

UK Supreme Court

*Unwired Planet v Huawei and
Huawei / ZTE v Conversant*

**The future of global licensing
for digital standards?**



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The future of global licensing for digital standards?

The Supreme Court gave its unanimous decision on 26 August 2020 in these long-awaited cases which upholds both the first instance High Court judgments of Mr Justice Birss in *Unwired Planet v Huawei* and of (the late) Mr Justice Henry Carr in *Huawei / ZTE v Conversant*; and the Court of Appeal decisions in both cases. The UK courts can and will set global licensing terms.

The decision has confirmed that the UK courts do have jurisdiction to enforce the ETSI IPR Policy and to determine the terms of a FRAND licence on a global basis: an outcome which will have a major impact on the multi-billion-dollar global licensing and litigation strategies adopted by both Standard Essential Patent (SEP) holders and implementers alike. It is the first clear statement by any senior national court that the UK courts can and will determine FRAND terms on a global basis.

The case is significant in that its conclusions will be relevant not only to the many thousands of SEPs which are used in mobile devices, but also to growing numbers of connected and/or interoperable devices in the fast evolving “Internet of Things” (IoT) economy. The decision will also provide a frame of reference to a broad range of other industry-wide standard setting initiatives in which FRAND obligations are relevant, for example the development of blockchain solutions, the connected car industry and the development of digital health solutions.

Background

The long-running dispute concerns the licensing of Standard Essential Patents (SEPs) relevant to the 2G, 3G and 4G standards – patents without access to which it would not be possible to manufacture an interoperable mobile device compliant with industry standards or (increasingly) other connected devices such as cars and smart-home solutions.

These two joined appeals raised connected issues. Unwired Planet (UP) and Conversant each have worldwide patent portfolios, including a number of SEPs. UP acquired most of its patents from Ericsson; Conversant acquired the relevant patents from Nokia.

In each case, UP/Conversant had sued for infringement of UK patents which were claimed to be SEPs, and at least one of those patents has been found to be both essential to the relevant (mobile) standards (infringed) and valid. The governing standards body is ETSI, whose IPR Policy requires SEPs to be licensed on FRAND terms. That obligation in turn limits SEP holders’ ability to obtain injunctions against willing licensees for infringing patents by using standardised technology.

The Conversant cases progressed to appeal at an earlier stage, ZTE and Huawei having raised in those cases jurisdictional and *forum conveniens* objections to the FRAND determination proceedings in the UK courts. Both defendants then brought parallel actions in China seeking a FRAND determination, but that was limited to the Chinese patents in Conversant’s portfolio.

Issues considered by the Supreme Court

Issue one: can the UK courts decide a global FRAND licence?

Whether the English courts have jurisdiction and may properly exercise a power without the agreement of both parties: (a) to grant an injunction restraining the infringement of a UK SEP unless the defendant enters into a global licence on FRAND terms of a multinational patent portfolio; and (b) to determine royalty rates and other disputed items for a settled global licence and to declare that such terms are FRAND.

The Court has upheld the jurisdiction of the English courts to make a global FRAND determination and to grant an injunction against a defendant that is not willing to enter into a global licence. Having reviewed case law from the United States, Germany, China, Japan, and the decision of the European Commission in *Motorola*, the panel did not find any suggestion that in asserting jurisdiction to set FRAND licence terms on a global basis the UK is “out of step” with other countries even though few other courts have yet embarked on a multi-national FRAND determination.

The anchor for the Court’s decision on jurisdiction was the ETSI IPR Policy which “is intended to have international effect” (see [9] and [62]); and was intended to mirror commercial practice in encouraging parties to declare entire patent families and therefore enter into portfolio level licences. The ETSI IPR Policy specifically acknowledges the need for a court or other tribunal to determine what is FRAND if the parties do not agree, but since ETSI did not establish a forum to determine those terms, that task falls to national courts (see [90]). Since the FRAND issues came before the Court as the contractual defence to the infringement of UK patents relying on the undertakings made to ETSI by the SEP holder, the “court has no basis for declining jurisdiction”.

Issue two: should they?

If the answer to Issue 1 is “yes”, is England the proper forum for such a claim in the circumstances of the Conversant proceedings?

