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UK Court of Appeal Holds Offer of Global License Consistent With FRAND Obligation

Affirms Decision of Lower Court in *Unwired Planet v. Huawei*

SUMMARY

In a highly anticipated decision,¹ the UK Court of Appeal affirmed the April 2017 lower court decision in *Unwired Planet v. Huawei*, holding that: (1) under the circumstances of the case, the patent owner could, consistent with its FRAND obligation, insist on only a global license; (2) the “non-discrimination” prong of the FRAND obligation requires only general non-discrimination, *i.e.*, that all potential licensees must be offered a benchmark royalty rate that reflects the fair and reasonable value of the portfolio, and does not require that all similarly situated licensees be offered the same rate; and (3) the negotiating steps set out by the Court of Justice of the European Union (“CJEU”) in *Huawei v. ZTE* for a standard essential patent owner to be eligible to seek an injunction are not mandatory but merely provide a safe harbor, and thus a patent owner’s failure to comply with those steps did not necessarily violate competition law. The Court of Appeal, however, expressly rejected the lower court’s holding that, for any given set of circumstances, only one set of terms qualifies as FRAND. Instead, the Court emphasized that “a number of sets of terms may all be fair and reasonable in a given set of circumstances.”²

BACKGROUND

In order to participate in standard-setting processes organized by industry standard-setting organizations, participants typically must declare that they are willing to license any patents essential to the standard—known as “standard-essential” patents or SEPs—on fair, reasonable and non-discriminatory (“FRAND”) terms.³ “This [FRAND] undertaking is designed to ensure that any technology protected by a SEP which is incorporated into a standard is accessible to users of that standard on fair and reasonable terms and that its owner cannot impede the implementation of the standard by refusing to license it or by requesting unfair, unreasonable or discriminatory licence fees”—in other words, to ensure that the SEP owner

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cannot “hold-up” users of the technology by refusing to license, or by imposing unfair, unreasonable or discriminatory license terms.⁴ Courts in the U.S. and elsewhere have treated such declarations as binding contractual obligations enforceable by potential licensees as third-party beneficiaries of the FRAND commitment, but have struggled to define what constitutes FRAND license terms and to develop methodologies by which a FRAND royalty rate should be determined.

Unwired Planet (“UP”) is the owner of multiple SEPs covering the 2G-GSM, 3G-UMTS and 4G-LTE wireless telecommunications standards, which are subject to FRAND undertakings made to the European Telecommunications Standards Institute (“ETSI”). In March 2014, UP commenced patent infringement proceedings in the United Kingdom against Huawei, a Chinese manufacturer of mobile phones and infrastructure equipment, alleging infringement of multiple UK SEPs relating to those standards. Following trials in 2015 and early 2016, the trial court judge (Justice Birss) held that two of UP’s SEPs were valid and infringed and two other SEPs were invalid.

Following resolution of the infringement and validity issues, Justice Birss determined whether UP had abused a dominant market position as a result of its SEP ownership and was therefore barred from pursuing an injunction against Huawei’s continued infringement of UP’s UK SEPs. The abuse allegations had three parts: First, that UP had improperly “bundled” its UK SEPs with its SEPs in other jurisdictions. Second, that the rate demanded by UP when it did make a license offer to Huawei was unreasonable, and, in particular, that the offered rate was discriminatory because it was far above the royalty rate that Samsung received from UP in a 2016 license. Third, that UP had pursued an injunction initially without making a licensing offer to UP of any kind, much less a FRAND offer, contrary to the process specified by the CJEU in *Huawei v. ZTE*. In late 2016, Justice Birss held a bench trial to resolve those questions. At trial, UP argued that its offers for a license to its global SEP portfolio complied with its FRAND undertaking and that an injunction should be granted against Huawei in the UK if it did not take such a license. Huawei argued that a global license was not FRAND, and it was only willing to take a license to UP’s UK SEPs.⁵ In April 2017, Justice Birss held that, although none of UP’s licensing offers were FRAND because the rates were too high, UP was entitled to insist on licensing its portfolio on a global basis rather than a UK-only basis. The essential findings of Justice Birss relevant to the appeal were:

