to how the dispute should be defined. Huawei and ZTE suggested that the dispute was in substance about the terms of a global FRAND licence, in circumstances where the UK amounts to a mere 1% of Huawei's global sales, and 0.07% of ZTE's global turnover. Conversant argued that the case was about the validity and infringement of English patent rights, with FRAND issues arising only as an aspect of a contractual defence.

The lower courts had agreed with Conversant, holding that the owner of a multinational portfolio is entitled to decide which patents it prefers to enforce, and therefore the country or countries in which it wishes to enforce those patents. It cannot be compelled to enforce patents in other countries merely because of a common FRAND defence which raises issues that might be more conveniently determined in another jurisdiction.[18]

The UKSC held that it did not need to choose between the rival characterizations of the dispute (although if it had done so, it would have agreed with the lower courts) because the "forum non conveniens" challenge failed at the first hurdle. The trial judge had found on the evidence before him that the Chinese courts did not at present have jurisdiction to set the terms of a global FRAND licence (at least absent the agreement of the parties) whereas the English courts do have such jurisdiction. Fresh evidence introduced at the Court of Appeal stage had not changed that conclusion.[19] As no alternative forum was shown to be available, the UKSC held that the court was right to have exercised the jurisdiction it possessed.[20]

As it was not necessary to do so, the UKSC did not consider other jurisdictional issues such as the *Owusu* principle[21] and the application of Article 24 of the Brussels 1 Regulation[22], or the UKSC's own recent decision in *Lungowe v Vedanta Resources*.[23]

3. Non-discrimination

The "non-discrimination" issue arose from the settlement and licence agreement agreed between Unwired Planet and Samsung in 2016. Huawei submitted that as Samsung and Huawei were similarly situated undertakings, UP was required to offer Huawei a worldwide royalty rate as favorable as the one granted to Samsung in the 2016 licence. This concept was described as "hard-edged" non-discrimination. UP claimed that the ETSI IPR Policy involved only a "general" non-discrimination obligation, whereby a standard fair market royalty rate must be made available to all market participants, but SEP holders are free to offer more favorable rates if they wish.[24]

The UKSC held that "fair, reasonable and non-discriminatory" in the ETSI IPR Policy is a unitary concept, rather than involving separate obligations, and found in favor of the non-discrimination obligation being general in nature rather than hard-edged, holding that: "*It provides focus and narrows down the scope for argument about what might count as "fair" or "reasonable" for these purposes in a given context*." The UKSC considered that there should be a single royalty rate available to all, enabling all to have access to the standard, and that this interpretation promotes the purpose of the ETSI regime. In reaching this finding, it noted that ETSI had previously considered and rejected the inclusion of a "most-favorable licence" clause in the IPR Policy.[25] It also noted that this approach reflected commercial reality and that there may be circumstances (such as for a "first-mover advantage") where a SEP owner chooses to license its portfolio at a rate which does not actually reflect its full FRAND value.[26]

4. Huawei v ZTE

In *Huawei v ZTE* the CJEU set out a negotiation framework which, if followed by a SEP holder, would mean that it did not abuse a dominant position pursuant to Article 102 of the Treaty on the Functioning of the European Union by seeking an injunction for the infringement of one or more of its SEPs. In *Unwired,* the lower courts had interpreted the CJEU's decision as setting out a "safe harbor" for SEP holders rather than a series of mandatory conditions that SEP holders had to follow to avoid committing an abuse. Huawei had appealed that finding.

The UKSC upheld the findings of the lower courts that the only mandatory condition in the *Huawei v ZTE* framework is the requirement for the SEP holder to notify or consult with the alleged infringer before bringing a claim for an injunction, and that the nature of that notice/consultation required depends on the circumstances of the case.[27] It held that there was no requirement for the terms ultimately determined as FRAND by the High Court in *Unwired* to have been offered to Huawei before litigation began. As it had agreed with the lower courts' interpretation of *Huawei v ZTE,* the UKSC did not interfere with Birss J's original finding that UP had not acted abusively in bringing its claim for injunctive relief against Huawei.[28]

5. Remedies

The final issue for the UKSC was one not heard by the lower courts; whether the equitable jurisdiction to award injunctions should be affected by the nature of SEPs. It was argued that, as claimants such as UP and Conversant (which do not practise the patents they license) are only interested in obtaining reasonable royalties for their SEPs, that interest can be fully satisfied by an award of damages in lieu of an injunction. Huawei contended that it followed from this that an award of damages based on royalties for a licence to the infringed UK patents would be the appropriate and proportionate remedy.[29]