This issue arose in the Conversant cases only. Under the first limb, the Court considered whether its jurisdiction or China (since Huawei and ZTE’s biggest

market is China) was the more suitable forum for determination of the dispute. That involved defining the main issue between the parties: was that a dispute about the terms of a global FRAND licence, or a dispute about infringement of UK patents, with a FRAND defence? The Court again upheld the courts below, but also held that the case definition was not dispositive. The “compelling reason” why the appellants failed on this issue was their inability to “identify some other forum which does have jurisdiction to determine the dispute” (see [96]). Since the Chinese courts hearing the parallel actions did not have jurisdiction to determine global FRAND (without the consent of Conversant, which was not given), there was no other competent court to consider, and the first limb failed.

The second limb effectively concerned case management: should a temporary stay have been imposed to allow the Chinese courts to reach a decision on global FRAND first? As it had already decided that the prospect of the Chinese courts determining a global FRAND licence was “speculative”, the Court of Appeal’s refusal to stay was upheld.

Issue three: can a licensee demand the terms granted to another licensee?

What is the meaning and effect of the non-discrimination component of the FRAND undertaking and does it mean that materially the same licence terms as offered to Samsung must be offered to Huawei in the circumstances of the Unwired case?

The Court has upheld the view of the lower courts that the non-discrimination element in the ETSI FRAND undertaking is not ‘hard-edged’ so as to oblige SEP owners to offer royalty rates lower than the benchmark rate (i.e. equivalent to their most favourable licence terms). The Court makes clear that “[l]icence terms should be made available which are ‘fair, reasonable and non-discriminatory’, reading that phrase as a composite whole” (see [113]); and agrees that “[n]on-discrimination between licensees is achieved because the FRAND rate is objectively determined based on the value of the portfolio and it does not take into account the characteristics of individual licensees” (see [121]). It also placed significant weight on the removal of an ‘MFN-like’ provision from the ETSI IPR Policy in 1993 (see [116]).

While the Court did not (like the Court of Appeal) analyse the separate competition law non-discrimination obligation in Article 102(c) TFEU, it has said that it would expect “any anti-competitive effects from differential pricing” to most appropriately be addressed by separate global competition laws rather than the FRAND undertaking itself. Indeed, the Court has gone further to say that it would be “unnecessary and inappropriate (and could well be counterproductive) to adopt the ‘hard-edged’ non-discrimination interpretation, ... on the basis that this might promote competition and hence innovation and consumer welfare” (see [124]); and that the approach of Birss J and the Court of Appeal reflect “commercial reality and sense, in that there may be circumstances in which the owner of a SEP portfolio would choose to license its portfolio at a rate which does not actually reflect its true, FRAND royalty rate value” (see [125 and 126]).

Issue four: does an SEP holder have to comply with the CJEU's *Huawei v ZTE* framework?

Does the CJEU's decision in Huawei v ZTE mean that an SEP owner is entitled to seek an injunction restraining infringement of those SEPs in circumstances such as those of the Unwired case?

The Court confirmed that Unwired Planet did not abuse its dominant position by failing to follow the precise sequencing of the FRAND licensing framework set out by the CJEU in *Huawei v ZTE*, prior to seeking injunctive relief. The Court notes that Unwired Planet had satisfied the mandatory requirement in the CJEU's judgment that “the proprietor of an SEP... cannot, without infringing article 102 TFEU, bring an action for a prohibitory injunction... without notice or prior consultation with the alleged infringer” (para 60 of the CJEU's judgment).

In its analysis of the ‘safe harbour’ conditions set out in the CJEU's judgment, the Court emphasises that these identify “what the conditions need to seek to ensure, but is no more prescriptive than that” and that “due account must be taken of the specific legal and factual circumstances of the case... [as] [i]t would be surprising if the steps then set

out by the CJEU were expected by it to apply in all cases, no matter what their legal and factual circumstances” (see [152]). In the Court's view, “what mattered on the facts of this case was that Unwired had shown itself willing to license Huawei on whatever terms the court determined were FRAND, whereas Huawei, in contrast, had only been prepared to take a licence with a scope determined by it” (see [158]).