- i. “Willing and reasonable parties would agree on a global licence, and such a licence was the FRAND licence for a portfolio such as that held by UP and for an implementer like Huawei. UP was therefore entitled to insist on it. It followed that the UK-only licence sought by Huawei was not FRAND.
- ii. The rates sought by UP were too high and it was appropriate for the court to set the appropriate global FRAND rates between the parties; and
- iii. UP was in a dominant position in the relevant market but had not abused that dominant position by pursuing its patent infringement claims in the way that it did.”⁶

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Justice Birss proceeded to set the terms of a global license that he found to be FRAND, and concluded that an injunction should be granted against Huawei if it did not enter into that global license. Huawei appealed that decision to the Court of Appeal, which rendered its judgment on October 23, 2018.

THE COURT'S DECISION

The Court of Appeal upheld the lower court's decision in an opinion by Lord Kitchin, writing for the three-member Court in a 63-page opinion. The Court rejected all three of Huawei's grounds of appeal. Notably, Huawei did not challenge the lower court's methodology for determining the actual FRAND royalty rate, so this was not at issue in the appeal.

A Patent Owner's Offer Limited to a Global License Is Consistent With Its FRAND Obligation

The Court of Appeal first held that Justice Birss could properly find, under the circumstances of a worldwide portfolio and worldwide licensee activities, that an offer limited to a global license was consistent with the patent owner's FRAND obligation.⁷ The Court rejected Huawei's argument that the terms of a FRAND license determined by a Court must be commensurate with the territorial scope of the SEPs before the court and any injunction that could issue. The Court explained that, while a UK SEP indisputably is limited to enforcement in the UK, a SEP owner's FRAND undertaking is not so limited, but rather has "international effect," as the undertaking "applies to all patents which belong to the same family irrespective of the territory in which they subsist."⁸ The international scope of a FRAND undertaking is intended to protect implementers of standards, who may operate in a number of jurisdictions and thus require a FRAND license in each of those territories.

At the same time, the Court noted that SEP owners "are entitled to an appropriate reward for carrying out their research and development activities and for engaging with the standardisation process," and, in many cases, implementers and SEP owners willingly enter into global licenses.⁹ Thus, in some circumstances, a global license may be FRAND, and, depending on the facts, perhaps "only a global licence or at least a multi-territorial licence would be FRAND."¹⁰ In support of its finding, the Court quoted the EU Commission's November 2017 communication regarding SEP licensing, noting that the Commission recognized that "there is no one-size-fits-all solution to what FRAND is and that what can be considered fair varies from sector to sector and over time."¹¹ Here, the Court held, a global license was appropriate because Justice Birss found that a willing licensor and licensee in the position of the parties would have agreed to a global license, rather than engaging in country-by-country licensing, and Huawei had not shown that finding to be erroneous.¹²

The Court also found that Justice Birss did not violate principles of comity or usurp the right of foreign courts to decide issues of infringement and patent validity because "[t]he only patent rights in issue" were UP's UK SEPs, the lower court "simply determin[ed] the terms of the licence that UP was required to offer to Huawei," and, "if [Huawei] chose not to [take the license], the only relief to which UP would be entitled would be relief for infringement of the two UK SEPs the judge had found to be valid and essential."¹³ The

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Court was similarly unconvinced by Huawei's "practical" concerns because a FRAND license would "not prevent a licensee from challenging the validity or essentiality of any foreign SEPs and should make provision for sales in non-patent countries which do not require a license."¹⁴

Notably, the Court held that Justice Birss erred in his determination that there can be only one set of FRAND terms for any given set of circumstances, and instead suggested that FRAND can be a "range."¹⁵ However, the Court viewed this as "more of a theoretical problem than a real one" since a tribunal adjudicating a FRAND dispute "will normally declare one set of terms as FRAND and that will be the set of terms the SEP owner must offer to the prospective licensee. If, however, the outcome of the proceedings is that two different sets of terms are each found to be FRAND then . . . the SEP owner will satisfy its obligation to ETSI if it offers either one of them."¹⁶ The Court found this error to be immaterial and dismissed this ground of Huawei's appeal.¹⁷

