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# UK Supreme Court Unanimously Upholds Lower Court's Worldwide FRAND Royalty Rate Determination

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## Decision Establishes Authority of UK Courts to Set Global FRAND License Terms and Provides Other Important Guidance to SEP Owners and Implementers

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### SUMMARY

In its highly anticipated decision in *Unwired Planet v. Huawei*,<sup>1</sup> the Supreme Court of the United Kingdom affirmed the decisions of the UK Court of Appeals in *Unwired Planet v. Huawei*<sup>2</sup> and in *Huawei & ZTE v. Conversant*.<sup>3</sup> Among other things, the Supreme Court held that: (1) UK courts have jurisdiction to determine a global FRAND license based on the patent owner's contractual FRAND commitment to a standard-setting organization; (2) UK courts were a proper forum for the determination because the only suggested alternative, China, was not an acceptable alternative; (3) the "non-discrimination" requirement of the FRAND commitment is satisfied by offering a benchmark royalty rate that reflects the fair and reasonable value of the portfolio and does not require licensors to provide all similarly situated licensees the same rate; (4) UK courts may enter injunctions forbidding the use of UK patents if an implementer refuses to accept the court-determined global license FRAND terms; and (5) Unwired Planet did not violate UK competition law by departing from the explicit negotiating steps set out by the Court of Justice of the European Union ("CJEU") in *Huawei v. ZTE*.

### BACKGROUND

The Supreme Court's decision in *Unwired Planet* involved three separate appeals.<sup>4</sup> The first concerned an infringement action brought in March 2014 by Unwired Planet ("Unwired"), a company owning a portfolio of international patents related to telecommunications connectivity, against Huawei, a Chinese manufacturer of mobile phones and cellular infrastructure equipment. Unwired's patent portfolio, obtained from Ericsson,

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contains patents essential to the 2G, 3G, and/or 4G-LTE telecommunications standards developed by the European Telecommunications Standards Institute (“ETSI”), a standard-setting organization (“SSO”). ETSI’s IPR Policy, applicable to Unwired’s standard-essential patents (“SEPs”), requires that patentees license SEPs on fair, reasonable, and non-discriminatory (“FRAND”) terms.

Following trials in 2015 and 2016, the trial court judge, Justice Birss, held that two of Unwired’s SEPs were valid and infringed and two were invalid. Justice Birss later held that Unwired did not violate European antitrust laws by seeking an injunction against Huawei’s infringement, despite Unwired’s obligation to license the patents on FRAND terms. In that decision, Justice Birss also (i) held that Unwired was entitled to insist upon a global FRAND license, rather than a UK-only license, and (ii) determined the terms, including a royalty rate, of that global FRAND license. Justice Birss’s ruling was affirmed by the UK Court of Appeal, in a decision summarized in our memorandum dated [October 25, 2018](#).

Both the second and third appeals before the Supreme Court arose from an infringement action brought in 2017 by Conversant Wireless Licensing (“Conversant”), an ETSI member that (like Unwired) owns UK SEPs relating to the 2G, 3G, and 4G-LTE standards, against Huawei and ZTE (also a Chinese supplier of telecommunications equipment). In response, Huawei and ZTE brought actions in China challenging Conversant’s patents. In the UK action, Conversant sought a declaration that the global license it offered Huawei and ZTE was FRAND, or, in the alternative, a determination of FRAND terms for such a license. It also sought to enjoin both Huawei and ZTE from infringing activities until they entered a FRAND license. Huawei and ZTE challenged (i) the UK court’s jurisdiction, (ii) the court’s power to implement the requested remedies, and (iii) whether the court provided an appropriate forum for resolution of a global licensing dispute. Justice Carr dismissed these objections, and the UK Court of Appeal affirmed. In separate proceedings, Justices Arnold and Birss later held that Huawei and ZTE infringed certain of Conversant’s claims; the associated appeals are ongoing.

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### THE UK SUPREME COURT’S DECISION

The UK Supreme Court addressed the following issues.

