CARPMAELS & RANSFORD

# Unwired Planet: Many FRANDS make light work for SEP owners

## The UK courts are open for business to grant global FRAND licences and recognise that more than one set of licence terms can be FRAND

On 23rd October 2018, the Court of Appeal in the UK handed down its judgment in the case of Unwired Planet.[1] Huawei had appealed the first instance judgment of Birss J[2] (which we reported here). In most but not all aspects, the Court of Appeal affirms the judgment at first instance.

Three grounds were raised on this appeal: first, whether the global scope of the licence ordered by Birss J was FRAND (Fair Reasonable and Non-Discriminatory); second, whether Huawei ought to have been offered the same licence terms as those contained within a licence between Unwired Planet and Samsung; and, third, in light of *Huawei v ZTE*,[3] what course of action should be followed by a SEP (Standard Essential Patent) owner if it wishes to seek, without breaching Article 102 TFEU, a prohibitory injunction against an alleged infringer.

Under those three headings, this briefing note discusses the implications of the Court of Appeal's judgment for SEP owners and implementers, and how it may affect strategies for negotiation and litigation of SEPs.

[1] *Unwired Planet International Limited and Another v Huawei Technologies Co. Limited and Another* [2018] EWCA Civ 2344

[2] [2017] EWHC 711 (Pat)

[3] [2015] Bus LR 1261

### Geographic scope of the licence

*Global or national?*

The Court of Appeal affirmed Birss J's finding that a global licence in this case is FRAND. It noted the international scope of the European Telecommunications Standards Institute (ETSI) standards and its FRAND undertaking, and that Unwired had a patent portfolio encompassing many jurisdictions. Therefore, if Unwired had to establish patent validity, essentiality and infringement, and subsequently negotiate a licence on a country-by-country basis, the implementer would be incentivised to hold out in each country until it was compelled by a court to pay for its use of protected inventions. That approach is neither fair nor reasonable.

The Court of Appeal demonstrated that the UK courts present an efficient forum for SEP owners to assert their global SEP portfolios in one action. Notably, Unwired's portfolio coverage is limited in Africa, South America and Eastern Europe and Unwired holds far fewer patents than other SEP holders. Therefore, as a general rule, SEP owners should be able to enjoy the efficiency of receiving a global licence from a UK court even where portfolio coverage is patchy.

The Court of Appeal's judgment has, in three further ways, strengthened the SEP owner's hand in promoting the UK courts as a suitable forum for seeking global licences. First, the Court of Appeal rejected Huawei's submission that, when a UK court determines a global licence, it usurps the jurisdiction of national courts in relation to patents from those jurisdictions. Huawei submitted that the royalty rates set by Birss J effectively determined back damages in respect of infringements in other jurisdictions, such as the US, China, and Germany, on a different basis to that which the respective national courts would have adopted if faced with an infringement case.

The Court of Appeal stressed the conceptual distinction between the scope of proceedings for patent infringement and the scope and effect of the ETSI undertaking. It held that Birss J was merely determining terms of a licence that Unwired was required to offer pursuant to its undertaking to ETSI. He had made no findings of validity or essentiality in respect of any foreign patents. Further, the Court of Appeal affirmed that FRAND licences should not prevent a licensee from challenging the validity or essentiality of any foreign SEPs.

This approach dovetails with that of Carr J in *Conversant*.[4] In that case, the court's reasoning indicates that any contingency in a foreign jurisdiction, such as a national court's decision that a patent is invalid or not essential to the standard, can be accommodated by the licence terms. For example, the terms of the licence can ensure that implementers do not pay royalties in respect of patents that are subsequently found to be invalid or non-essential. The Court of Appeal's reasoning encourages the sort of contingency planning seen in *Conversant*. As a result, an attempt by an implementer to move proceedings out of the UK is more difficult.

Second, the Court of Appeal opined that, in some cases, it might be that *only* a global licence is FRAND. If only a global rate is FRAND, there will inevitably be a national court deciding a licence in respect of a portfolio that extends to other jurisdictions.

Third, the Court of Appeal found that the European Commission appeared to have reversed its initial statements that suggest global licences are not FRAND. In *Motorola*,[5] the Commission found that Apple's offer to take a licence covering just Germany from Motorola rendered Motorola's pursuit of an injunction unnecessary to protect its commercial interests. Thus, Huawei argued, the Commission appeared to indicate that a national licence is always a FRAND licence. However, the Court of Appeal noted that the Commission has changed its view and opined more recently in November 2017 that: *As noted in a recent ruling* [that of Birss J, in this case]*, a country-by-country licensing approach may not be efficient and may not be in line with a recognised commercial practice in the sector*.

In summary, the UK court considers itself competent and well-equipped to order global licences and is astute to protect SEP owners against implementers raising defences based upon jurisdiction, while at the same time recognising that any such licence can be drafted to provide for the invalidity/non-essentiality of the ex-UK SEPs being licensed.

*Jurisdiction considered when negotiating*

A consequence of the approach established by the UK court is that it may now engender a race between a SEP owner and an implementer to issue proceedings in a jurisdiction which each perceives to be most favourable, and moreover precipitate anti-suit injunctions to fend off proceedings commenced in jurisdictions which are considered to be unfavourable. As discussed below, parties may run the risk of breaching competition law by bringing premature litigation seeking a prohibitory injunction. Therefore, a sensible negotiation strategy must consider both when and where to bring proceedings, should recourse to the court become inevitable.