The Non-Discrimination Prong of FRAND Does Not Require an Offer of the Same Rate to All Similarly Situated Licensees

The scope of the non-discrimination element of UP's FRAND undertaking was disputed at trial and on appeal. Huawei argued that UP was required to offer Huawei the same royalty rate that Samsung received in a 2016 license that was concluded during the pendency of the Huawei action.¹⁸ The Court first agreed with the lower court and Huawei that the 2016 Samsung license was equivalent and comparable to circumstances pertinent to Huawei, triggering the non-discrimination prong of the FRAND undertaking.¹⁹ However, the Court rejected Huawei's "hard-edged" interpretation of the non-discrimination provision, and instead endorsed Justice Birss' "general" non-discrimination approach, which obligates the SEP owner to offer to all potential licensees a benchmark rate representing the fair and reasonable value of the patents while at the same time allowing the SEP owner to provide some licensees with lower royalty rates.²⁰

The Court noted that the general non-discrimination approach is consistent with "the object and purpose of the FRAND undertaking," *i.e.*, "to ensure that the SEP owner is not able to 'hold-up' implementation by demanding more than its patent or patent portfolio is worth."²¹ The Court further noted that "[t]he objective of the [FRAND] undertaking is not to level down the royalty to a point where it no longer represents a fair return for the SEP owner's portfolio, or to remove its discretion to agree [on] lower royalty rates if it chooses to do so."²² In other words, "[t]he [FRAND] undertaking should be construed in a way which strikes a proper balance between a fair return to the SEP owner and universal access to the technology without threat of injunction."²³ Ultimately, the Court found that Huawei's "approach is excessively strict, and fails to achieve that balance."²⁴

The Court noted that any potential for discrimination below the benchmark rate could be "redress[ed] through the application of competition law" and that using the "hard-edged approach," which provides for all licensees to receive the lowest rate, "gives unwarranted primacy to [the non-discrimination] limb, in that

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a licence granted at a lower rate, no matter how low, will always trump the benchmark fair and reasonable rate.”²⁵

UP Did Not Violate the Competition Laws by Failing to Comply with *Huawei v. ZTE*

On appeal, Huawei argued that Justice Birss should have found that UP violated the competition laws by seeking an injunction against Huawei without first following the licensing negotiation steps outlined in the CJEU’s decision in *Huawei v. ZTE*. In that case, the CJEU specified the steps that a SEP owner and alleged infringer should take before the owner brings a patent infringement action seeking injunctive relief, including providing (i) notice to the alleged infringer regarding its specific infringing conduct, and (ii) a detailed, written license offer after the alleged infringer expresses a willingness to enter into a FRAND license.²⁶

The Court rejected Huawei’s argument, finding that the lower court properly concluded that the steps set out in *Huawei v. ZTE* were sufficient, but not necessary, to avoid a finding that the patent owner abused its dominant position in violation of Article 102 TFEU by seeking an injunction.²⁷ The Court noted that, by providing a framework for negotiations between a SEP owner and potential licensee, “the CJEU was not laying down mandatory conditions . . . such that non-compliance will render the proceedings a breach of Article 102 TFEU,” and that, “in determining whether a course of conduct is abusive, account must be taken of the actual circumstances in the case.”²⁸ The steps provided in *Huawei v. ZTE* constitute a “safe harbour: if the SEP owner complies with the prescribed steps, the commencement of the action will not, in and of itself, amount to an abuse.”²⁹ While a patentee’s compliance with the safe harbor shields it from charges of abuse, non-compliance with the safe harbor does not automatically constitute abuse.