#### **UK Courts Have Jurisdiction to Set Terms for a Global License and Enjoin Infringement if the Implementer Rejects Such Terms.**

The UK Supreme Court first held that UK courts have jurisdiction without agreement of the parties, to (i) grant an injunction restraining the infringement of UK SEPs unless the defendant enters a global license on FRAND terms, and (ii) determine the specific rates and terms of such a global license.<sup>5</sup>

Huawei argued that UK courts are not entitled to grant such an injunction because it would necessarily impact implementers’ ability to challenge validity and infringement of foreign patents in foreign jurisdictions.<sup>6</sup> The Supreme Court held, however, that while “[i]n the absence of the IPR Policy an English court could not

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determine a FRAND license of a portfolio of patents which included foreign patents,”<sup>7</sup> “[i]t is the contractual arrangement which ETSI has created in its IPR Policy [that] gives the court jurisdiction to determine a FRAND license.”<sup>8</sup> Thus, while a UK court cannot enforce foreign patents, it *can* enforce the SSO IPR Policy, which the court interpreted as allowing a patentee to insist on a global license as a condition for licensing its SEPs.

The Supreme Court found that ETSI’s IPR Policy provided contractual modifications to the general law of patents “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 license for the use of their monopoly rights.”<sup>9</sup> Huawei’s suggestion that the IPR Policy removed an SEP holder’s right to exclude implementers from a national market, such as the UK, while requiring the SEP owner to establish the validity and infringement of each of its SEPs outside that national market “runs counter to the balance which the IPR Policy seeks to achieve.”<sup>10</sup> Instead, “the IPR Policy is intended to have international effect” because the FRAND commitment extends to all patents in the same patent family as a declared SEP and the contractual commitment contemplates a license that will cover multiple jurisdictions. Accordingly, the court refused to construe the IPR Policy “as providing that the SEP owner is entitled to be paid for the right to use” only those patents that specifically “have been established as valid and infringed.”<sup>11</sup> The court also recognized that, “as a sensible way of dealing with unavoidable uncertainty” regarding validity and infringement, the “common practice” in the telecommunications industry is to negotiate global licenses without knowing precisely how many of the licensed patents may be valid and infringed.<sup>12</sup> In framing its IPR Policy, the court found, ETSI intended that the parties and the courts should look to and draw on this “commercial practice in the real world.”<sup>13</sup> Thus, the court held that it was entirely proper for Justice Birss to look to “the commercial practice in the industry of agreeing to take a license to a [global] portfolio of patents, regardless of whether or not each patent was valid or was infringed by use of the relevant technology in the standard, and construe[] the IPR Policy as promoting that behavior.”<sup>14</sup>

The Supreme Court also included an important limitation on the ability of a UK court to determine a FRAND rate for a portfolio of patents whose validity or infringement was uncertain, based on its understanding that “the FRAND obligation in the IPR Policy extends to the fairness of the process by which the parties negotiate a license.”<sup>15</sup> The court found that if an implementer “is concerned about the validity or infringement of a particular group of patents . . . in a particular jurisdiction which might have a significant effect on the royalties which it would have to pay,” it would likely be “fair and reasonable” for that implementer “to reserve the right to challenge those patents . . . in the relevant foreign court” and “to require that the license provide a mechanism to alter the royalty rates as a result.”<sup>16</sup>

Huawei also argued that UK courts should not be allowed to set terms and rates on foreign patents because doing so establishes England as a “de facto international or worldwide licensing tribunal for the telecommunications industry.”<sup>17</sup> The Supreme Court disagreed, finding that a number of other jurisdictions,

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including the United States, Germany, China, and the European Commission permit, or at least do not prohibit, determining a global FRAND license.<sup>18</sup> It found that decisions in those jurisdictions showed “a recognition that the court in determining a FRAND license . . . is being asked to enforce a contractual obligation which limits the exercise of the patent owner’s IP rights including its IP rights under foreign law” and a willingness, in principle, to grant an injunction against infringement of a national SEP if an implementer refuses a global license on FRAND terms.<sup>19</sup> The court relied, in particular, on the decision of the Ninth Circuit Court of Appeals in *Microsoft Corp. v. Motorola, Inc.*, which the court found to hold that “US courts have jurisdiction in a contract action [based on a FRAND commitment] to grant an injunction against enforcement of foreign patents covered” by that commitment.<sup>20</sup>