Issue five: is an injunction disproportionate when a FRAND licence is not accepted?

Whether the High Court should have granted an injunction to restrain infringement in the circumstances, and was that an appropriate and proportionate remedy or would damages have been adequate?

This was a new issue not raised before. Huawei argued that the grant of a final injunction would be neither appropriate nor proportionate, and damages would be an adequate remedy for UP/Conversant, since their interest is only in receiving FRAND royalties. The Court reviewed the UK authorities on awarding damages in lieu of an injunction, as well as the approach of the US Supreme Court in *eBay v Mercexchange* and confirmed that “the court's power to award damages in lieu of an injunction involves a classic exercise of discretion” (see [162]).

The Court ultimately declined to interfere with the “FRAND injunction” granted by Mr Justice Birss. Three factors played into that decision: (i) the injunction could not be used as a means of extorting a higher royalty, since the only royalty available was the court-determined FRAND rate; (ii) if only damages were available it would be “impractical for the patent-holder to bring proceedings to enforce its rights against an infringing implementer in every country where the patents have been infringed”; and (iii) that approach might encourage country-by-country hold out, and dissuade implementers from entering into FRAND licences voluntarily (see [164-168]).

Looking ahead

- The judgment includes points of interest not only for SEP owners and licensees in the mobile communications sector, but also a broad range of other digitalising industries, including industrial clients such as car and home goods manufacturers, and financial services and healthcare businesses engaged in industry-wide standard setting initiatives. The ongoing dispute between *Nokia/Sharp/Conversant v Daimler* in Germany concerning connected cars, for example, raises the interesting question as to who in the product value chain (if willing) must obtain a licence from an SEP holder?
- The UK can be expected to further increase in popularity as a forum for FRAND-encumbered patent actions and will continue to shape international jurisprudence on these matters. No other senior court has expressed such willingness to determine what constitutes FRAND licensing terms on a global basis. Unless and until that changes, then the UK will continue to be a favoured venue for SEP holders.
- We can however expect to see greater attention on “forum shopping” and jurisdictional battles as parties seek to have FRAND issues determined in their home courts: 2019/20 has already seen the emergence of anti-anti-suit injunctions from German courts hearing the connected car patent cases, who have maintained their right to continue hearing infringement cases while US courts determine FRAND rates. Similar decisions came out in France and the UK in late 2019. The frequency of such tactics is only likely to increase.
- The importance of being able to show that negotiations have taken place in a “FRAND manner” or by way of adopting a “FRAND approach” will not diminish, even if it is not necessarily an abuse of a dominant position to deviate from the precise sequencing of the CJEU’s *Huawei v ZTE* framework. The Supreme Court has endorsed the permissive approach to the Huawei framework taken by Birss J, but the importance of ensuring that you are “willing”, whether as a licensor or licensee, is strongly emphasised in the decision (as it also recently has been in Germany in *Sisvel v Haier*). Parties must consider how they can give the broadest possible declaration of willingness while at the same time protecting their preferred FRAND and jurisdictional position.
- Industry reality and comparable licences will remain important benchmarks for establishing the value of the relevant SEP portfolio – including in respect of “non-discrimination”. This should be kept in mind throughout individual licensing negotiations – but not go so far as adopting a “hard edged” approach to non-discrimination where SEP owners are obliged to pass on the lowest royalty rate they have agreed for the relevant SEPs with another comparable licensee. These findings will be important to other essential licensing frameworks, for example in the financial services, healthcare and IoT context.
- The Court expressly acknowledged the reality that many SEP portfolios contain numerous “declared SEPs within a portfolio [which] are often invalid or not essential” (see [40]). The suggested remedy for this weakness is to include in the licence a “ratchet” mechanism to reduce royalty rates where individual patents are shown to be invalid or non-essential. However, it is not clear whether this will be adopted in the context of the relatively short-term licences (5-10 years) that are typical in this field. Parties may instead want to consider whether to take a more robust alternative to the value of portfolios at the negotiation stage to avoid such subsidiary litigation. As avid FRAND-watchers will recall, the court-determined royalty rate set by Birss J was significantly lower than UP originally claimed, and below the minimum price agreed on the acquisition of those patents by UP.

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