The UKSC held that damages in lieu would not be an adequate substitute for an injunction. It noted that the claimants cannot employ the threat of an injunction as a means of charging exorbitant fees, or for undue leverage in negotiations, because they cannot enforce their patent rights without having offered a FRAND licence. It reasoned that the cost of bringing enforcement proceedings around the world would be impossibly high, and yet if SEP owners were confined to monetary remedies, implementers would have an incentive to hold out country-by-country until compelled to pay damages in each country.[30]

Implications

The UKSC judgment is a ringing endorsement of the approach taken in the High Court and Court of Appeal. As the UKSC dismissed the appeals of both Huawei and ZTE, in some ways nothing has changed since the Court of Appeal judgments in *Unwired* in October 2018 and *Conversant* in January 2019, and the decision of the highest court in the UK has simply added certainty as to the approach of the English courts. A number of implications, however, can be drawn from the reasoning of the UKSC and comments in the judgment. There are also a few key areas in which uncertainty remains, and which future FRAND cases (perhaps even back before the UKSC) will likely have to clarify.

The Jurisdictional Basis for Global FRAND—A Race to File?

As explained above, the UKSC held that the basis for the English courts' jurisdiction to determine global FRAND licences is the FRAND contract contained within the ETSI IPR Policy. The UKSC is careful to say that it does not believe its approach is out of line with that taken in other courts worldwide. Accordingly, there is nothing to prevent other national courts from adopting the same basis to accept jurisdiction to determine a global FRAND licence. Indeed the UKSC noted that some other national courts might already be willing to exercise such a jurisdiction—although no evidence was before it.[31]

In the absence of any further right to appeal, what is now important is what the approach of other national courts will be in the light of the UKSC decision. Courts in the USA, China, and Japan have already proved willing to set national royalty rates; they could evidently apply that expertise and experience towards setting global royalty rates and it seems likely that some at least will be willing to do so in the future. This raises the possibility of SEP owners and implementers (the UKSC focus on the contractual nature of the FRAND undertaking suggests implementers might be able to bring a standalone action to enforce that obligation without any accompanying patent litigation) racing to file first in jurisdictions which they feel will be favorable to their interests.

If this happens it is likely to prompt further jurisdiction challenges, which may warrant a return to the UKSC given, as noted above, that the UKSC did not address all of the jurisdiction arguments raised by Huawei and ZTE in *Conversant*. The use of other procedural machinations such as anti-suit and anti–anti-suit injunctions may also increase as parties attempt to confine global FRAND issues to being heard in one court.

The Importance of Portfolio Strength in Particular Jurisdictions?

It is unclear from the UKSC's judgment to what extent the strength of a portfolio in a key jurisdiction (for example that in which the relevant devices are manufactured) will be taken into account in determining worldwide royalty rates. As royalties are likely to accrue at the rate applicable to the country of manufacture (for countries in which an implementer makes sales but an SEP owner does not hold any patents) changes to the royalty rate in the country of manufacture can therefore have a very significant impact on the total amount payable.

It seems likely that portfolio strength in relevant jurisdictions will have some impact on royalties. The UKSC recognized the "*force*" of the contention by Huawei and ZTE that questions of infringement and validity of Conversant's Chinese patents are central to the dispute.[32] The UKSC states that "*it might well be argued by Huawei or ZTE at [the FRAND] trial that the obligation of fairness and reasonableness required any global licence granted by Conversant to include provision to allow for Huawei or ZTE to seek to test the validity and infringement of samples of Conversant's Chinese patents, with the possibility of consequential adjustment of royalty rates, given the importance of China as a market and a place of manufacture.*"[33]

The UKSC, however, goes on to say that in "*other cases, such challenges may make little sense unless, at* *a cost proportionate to what was likely to be achieved in terms of eliminating relevant uncertainty, they were likely significantly to alter the royalty burden on the implementer*."[34]

The reasoning behind this distinction appears to be that the UKSC places significant emphasis on the importance of certainty to implementers. Later in the judgment, in the context of whether it might be disproportionate to exclude an implementer from the UK market unless it enters into a worldwide licence, the UKSC notes that when dealing with a sufficiently large international portfolio of patents, the implementer is not simply purchasing access to the UK market through a licence, but rather the certainty that it has the ability legally to manufacture and sell products which comply with the relevant standard on a worldwide basis.[35]

