

# UNWIRED PLANET V HUAWEI - SUPREME COURT CONFIRMS ENGLISH COURTS AS GLOBAL RINGMASTERS OF FRAND DISPUTES

Those seeking a licence of standard-essential patents (“SEPs”) are entitled to receive one on fair, reasonable and non-discriminatory (“FRAND”) terms. SEPs are patents that are embedded in international standards such that standard-compliant products cannot be manufactured without infringing the SEP. FRAND licensing disputes have excited the imagination of lawyers and economists alike for many years. At the heart the dispute is what is a reasonable patent licence price and who should determine it. Finally, with the long awaited UK Supreme Court decisions in *Unwired Planet v Huawei* and *Conversant v Huawei* we have some answers to these questions.

As readers may be aware, SEP owners frequently disagreed with potential licensees on the price which should be paid to license the SEP portfolio. In the beginning, lawyers tried all kinds of tactics to have the courts decide such issues but the courts were having none of it: this, they said, was a commercial issue. Economists wrote and wrote on the topic to the extent that courts were now more comfortable in determining what FRAND terms were.

Not surprisingly, judicial involvement in determining FRAND terms has not been without controversy. The joint appeals *Unwired Planet v Huawei* and *Conversant v Huawei* concern SEPs in the telecommunications industry. The High Court decision in *Unwired Planet* was ground breaking in that it marked the first time an English court accepted jurisdiction over a party’s undertaking to license its SEPs on FRAND terms, granted a FRAND injunction and set FRAND royalty rates on a global scale, all in circumstances where one party did not consent (see [this](#) client briefing). In doing so, it established that implementers who refuse to take a licence on FRAND terms risk being subject to an injunction against infringement of the relevant SEP. These findings were [upheld](#) on appeal in October 2018. As for *Conversant*, the Court of Appeal in that [case](#) similarly confirmed in 2019 that English courts *do* have jurisdiction to make FRAND decisions. The perceived global creep of the jurisdiction of English courts in this way attracted much criticism, English courts being labelled as everything from “ringmasters” to causing “colonial hangovers”.

The Supreme Court had to consider five issues.

## 1. Jurisdiction - can English courts grant global FRAND licences?

Yes. The Supreme Court confirmed that English courts have jurisdiction to determine the terms of a FRAND licence where the implementer enters into a global licence of an international patent portfolio. It explained that Birss J and the Court of Appeal did not take it upon themselves to rule on the validity and infringement of foreign patents that were the subject of that licence (something which would, indeed, be out of jurisdiction). Instead, they addressed the commercial reality that implementers routinely take licences over portfolios of hundreds or thousands of patents which may be relevant to a standard. It is clear that the European Telecommunications Standards Institute (ETSI) and its IPR Policy that sets out rights and obligations for, among others, SEP owners and potential licensees, take into account this reality. As such, the framework they establish is an international one, and one which enables courts to draw on commercial practice in making FRAND determinations, just like the parties themselves would.

## 2. Forum non conveniens - is it appropriate for English courts to determine global FRAND disputes?

Yes. In the *Conversant* appeal, Huawei argued that China was a more suitable forum for hearing the dispute, as that is where both defendants were based and where most sales were made. The Supreme Court rejected this because the Chinese courts do not currently have the jurisdiction needed to determine the terms of a global FRAND licence, especially without all parties’ agreement that they should do so. By contrast, English courts could exercise jurisdiction and determine the terms of a FRAND licence, even absent the parties’ agreement (see issue 1, above). Therefore, since an implementer should be able to obtain a FRAND licence in *some* jurisdiction, England was an appropriate forum for it to do so.

## 3. Non-discrimination - what does it mean?

The debate was whether the non-discrimination limb of the FRAND undertaking is “hard-edged” or “general”. The “hard-edged” interpretation states that the SEP owner must grant the same or similar terms to all similarly-situated licensees, unless it can show that there are objective grounds for treating them differently. Meanwhile, the “general” interpretation meant that a SEP owner must offer a royalty rate set by reference to the value of the portfolio at the time. On this reading, it

is possible that licensees (such as Samsung) that took a FRAND licence when Unwired Planet needed liquidity quickly might pay a lower rate than future licensees that take licences when the patentee is in a better negotiation position.

The “general” side of the debate won in the Supreme Court. It was held that the terms “fair, reasonable and non-discriminatory” impose one single, composite obligation, as opposed to three distinct ones. Therefore, at any one point in time, the SEP owner must offer all similarly-positioned licensees the same royalty rate, based on the market value of the portfolio, without discriminating between licensees by reference to their individual characteristics. As such, a licensee who was given a fair and reasonable royalty rate would not be discriminated just because another licensee had been given a lower rate at a different time.

#### 4. Competition law - is it an abuse of a dominant position not to offer a FRAND licence?

Not in these circumstances. In the *Unwired* appeal, Huawei argued that Unwired Planet did not follow the CJEU guidance in *Huawei v ZTE*<sup>1</sup> when it applied for an injunction before offering Huawei a licence on FRAND terms, thereby abusing its dominant position contrary to Article 102 on the Treaty of the Functioning of the European Union.

The Supreme Court stated that the CJEU guidance does not mean that any departure from the steps suggested was, by definition, abusive. It agreed that bringing an action for a prohibitory injunction without notice to, or prior consultation with, the alleged infringer will contravene Art 102. However, on these facts, Huawei had ample notice prior to Unwired Planet commencing proceedings, and Huawei knew that those proceedings did not imply a refusal to license, as Unwired Planet had indicated previously that it wanted to license its patent portfolio. Indeed, Unwired Planet made an offer to Huawei to grant a licence on whatever terms the court determined as FRAND shortly after proceedings had commenced, which Huawei never accepted. The

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Supreme Court therefore held that Unwired Planet did not abuse its dominant position when seeking a prohibitory injunction.

#### 5. The remedies - are injunctions a proportionate remedy?

Yes. In both appeals, Huawei argued that granting an injunction was a disproportionate remedy. Instead, it claimed that the court should have awarded damages in lieu of an injunction, based on the royalties that would have been agreed for a licence on FRAND terms for each of the patents infringed.

Huawei did not fare well on this one, either. The Supreme Court disagreed with Huawei’s arguments and explained that, while some patentees might use the threat of injunctive relief to charge implementers exorbitant fees, this was not the case here. After all, Unwired Planet could only enforce its rights if it offered Huawei a licence which the court was satisfied was on FRAND terms. Another reason for this decision was that parties should be encouraged to enter into FRAND licences in the first instance. Awarding damages in lieu of an injunction would encourage infringers to continue infringing until they were compelled to pay royalties country by country and patent by patent. An injunction was therefore the appropriate remedy.

#### *So the global ringmaster continues, for now...*

The Supreme Court’s decision is an important one for SEP owners and potential licensees worldwide and likely to provoke a wide range of follow-on discussions. At the very least, the English courts have retained the position of ringmasters in the global FRAND arena. In this respect, it will be interesting to see whether this leads to forum shopping in that companies avoid or enter the English market depending on whether they want to entertain the possibility of a global FRAND licence being granted by the English Courts. Though, a further interesting issue may be whether an English court would accept jurisdiction in a FRAND licence case where there has been no prior use of the patents in England.

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