# Kluwer Patent Blog

## Open for Business: UK Supreme Court has final say on SEP licensing

Alex Latham, Andrew Bowler (Bristows) · Friday, August 28th, 2020

**The UKSC *Unwired Planet* & *Conversant* judgment**[1]

### Background

This combined appeal deals with the relationship between patent owners, whose patents are declared essential to certain technical standards, and manufacturers of mobile devices (implementers) that make use of those standards. In this case, the standard essential patents (**SEPs**) in issue had been declared essential to the Standard Setting Organisation (**SSO**) ETSI's standards for telecommunications equipment.

The first appeal in the *Unwired Planet* case stems from proceedings brought by Unwired Planet **(UP)** in 2014 against Huawei, Samsung and Google alleging infringement of five SEPs which it had acquired from Ericsson. After several technical trials and also Samsung and Google having settled, the High Court progressed to a non-technical FRAND trial between UP and Huawei concerning the FRAND licence which UP was required to offer Huawei.

The judgment of Birss J in that case settled the terms of a FRAND licence, holding that none of the parties' licence offers had been FRAND and concluding that the licence should be a global one given the size and geographic scope of UP's patent portfolio and the geographic scope of Huawei's sales. The Judge found that a reasonable licensor and licensee would agree a worldwide licence. At a subsequent hearing, Birss J ruled that, as Huawei would not commit to take the global licence which had been settled by the court, an injunction arising from an earlier finding of patent infringement was the appropriate remedy.

The Court of Appeal upheld Birss J's judgment on appeal, with the only significant point of disagreement being that it held that the FRAND rate for a portfolio may be a range. This overturned Birss J's finding that there was only one true set of FRAND terms for any given set of circumstances. However, in this case, only a global licence was FRAND. Huawei appealed again to the Supreme Court (**UKSC**).

The second appeal in the *Conversant* case stems from proceedings brought by Conversant in 2017 against Huawei and ZTE. Conversant alleged infringement of four SEPs, belonging to a portfolio it had acquired from Nokia in 2011, and sought declarations that the licensing offers it had made to Huawei and ZTE were FRAND (or, in the alternative, a declaration as to what licensing terms would be FRAND).

Huawei and ZTE each applied under CPR 11 to challenge jurisdiction, alleging inter alia that the English Courts could not, or in the alternative should not, exercise jurisdiction over Conversant's claims. Henry Carr J dismissed these challenges, determining that the action was properly characterised as a patent infringement claim and that consequently the English Courts should exercise jurisdiction over it.

Huawei and ZTE appealed to the Court of Appeal, which upheld Henry Carr J's judgment. They appealed again to the UKSC, with the appeal being listed to be heard together with the appeal in *Unwired*.

## What did the court decide?

There were five issues before the UKSC:

**1. Does the English court have the jurisdiction and can it properly exercise such power without the parties' agreement:**

- **to grant an injunction restraining infringement of a UK SEP unless the defendant enters into a global licence under a multinational patent portfolio;**
- **to determine the rates and other terms for such a licence; and**
- **to declare that such rates and other terms are FRAND?**

Yes. The UKSC held that the contractual arrangements created by ETSI's IPR Policy give the English courts' jurisdiction to determine the terms of a global FRAND licence even in the absence of consent by the parties involved. In reaching this finding it took into account the external context surrounding the Policy, noting that it is common industry practice for parties in the telecommunications industry to agree global licences. It also endorsed the view of the lower courts that setting global FRAND terms does not involve the English courts purporting to rule on the validity and infringement of foreign patents (which would be non-justiciable). The court's view was also that it might be FRAND for implementers to reserve the right to challenge relevant patents in foreign courts and to require that the licence provide a mechanism to alter the royalty rates as a result of those proceedings.

**2. If the answer to (1) is "yes", is England the proper forum for such a claim in the circumstances of the *Conversant* proceedings?**

Yes. The evidence before the court had not shown that the Chinese courts (the only alternative courts suggested by Huawei and ZTE) would have jurisdiction at present to set the terms of a global FRAND licence and the prospect that they would undertake such an exercise as no more than speculative. The English courts were held to have such jurisdiction and, as no alternative forum was available, the court was right to have exercised it.