The same logic could apply to argue that in the context of a sufficiently large portfolio, the validity and infringement of individual patents are not relevant to the overall rate; the implementer is purchasing certainty that it is not at risk of infringing an entire portfolio, rather than individual patents which may or may not be valid and essential.[36] The UKSC does note that one of the reasons it is common practice to agree global portfolio licences is that this is a sensible way to deal with the uncertainty of not knowing precisely how many of the licensed patents are valid or infringed,[37] and even in respect of Conversant's portfolio in China, the UKSC suggests that the patent litigation has merely confirmed what is "*common ground between the parties, that declared SEPs within a portfolio are often invalid or not essential*".[38]

No guidance is given as to how parties can identify whether their particular circumstances lend themselves to an adjustment of royalty rates in particular jurisdictions, or what they would need to show in order to prove that an adjustment is warranted. Interestingly, the UKSC does suggest that it ought to be possible to make allowances for the likelihood of invalid or not infringed patents, and that when an implementer takes a licence to a portfolio of untested patents, it does so at a price which ought to reflect the untested nature of many patents in the portfolio[39]. It is unclear whether the UKSC believes that current industry practice is such that licences already make allowances for the untested nature of some portfolios, or whether this is something that might be dealt with in future licences (and future litigation).

It, however, is worth noting that this line of inquiry might not be reserved to implementers. If a portfolio performs particularly well in litigation, for example, if an implementer challenges multiple patents on essentiality or validity grounds in a key jurisdiction, and a significant proportion of those patents are upheld, then a SEP owner might suggest that the FRAND rate for its portfolio (at least in that jurisdiction) should increase as a result.

Finally, on this topic, it is also unclear whether for example if a Chinese court has already set a FRAND royalty rate for the Chinese patents in a portfolio, this will be taken into account by the English court and incorporated into the royalty provisions in any global FRAND licence. This may be another important topic for future cases to explore.

The Potential for FRAND Damages?

It is also worth briefly considering the prospect of FRAND damages. If a valid or infringed SEP is about to or has already expired, an injunction will not be available and so a SEP owner will not be able to force an implementer to enter into a global FRAND licence and must instead seek to recover damages for past infringement.

Huawei had argued that it could not be correct that if a SEP owner chooses to withdraw from the UK market rather than enter into a worldwide licence, it would only pay damages for the loss incurred by the SEP owner for the infringement of the relevant UK patents, but that if wishes to market its products in the UK it must pay global royalties. The UKSC did not accept the argument, suggesting that while court-awarded damages should not be equated with the royalties paid under a FRAND licence that has been entered into voluntarily, "*It may be that the measure of damages which a court would award for past infringement of patents would equate to the royalties that would have been due under a FRAND licence. That does not alter the different nature of the exercises which the court performs in (i) awarding damages and (ii) determining the terms of a licence, which will usually contain many important provisions in addition to the fixing of royalties*."[40] The implications of this remark remain to be explored, but patentees might suggest that if the appropriate FRAND licence would have been a global licence, a damages award could reflect that.

However, later in the judgment, the UKSC justifies the appropriateness of awarding an injunction in SEP cases by reference to the need to avoid patentees being required to bring proceedings country by country to secure the payment of royalties, and to avoid incentivizing implementers to hold-out from taking a licence until being compelled country-by-country, indicating that any monetary relief would have to be national in basis, suggesting that damages might in fact be awarded on national sales only, even if the basis for the award is a hypothetical global FRAND licence. This is likely to be another matter that will have to be determined in future cases.[41]

Concluding Remarks

The judgment offers SEP holders the means of achieving the complete resolution of a global licensing dispute (in circumstances where they can prove an English patent is valid, essential, and infringed, demonstrate that a global FRAND licence is appropriate, and where the implementer has sufficient sales in the UK that they are unlikely to choose to accept an injunction in the UK overtaking a global FRAND licence).