### **The UK Was a Permissible Forum Regardless of the Number of UK Patents at Issue.**

In the *Conversant* appeal, Huawei and ZTE asserted that application of the *forum non conveniens* doctrine required the court to find that China, rather than the UK, was more appropriate forum for determining a global license because more than 60% of their sales were potentially covered by Chinese patents while less than 1% were covered by UK patents. The UK Supreme Court held that the UK was the appropriate forum for two reasons. First, the fundamental dispute was whether Huawei and ZTE had infringed Conversant’s UK patents, and the FRAND license issues arose only as a defense to refusing to license those patents. As the owner of a portfolio of patents, Conversant “was entitled to decide” which patents (and therefore in which country or countries) it would seek to enforce and “could not be compelled” to enforce its patents in other countries.<sup>21</sup> Second, and more significantly, “a challenge to jurisdiction on *forum non conveniens* grounds requires the challenger to identify some other forum which does have jurisdiction.”<sup>22</sup> But the Supreme Court found, based on expert evidence, that Chinese courts do not have jurisdiction to determine the terms of a global FRAND license in absence of agreement by all parties, and, thus, China could not be considered as an alternative forum.

### **The Non-Discrimination Element of the FRAND Commitment Is General, Not “Hard-Edged.”**

In the *Unwired Planet* appeal, Huawei argued that Justice Birss erred in not relying on the terms of Unwired’s license to Samsung, which Justice Birss had found to be a licensee “similarly situated” to Huawei, in determining FRAND terms for a license to Huawei. Huawei asserted that “non-discrimination” requires all similarly situated licensees to be offered the same or similar terms “unless it can be shown that there are objective grounds for treating them differently.”<sup>23</sup> The Supreme Court disagreed, finding that non-discrimination under ETSI’s IPR Policy did not require that the “royalty rates in the license on offer to Huawei should be fixed by reference to the royalty rates in the Samsung license.”<sup>24</sup> The court noted that this would impose a “most-favorable license” requirement (*i.e.*, each licensee obtaining the best terms offered to any other licensee), and that ETSI had rejected such a requirement in formulating its IPR Policy. Instead, the Supreme Court found that the “non-discrimination” obligation merely requires that “the terms and conditions on offer should be such as are generally available as a fair market price for any market participant, to reflect

the true value of the SEPs to which the license relates and without adjustment depending on the individual characteristics of a particular market participant.”<sup>25</sup> In other words, “there is to be a single royalty price list available to all,” although a licensor may offer more favorable terms depending on the circumstances; in this case, Samsung received more favorable terms because it took a license when Unwired was in a distressed financial position.<sup>26</sup>

### ***Huawei v. ZTE* Negotiation Steps Constitute a Safe Harbor, Not Required Conduct.**

Also in the *Unwired* appeal, Huawei argued that Unwired was precluded from obtaining an injunction because it did not first make a FRAND licensing offer as required by the CJEU’s decision in *Huawei v. ZTE*, which Huawei asserted provides “a series of mandatory conditions . . . to obtain injunctive relief.”<sup>27</sup> The *Huawei v. ZTE* conditions include (1) “notice or prior consultation with the alleged infringer,” (2) a “specific, written” FRAND offer, and (3) a diligent response to that offer with no delaying tactics.<sup>28</sup> The Supreme Court disagreed with Huawei, holding that the *Huawei v. ZTE* steps were permissive, not mandatory. According to the court, they merely constitute a “safe harbor” that prevents an infringement action from constituting an abuse of a dominant market position and are not a prerequisite to injunctive relief.<sup>29</sup> The court found that, in order to seek injunctive relief in the UK, an SEP owner must (as Unwired did) only provide “notice or prior consultation” to the alleged infringer before bringing an infringement action.<sup>30</sup>

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## IMPLICATIONS

This case represents the first UK Supreme Court decision on FRAND terms, and it will guide the manner in which UK courts treat global licensing issues in future SEP infringement actions. By confirming injunctions in lieu of money damages as a remedy for infringement resulting from the refusal of a global license, the decision will likely reduce instances of licensee hold-out and create increased incentives for licensees to accept a global license.