[4] *Conversant Wireless Licensing S.A.R.L. v ZTE Corporation and Others* [2018] EWHC 808 (Pat)

[5] Case AT.39985)

*How many sets of FRAND terms?*

Departing substantially from Birss J's judgment, the Court of Appeal held that there can exist more than one set of FRAND terms. The Court of Appeal noted that, as a matter of commercial practice, offers may be structured in different ways to include different parties, cross-licences, rights, scope, and payment terms. Further, concepts such as 'fairness' and 'reasonableness' are not readily confined to a rigid approach.

This finding resurrected the *Vringo* problem: what happens if the SEP owner makes one offer that is FRAND and the implementer makes another offer which is different but also FRAND? Should the court grant or refuse an injunction? The Court of Appeal thought this situation would not often arise in practicebecause the court would generally declare one set of terms to be FRAND. However, if there are two different sets of FRAND terms, the SEP owner will discharge its ETSI obligation if it offers either one of them.

In negotiations, this would appear to provide SEP owners an advantage: provided a SEP owner is confident that it's preferred option of the offers on the table in any specific case is FRAND (e.g. a global licence versus a national licence), then the onus shifts to the implementer to agree to this or face the consequences.  In other words, the Court of Appeal decision suggests that not only can there be a range of licensing terms that could be FRAND in any specific case, but it is the SEP owner that is given the choice of which should be applied.

## Hard-edged non-discrimination

Huawei argued that the "non-discriminatory" part of the FRAND obligation meant that Unwired must offer the same set of terms to Huawei as it did to any other similarly situated implementer. Huawei argued that Samsung is a similarly-situated implementer, and hence those terms ("the Samsung licence") not being made available to it amounted to non-FRAND conduct on the part of Unwired.

Unwired argued that Samsung was not similarly situated to Huawei. The Court of Appeal, affirming Birss J, noted that the licences both relate to the same portfolio, grant permission in respect of the same acts, were being negotiated contemporaneously, and that Samsung was one of a handful of major licensees. Interestingly, however, the Court of Appeal held that Unwired's poor financial circumstances and near-insolvency (that caused it to offer Samsung a lower royalty rate) is not a relevant feature of the transaction itself.  Therefore, Unwired's financial position could not be used to distinguish between the licence terms Unwired offered previously to Samsung and would now offer to Huawei. Hence, when licensing to multiple implementers, SEP owners cannot place much reliance upon their individual circumstances if trying to justify different licence rates.

However, in affirming Birss J, the Court of Appeal held that there is no hard-edged component to the FRAND obligation. To introduce such a component would prevent a SEP owner from seeking higher royalty rates but not protect it against demands for lower rates. This asymmetry is unfair. Further, the Court of Appeal noted that the FRAND obligation is not designed to remove the SEP owner's discretion to offer a lower royalty rate if it so chooses and that it cannot be right that if the royalty rate being offered to the implementer by the SEP is fair and reasonable, the offer is nevertheless rendered non-FRAND by virtue of the SEP holders willingness to grant a different rate to someone else.  The ETSI undertaking does not include a "most favoured nation" clause as part of a SEP's obligation (and, in fact, such an approach had been rejected by ETSI.

## Huawei v ZTE guidelines

*Huawei v ZTE* concerned a referral from a German national court to the Court of Justice of the European Union (CJEU) regarding the proper application of Article 102 TFEU to claims to injunctions on the basis of SEPs. The CJEU made a number of statements concerning the behaviour expected of SEP owners and implementers in relation to competition concerns.

The Court of Appeal firmly concluded, affirming Birss J, that the CJEU did not lay down mandatory conditions or a new set of procedural rules such that acts of non-compliance would necessarily constitute breaches of Article 102 TFEU. Instead, the CJEU's guidelines set out a safe harbour within which conduct is unlikely to be anti-competitive. Conversely, if a SEP owner acts outside the safe harbour, it is open to a finding of abuse of a dominant position, depending on all the circumstances.

The Court of Appeal clarified that the CJEU's decision does go as far as to impose a positive obligation upon a SEP owner to notify the alleged infringer before commencing proceedings. However, the nature and content of that notice depends on all the circumstances. Its purpose is to notify the alleged infringer of the rights said to be infringed and that the SEP owner is prepared to licence the infringer on FRAND terms, in so far as the implementer is not already aware of the same.

Thus, the court takes a practical view of the SEP owner's behaviour rather than a formulaic, procedural approach. In this case, although Unwired had not provided an offer on FRAND terms to Huawei before commencing proceedings, Huawei had sufficient notice that Unwired held particular SEPs and knew or ought to have known that, if the SEPs were truly essential, a licence would be needed. Huawei also knew, from correspondence between the parties, that Unwired wished to agree a licence.

Thus, while a SEP owner is well advised to give notice fully in accordance with the CJEU's guidelines prior to commencing proceedings, the UK courts will not take a pedantic approach to the requirements. Instead, the SEP owner's behaviour will be given full consideration.

## Conclusion

In summary, the Court of Appeal's judgment should be welcome news to SEP owners. English courts present an efficient forum as they are willing to grant global licences and guard against an implementer who seeks to raise unfair jurisdictional defences. SEP owners have more negotiating freedom, as different licences may be FRAND and the SEP owner gets to choose which to offer. Similar pragmatism has been injected into the *Huawei v ZTE* guidelines such that implementers are unlikely to have much joy if they try to hold SEP owners to a strict set of procedural requirements. However, all of the above is of course subject to a SEP holder being confident that a UK court's view of what constitutes a FRAND royalty rate in any specific case will be in line with its commercial objectives: it is worth remembering that although not the subject of this appeal, the rate ordered by Birss J was of course lower than that sought by Unwired.

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