The Court, however, noted that, under *Huawei v. ZTE*, the SEP owner is required to “give notice to or consult with the alleged infringer prior to the commencement of proceedings, and that 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 upon all the circumstances of the particular case in issue.”³⁰ Here, that requirement was satisfied because UP communicated with Huawei regarding potential licensing prior to the action, and Huawei was on notice of UP’s SEPs and potential infringement, even though UP did not provide a written offer of a FRAND license until after commencement of the action.³¹

IMPLICATIONS

This case represents the first UK appellate decision on FRAND terms, and will surely guide the manner in which national courts in that country may treat global licensing issues in future SEP infringement actions. The Court discussed the objectives and purposes of the FRAND undertaking, and stressed the need to balance implementers’ ability to access and use SEP technologies with a fair return to the SEP owner. The Court recognized, in particular, that a FRAND obligation designed to prevent patent owner “hold-up” should not be permitted to facilitate implementer “hold-out”, *i.e.*, unreasonably refusing or delaying

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entering into a license. Thus, the Court's decision should guide UK national courts to carefully balance the interests of implementers and patent owners in FRAND cases.

Assuming that the Court's decision stands—either by Supreme Court affirmance or a rejection of further appeal by Huawei—the Court's holding that UK courts may set global FRAND licensing terms may make the UK a highly attractive forum for SEP owners seeking to enforce their rights against large multinational companies. The Court's findings on the non-discrimination element of the FRAND commitment and the scope of *Huawei v. ZTE* also generally favor SEP owners by giving them more flexibility in negotiating FRAND royalty rates and the conduct of licensing negotiations prior to commencing an infringement action. Moreover, the conclusion that one FRAND offer satisfies the FRAND obligation suggests that not all offers must be FRAND. If this is indeed the conclusion of the Court, it logically follows that initial offers in contemplation of negotiations or pool license terms need not be defended as FRAND, provided the patentee at some point before initiating court proceedings makes an offer that is consistent with its FRAND obligations.

Finally, the Court recognized that many of the issues raised are relatively new and courts throughout the world are also grappling with them. The Court's consideration and analysis of decisions from other jurisdictions and its comment that "it is desirable that an internationally accepted approach should ultimately emerge" indicate that legal developments in other jurisdictions may be considered by UK courts in the future.³² Relevant here is the appeal recently taken by Ericsson in its U.S. case against TCL. The lower court decision interpreting the FRAND requirement was the subject of our memorandum to clients dated December 29, 2017. See *TCL Comm'n v. Ericsson*, C.A. No. 14-CV-341 (C.D. Cal. December 21, 2017).

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ENDNOTES

- 1 Approved Judgment, *Unwired Planet International Ltd. v. Huawei Techs. Co. Ltd.*, case number A3/2017/1784, EWCA Civ 2344 (2018) (England and Wales Court of Appeal).
- 2 *Id.* ¶ 121.
- 3 *Id.* ¶¶ 2-4.
- 4 *Id.* ¶ 4.
- 5 *Id.* ¶¶ 31-33.
- 6 *Id.* ¶ 16.
- 7 *Id.* ¶ 129.
- 8 *Id.* ¶ 53.
- 9 *Id.* ¶¶ 54-55.
- 10 *Id.* ¶ 56. The Court noted that a contrary ruling would promote “hold-out” by implementers, as patent holders would have to “bring proceedings country by country” and the licensee “would know that . . . there would be no prospect of any effective injunctive relief being granted against it provided it agreed to pay the royalties in respect of its activities in any particular country once those activities had been found to infringe.” *Id.* ¶ 111.
- 11 *Id.* ¶ 60.
- 12 *Id.* ¶ 110.
- 13 *Id.* ¶¶ 79-80.
- 14 *Id.* ¶ 82.
- 15 *Id.* ¶ 123.
- 16 *Id.* ¶ 125.
- 17 *Id.* ¶ 129.
- 18 *Id.* ¶¶ 132-33.
- 19 *Id.* ¶¶ 174-76.
- 20 *Id.* ¶¶ 177-79, 194.
- 21 *Id.* ¶ 196.
- 22 *Id.*
- 23 *Id.* ¶ 198.
- 24 *Id.*
- 25 *Id.* ¶¶ 200-201.
- 26 *Id.* ¶ 249.
- 27 *Id.* ¶¶ 269-70.
- 28 *Id.* ¶ 269.
- 29 *Id.* ¶ 270.
- 30 *Id.* ¶ 271.
- 31 *Id.* ¶¶ 258, 281, 284.
- 32 *Id.* ¶ 206.

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