The Supreme Court’s holding that the UK is a proper forum for global royalty determinations may create a “race to the courts,” although it remains unclear whether jurisdictions other than the UK will also decide that their national courts can set the terms of a global license notwithstanding one party’s objections. For example, some have read the 2018 Working Guideline of Guangdong High People’s Court on the Trial of Standard Essential Patent Dispute Cases (for Trial Implementation) as allowing the determination of a global FRAND license’s terms if the court determines that an objecting party’s position on the issue was “unreasonable.” Knowing that UK national courts can set the terms of a global license, patentees may be incentivized to race to litigate FRAND issues in the UK, or in another preferred forum that they hope will set the terms. Conversely, implementers may seek refuge in courts they believe are more favorable. The benefits of winning such a race may be diminished, however, by the UK Supreme Court’s holding—which could be adopted by other jurisdictions—that the global license should, in appropriate circumstances, include a mechanism for revising global license terms set by the UK court if other national courts later make

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findings regarding validity and infringement of licensed patents. In other words, an implementer may avoid an injunction in the UK by accepting the global license terms set by the UK court while demanding terms in such license to reduce the royalty rate if another national court later finds patents issued in that jurisdiction to be invalid or not essential. A UK court's or other national court's global license terms therefore may not be final, and further patent litigation may follow the setting of the global terms.

Finally, the UK Supreme Court's decision may alter the bargaining power in SEP license negotiations in at least two ways. First, the Supreme Court's determination that the *Huawei v. ZTE* process is not mandatory before seeking an injunction, at least in the UK, means that SEP owners will likely have more flexibility in the approach taken in negotiating FRAND license terms. In some instances, productive licensing negotiations have been delayed due to a focus on process. The UK Supreme Court's decision that the *Huawei v. ZTE* process is not mandatory could lead to productive discussions more quickly, although it remains to be seen whether other jurisdictions in Europe, such as Germany and the Netherlands, will alter their interpretation of the *Huawei v. ZTE* requirements to better accord with the UK decision. Second, the Supreme Court's determination that the non-discrimination obligation is not hard-edged may give (i) implementers more power to request deviations from the "standard" license offered by SEP owner, and (ii) SEP owners more comfort that they can depart from a "standard" license when there are reasonable reasons to do so without a fear of a "race to the bottom" with every licensee receiving the best terms offered to any other licensee. The extent of the impact, however, likely will depend on whether other jurisdictions follow the UK court's lead.

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ENDNOTES

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- 1 Judgement, *Unwired Planet Int'l Ltd. v. Huawei Techs. Co. Ltd.* (hereinafter "*Unwired III*"), [2020] UKSC 37.
- 2 *Unwired Planet Int'l Ltd. v. Huawei Techs. Co. Ltd.*, [2018] EWCA 2344.
- 3 *Huawei & ZTE v. Conversant*, [2019] EWCA Civ. 38.
- 4 *Unwired III*, [2020] UKSC 37, ¶ 1.
- 5 *Id.* ¶¶ 49, 58.
- 6 *Id.* ¶ 51.
- 7 *Id.*
- 8 *Id.* ¶ 58.
- 9 *Id.* ¶ 14.
- 10 *Id.* ¶ 59.
- 11 *Id.* ¶ 61.
- 12 *Id.* ¶ 60.
- 13 *Id.* ¶ 62.
- 14 *Id.* ¶ 63.
- 15 *Id.* ¶ 64.
- 16 *Id.*
- 17 *Id.* ¶ 52.
- 18 *Id.* ¶¶ 66–68.
- 19 *Id.* ¶ 84.
- 20 696 F.3d 872 (9th Cir. 2012.) ("When that contract is enforced by a US court, the US court is not enforcing German patent law but, rather, the private law of the contract between the parties. Although patents themselves are not extraterritorial, there is no reason a party may not freely agree to reservations or limitations on rights that it would have under foreign patent law (or any other rights that it may have under foreign law) in a contract enforceable in US courts.").
- 21 *Unwired III*, [2020] UKSC 37, ¶ 95.
- 22 *Id.* ¶ 96.
- 23 *Id.* ¶ 106.
- 24 *Id.* ¶ 110.
- 25 *Id.* ¶ 114.
- 26 *Id.* ¶ 108.
- 27 *Id.* ¶ 129.
- 28 *Id.* ¶¶ 137–40.
- 29 *Id.* ¶ 151.
- 30 *Id.* ¶¶ 130, 150–51.

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