**3. How should the English courts interpret the 'ND' limb of FRAND?**

The UKSC adopted a conservative approach to non-discrimination, finding that under the ETSI contract it is 'general' in nature rather than 'hard-edged'. In the court's view, the FRAND obligation imports a single unitary obligation and a rate does not cease to be FRAND simply because the SEP holder has previously granted a licence on more favourable terms. A SEP holder has to offer a royalty rate set in relation to the true value of the SEPs being licensed, however there may be circumstances in which the owner of a SEP portfolio would choose to license its portfolio at a rate which does not actually reflect that true value. Consequently, the UKSC agreed with the lower courts that UP did not have to offer the same royalty rates to Huawei as it had given to Samsung in a 2016 licence.

**4. Should the court refuse to grant a SEP owner an injunction in circumstances where it has not fully complied with the guidance given by Court of Justice of the European Union (CJEU) in *Huawei v ZTE*?**

The UKSC agreed with the lower courts that a necessary component to maintain the balance between SEP owners and implementers is the possibility for a national court to grant an injunction. The only mandatory condition in the *Huawei v ZTE* framework is the requirement for the SEP holder to notify or consult with the alleged infringer before bringing a claim for an injunction, and the nature of that notice / consultation required depends on the circumstances of the case. Compliance with the other steps in the *Huawei v ZTE* framework is not mandatory but does give the SEP holder 'safe harbour' against a finding of abuse of dominance under Article 102 TFEU. The UKSC did not interfere with Birss J's original finding that UP had not acted abusively in bringing its claim for injunctive relief against Huawei.

**5. Is the equitable jurisdiction to award injunctions prohibited by the nature of SEPs?**

No. The UKSC held that damages in lieu would not be an adequate substitute for an injunction because this would give implementers an incentive to hold out country-by-country, forcing SEP owners to bear the cost of bringing enforcement proceedings around the world which would be "impossibly high".

## What are the practical implications of the judgment?

This judgment is a definitive statement from the UKSC that will have serious implications for those involved in SEP licencing in the weeks and months to come. Below are some key practical takeaways:

- **This judgment offers SEP holders the means of achieving the complete resolution of a global licensing dispute.** Given that no forum for dispute resolution has been chosen by ETSI members, English courts have shown that they are willing and able to determine global FRAND licences for a multinational SEP portfolio. This means that if an SEP holder can prove before an English court that one or more of its SEPs are valid and essential to a standard, and are therefore infringed by an implementer, the implementer will have to choose between accepting a global FRAND licence set by the court or face being injuncted in the UK. SEP holders will still have to demonstrate why a global licence is FRAND with respect, for example, to the size and geographic scope of their portfolio and the operations of each potential licensee.
- **The judgment is likely to have an immediate impact upon FRAND licensing negotiations**. Some negotiations will have stalled pending the decision on jurisdiction and will no doubt move forward now the UKSC has tried to offer a solution to the commercial uncertainty caused by the requirements of standardised global mobile communications and the national nature of patent enforcement. There may now be an increased emphasis in negotiations upon the strength of the patent portfolio in key jurisdictions as this could be an important factor in determining final royalty rates.

- **The finding regarding the non-discrimination limb of FRAND means that not all implementers will be offered the same royalty rates**. The judgment offers parties a degree of flexibility in negotiations, even with similarly situated implementers, and may make settlements more likely.
- **The judgment could lead to an increase in SEP/FRAND litigation in the UK**. It offers certainty as to the UK position and SEP holders can be expected to take advantage of the confirmed route to securing global FRAND licences through the English courts. However, the case is unlikely to be the final word on jurisdiction, as arguments regarding the appropriate forum will resume if and when (as seems likely) other national courts adopt a similar approach to jurisdiction in FRAND cases.

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[1] Bristows represents ZTE in the *Conversant* action and represented both Samsung and Google in the *Unwired Planet* action (both parties settled before the first instance non-technical/FRAND trial). Bristows also acts for a number of other companies active in litigation relating to SEPs and FRAND. This report does not reflect or represent the views of any of those parties nor of any other client of the firm, nor does it constitute legal advice.

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