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QUICK LINKS

Main article

Other developments

Merger control

Antitrust

General competition

For further information on any EU or UK Competition related matter, please contact the Competition Group or your usual Slaughter and May contact.

Square de Meeûs 40
1000 Brussels
Belgium
T: +32 (0)2 737 94 00

One Bunhill Row
London EC1Y 8YY
United Kingdom
T: +44 (0)20 7600 1200

UK Supreme Court issues judgment in telecommunications FRAND licensing cases

On 26 August 2020 the UK's highest court delivered its long-awaited judgment concerning global telecommunications licensing in the *Unwired Planet v Huawei and Huawei and ZTE v Conversant* appeals. Upholding the decisions of the lower Court of Appeal and High Court in both proceedings, the UK Supreme Court's (the Court) judgment (i) confirms that the courts of England and Wales can set the terms for global fair, reasonable and non-discriminatory licences to standard essential patents (SEPs), and stop a party from using a UK patent where the implementer does not accept a global licence to a multinational patent portfolio, and (ii) clarifies the SEP owner's obligations in granting FRAND licences and rates under the European Telecommunications Standards Institute (ETSI) policy.

APPEALS

SEPs are patents that are essential to an industry's standard use, as set by a standard setting organisation. The sale and operation of mobile phones compliant with the ETSI's standards for mobile telephony is not possible without use of the relevant SEPs. Given their unique position, the ETSI requires owners of the relevant SEPs to operate on terms that are 'fair, reasonable and non-discriminatory' (or FRAND) when granting licences, to ensure that they do not act anti-competitively (e.g. by refusing to license their patents, or charging unfairly high royalties).

The first appeal (the Unwired appeal) concerned an action brought by Unwired – a licensor of patents to telecommunications equipment companies – against telecommunications company Huawei for an infringement of UK patents that form part of a large portfolio of patents and patent applications declared essential, and that covered 42 countries at the time of trial.

The second appeal (the Conversant appeal) concerned an action brought by licensor Conversant against telecommunications companies Huawei and ZTE for infringement of its UK patents, which form part of a portfolio of 2,000 patents and patent applications (a number of which Conversant argued are essential) covering over 40 countries.

KEY ISSUES

The judgment considers several issues that are of importance to the international telecommunications market, summarised below.

JURISDICTION AND FORUM

A key issue was whether a court in the UK has jurisdiction and may properly exercise a power, without the agreement of both parties, to (a) grant an injunction to restrain the infringement of a UK patent where that patent is an essential component in an international standard of equipment, sold worldwide, and (b) determine royalty rates and other terms of a global licence that covers SEPs from a number of jurisdictions.

On the first point, the Court found that the courts of England and Wales do have jurisdiction to grant an injunction to prevent infringement of a UK SEP where the infringer refuses to enter into a global licence for a portfolio of multinational patents.

On the second point, whilst the Court recognised that the validity of a national patent was within the exclusive jurisdiction of the courts of the state that granted the patent, it found that the contractual arrangements ETSI has created under its Intellectual Property Rights (IPR) Policy give the English courts the jurisdiction to determine the terms of a global licence to a portfolio of patents which may include foreign patents. The Court rejected Huawei's argument that English courts can only determine the terms of a licence of UK SEPs, as (a) this runs counter to the aims of ETSI's IPR policy to have international effect (where a "*patent family*" can mean patents with "*one priority in common*", therefore extending to those applied for in several jurisdictions), and (b) this fails to take the wider context of a telecoms portfolio into account.

A separate question was raised in the Conversant appeal as to whether England was the appropriate forum to settle the dispute between the parties, and whether China – the only alternative presented by Huawei - was another forum with jurisdiction. The Court found the Chinese courts do not at present have the jurisdiction needed to determine the terms of a global FRAND licence. Accordingly, England was the proper forum for the dispute.