It is therefore likely to have an immediate impact upon FRAND licensing negotiations, particularly if some negotiations may have stalled pending the UKSC's decision. The UKSC's view that the FRAND obligation "*extends to the fairness of the process by which the parties negotiate a licence*", may encourage implementers to seek to ensure that any licence incorporates a mechanism to adjust royalty rates in the event patents are revoked, or to recover sums previously paid as royalties in respect of invalid patents (although, as mentioned above, the circumstances in which that will be appropriate and the mechanism to be applied remains opaque, at best).[42]

The finding that the non-discrimination limb of FRAND does not mean that all similarly situated implementers have to be offered the same royalty rates offers parties a degree of flexibility in negotiations and may make settlements more likely. Both SEP owners and implementers may take some comfort in the comments from the UKSC that "*price discrimination is the norm as a matter of licensing practice and may promote objectives which the ETSI regime is intended to promote*" and the indication that issues of unfair price discrimination or excessive pricing are a matter for competition law not FRAND.[43]

While the judgment does not address all of the issues involved in FRAND disputes, it offers certainty as to the UK position on global FRAND, and SEP owners are likely to seek to take advantage of this. The one major caveat is that the case is unlikely to be the final word on jurisdiction, as arguments about the appropriate forum will resume if and when (as seems likely) other national courts adopt a similar approach to jurisdiction in FRAND cases. If anything immediate arises from the judgment, it may well be a further invigoration (and possible expansion) of applications for anti-suit injunctions.[44]

1. Bristows represents ZTE in the *Conversant* action and represented both Samsung and Google in the *Unwired Planet* action. Bristows also acts for a number of other companies active in litigation relating to SEPs and FRAND. This article does not reflect or represent the views of any of those parties nor of any other client of the firm, nor does it constitute legal advice.
2. [2020] UKSC 37.
3. Court of Appeal: [2018] EWCA Civ 2344; High Court: [2017] EWHC 711 (Pat).
4. Court of Appeal: [2019] EWCA Civ 38; High Court: [2018] EWHC 808 (Pat).
5. ECLI:EU:C:2015:477.
6. *See* the High Court 'remedies' judgment in *Unwired*, [2017] EWHC 1304 (Pat).
7. Paras 2–4.
8. Paras 5–7.
9. Para 14.
10. Paras 8–10.
11. Para 49.
12. Para 58.
13. Paras 58 and 97.
14. Paras 60 and 62.
15. *See* paras 68 to 84 in which the UKSC considers cases from the USA, Germany, China, Japan, and investigations by the European Commission.
16. Para 90.
17. *Altimo Holdings and Investment Ltd v Kyrgyz Mobil Tel Ltd* [2011] UKPC 7; [2012] 1 WLR 1804, para 88.
18. Para 95.
19. The fresh evidence related to new guidelines issued by the Guangdong High People's Court as to the conduct of SEP cases, *see* [2019] EWCA Civ 38, paras 43–55 and 121–25.
20. Paras 97–98.
21. Whether Huawei's and ZTE's UK subsidiaries had to be sued in the UK (and whether or not they could then serve as anchor defendants for the claims against Huawei China and ZTE China).
22. Article 24 of the Brussels 1 Regulation provides that, in specific circumstances, courts will have exclusive jurisdiction regardless of the domicile of the parties and any agreement by the parties to the contrary.
23. [2019] UKSC 20.
24. Para 107.
25. Paras 112–13.
26. Paras 125–26.
27. Paras 146–51.
28. Para 157.
29. Para 159.
30. Paras 164–67.
31. Para 96.
32. Paras 37–38.
33. Para 64.
34. Para 64.
35. Para 86.
36. The US Court of Appeals for the Federal Circuit has previously recognized that a major potential efficiency in licensing is "*the avoidance of uncertainty that could only be resolved through expensive litigation*" and that "*Prohibiting the inclusion in a package license of a patent that is arguably essential, merely because it ultimately proved not to be essential would undercut, even eliminate, this potential procompetitive efficiency.*" Princo Corp. v. Int'l Trade Comm'n, 563 F.3d 1301 (Fed. Cir. 2009).
37. Para 60.
38. Para 40.
39. Para 60.
40. Para 87.
41. The topic has already received some judicial attention in *Philips v ASUS and HTC* [2020] EWHC 29 (Ch) where the High Court held that the relevance of a court-determined FRAND licence (which could be global) to the assessment of damages for the infringement of UK patents was not a matter suitable for summary determination and would have to be dealt with at trial.
42. Para 64.
43. Para 124.
44. On this topic, *see It's Anti-Suit Injunctions All The Way Down – The Strange New Realities Of International Litigation Over Standards-Essential Patents*, Jorge L. Contreras, IP Litigator, 26(4): 1–7 (July/Aug. 2020).