OBLIGATIONS WHEN GRANTING LICENCES AND RATES

Another question was what the 'non-discriminatory' part of the FRAND obligation means in terms of the licence which the SEP owner must offer to an implementer under the ETSI IPR policy. Huawei contended that Unwired should have offered a licence with a royalty rate as favourable as that agreed with a third party to ensure the 'non-discriminatory' element was met, but the Court disagreed. It held that Unwired had not breached the FRAND principles by offering different terms to Huawei: first, the words 'fair, reasonable and non-discriminatory' are not distinct principles, and the FRAND obligation is a "*composite whole*"; and second, SEP owners are not required to grant licences on favourable, equivalent terms to all. Rather, the rate should be based on the value of the patent portfolio being licensed.

PURSUIT OF INJUNCTIVE RELIEF

In Case C-170/13 *Huawei v ZTE*, the Court of Justice concluded that the owner of a SEP that has given an irrevocable undertaking to grant a licence to third parties on FRAND terms will not abuse its dominant position by bringing an action for seeking an injunction prohibiting the infringement of its patent provided: (a) prior to bringing that action, the owner has given the alleged infringer notice of the infringement, and (b) after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to the alleged infringer a specific, written offer for a licence specifying royalty calculations. Huawei argued that, when Unwired sought an injunction against Huawei's use of Unwired's SEPs, Unwired had not complied with the first of these conditions, and accordingly contravened Article 102 of the TFEU.

The Court confirmed that Unwired did not abuse its dominance when it sought an injunction. It disagreed with the argument that sufficient notice has to be interpreted as protocol identical to *Huawei v ZTE*, as giving prior notice was the only mandatory requirement in that case, and felt instead that the nature of the notice would depend on the facts of the case.

Main article
Other developments
Merger control
Antitrust
General competition

JURISDICTION TO AWARD A PROHIBITORY INJUNCTION

The Court found that a prohibitory injunction is a proportionate remedy to patent infringements, as, (a) damages would not be an adequate substitute to an injunction for the patent-holder, and (b) there is no risk of the licensor using the threat of an injunction to leverage higher prices or have an advantage in negotiations with the alleged infringer, as they cannot enforce their rights unless they have offered a licence for the SEPs on FRAND terms.

COMMENT

This judgment ends six years of litigation between the parties, and is notable as the first top court verdict in the world on the enforcement of SEPs on FRAND terms. Looking to the future, it is likely to make England and Wales an attractive jurisdiction for SEP holders to bring infringement proceedings in the future, as English courts have shown willing to determine FRAND licensing cases for portfolios with a multinational scope which include SEPs and to set global rates when parties cannot agree.

OTHER DEVELOPMENTS

MERGER CONTROL

EUROPEAN COMMISSION CONDITIONALLY APPROVES MASTERCARD ACQUISITION OF NET'S ACCOUNT-TO ACCOUNT PAYMENT BUSINESS

The European Commission announced on 17 August 2020 that it has conditionally approved the proposed €2.85 billion acquisition of Nets' account-to-account payment business (Nets) by Mastercard at Phase 1.

The transaction, as originally notified to the Commission on 26 June 2020 following referrals from six Member States, raised competition concerns in the EEA market for account-to-account core infrastructure services (A2A CIS) in relation to managed solutions. A2A CIS allow for payments to be processed directly between bank accounts, without the need for a card. The Commission found that the parties closely compete with one another and hold strong positions in the market, whereby the transaction would have led to the strengthening of the leading player, Mastercard. Therefore, without appropriate remedies, the transaction would have harmed competition and led to higher prices and less choice in the market for the provision of A2A CIS as managed services.

To remedy the Commission's concerns Mastercard and Nets' proposed commitments to transfer to a suitable purchaser a global licence to distribute, supply, sell, develop, modify, upgrade or otherwise use Nets' Realtime 24/7 technology, with which Nets's business currently competes in A2A CIS tenders. The Commission concluded that the proposed commitments fully address its competition concerns, as they will increase competition in the market for the provision of A2A CIS as managed services in the EEA, by allowing a new player to effectively and credibly compete in this space.

Competition Commissioner Margrethe Vestager emphasised that the merger, as originally notified, "*would have undermined the development of new real-time payment solutions, which are increasingly important*". She further said that the decision "*ensures that effective competition is preserved and facilitates the emergence of a new provider of real-time payment infrastructure services in the European Economic Area*".

ANTITRUST

FIRST CARTEL SETTLEMENT IN HONG KONG

Hong Kong recently saw its first court-endorsed cartel settlement. This concerns the second decorators' cartel case before the Competition Tribunal (the Tribunal) brought by the Hong Kong Competition Commission (the HKCC) in September 2018. The HKCC alleged that three decorator firms (and two individuals from those firms) fixed prices and allocated customers in a public housing project.

Main article
Other developments
Merger control
Antitrust
General competition

In August 2019 two companies and an individual decided to settle with the HKCC. In June 2020 the Tribunal granted orders declaring them to have contravened the First Conduct Rule. Shortly afterwards, in August 2020 the remaining company and its representative also decided to admit liability. The sanctions for these settlements have yet to be determined.

This development sets the precedent in a number of respects, including: (i) it is the first settlement of enforcement proceedings before the Tribunal in Hong Kong; (ii) it is the first time parties agreed to admit liability whilst disputing the quantum of applicable sanctions; (iii) it is the first 'hybrid' settlement case where some parties settle but not others; and (iv) it is the first director disqualification order granted by the Tribunal.

Notably, the Tribunal endorsed a settlement process commonly used in the context of settling directors' disqualification proceedings called the 'Carecraft procedure', which involves a joint application by the settling party and the HKCC, supported by a 'Statement of Agreed Facts', and the Tribunal ultimately decides on questions of liability and appropriate sanctions. Parties now have a clear view of how antitrust settlements with sanctions can play out in the Hong Kong court.

For a discussion on the implications of this development, see our client briefing here.

GENERAL COMPETITION

CMA PUBLISHES PROVISIONAL CONCLUSIONS IN ITS FUNERALS MARKET INVESTIGATION

On 13 August 2020 the UK Competition and Markets Authority (CMA) published its provisional decision report as part of its in-depth market investigation into funeral services.

The investigation was opened in March 2019, pursuant to an initial market study phase which commenced in June 2018. The investigation focusses on how consumers approach the purchase of funeral services (including crematoria services) under the difficult circumstances following the death of a loved one. The purpose of the investigation has been to determine whether consumer engagement levels, along with the behaviour of service providers in the market, suggests that there is an adverse effect on competition which needs to be remedied.

The CMA's provisional conclusions have identified a number of issues including: a lack of information on products and pricing, making it difficult for consumers to compare different providers; prices rising at a rate above inflation; and a lack of funeral directors back of house quality regulation in the industry.

The CMA has however noted in its provisional report that the exceptional circumstances of the COVID-19 pandemic have had a significant impact on the functioning of the funerals market, with a knock-on effect on the investigation itself. The CMA has acknowledged that the pandemic resulted in an urgent increase in demand along with restrictions on the nature of funerals possible. As a result, forecasting future revenue and profitability of funeral directors and crematoria operators is more difficult and there is currently little capacity for many stakeholders to actively engage with the CMA. Consequently, the CMA has decided to hold back on some of the reforms, such as price controls, that the CMA may have been considering in the background. Instead, the CMA has provisionally decided that for now it will pursue 'sunlight remedies' that require all funeral directors and crematoria to provide customers certain pricing and commercial information on the services and packages they offer, in order to help customers compare offerings and decide which type of funeral arrangement they require. The CMA also proposes to make recommendations to the Government to introduce quality regulation and licensing of funeral directors in some form. The provisional conclusions also include a recommendation to the CMA board to consider whether a supplementary investigation in this market is necessary once conditions are "*more stable*"; in the meantime, the CMA proposes to continue to monitor the sector by periodically gathering financial data from funeral directors and crematoria.

Main article
Other developments
Merger control
Antitrust
General competition

The statutory deadline for the report was extended earlier this year until 27 March 2021 but the CMA expects to publish its final findings by December 2020.

London
T +44 (0)20 7600 1200
F +44 (0)20 7090 5000

Brussels
T +32 (0)2 737 94 00
F +32 (0)2 737 94 01

Hong Kong
T +852 2521 0551
F +852 2845 2125

Beijing
T +86 10 5965 0600
F +86 10 5965 0650