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Standard Essential Patents, Global Licensing Approach and the Principle of Territoriality

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Recently, the decisions of courts in the United Kingdom (UK) in [Unwired Planet v Huawei Technologies](#) (*Unwired Planet*) and [Optis Cellular Technology v Apple](#) (which followed the decision of the UK Supreme Court in *Unwired Planet*) have given rise to significant debate over the appropriate forum for litigation of disputes in relation to standard essential patents (SEPs). In these decisions, which have positioned the UK as a SEP-friendly jurisdiction, courts in the UK have applied a ‘global licensing approach’, finding that they have the power to determine the royalty to be paid for global patent portfolios.

These decisions are controversial, as they effectively allow courts in the UK to determine the royalty payable on fair, reasonable and non-discriminatory (FRAND) terms in relation to patents held in other countries. In this post, we briefly discuss whether the global licensing approach is compatible with the principle of territoriality.

The principle of territoriality stipulates that patent rights are restricted to the jurisdiction in which it is granted and are independent of the rights in relation to the same patent in another jurisdiction. It is the cornerstone of international intellectual property law, which allows countries to design their intellectual property laws and policies in a manner that enables the pursuit of specific societal goals, subject to international treaties such as TRIPS.

In the context of patents, this principle is most prominently codified in Article 4*bis* of the [Paris Convention on Protection of Industrial Property, 1883](#) (Paris Convention). The principle was introduced under Article 4-*bis* through the additional act to the Paris Convention adopted at the Revision Conference of Brussels in 1900. It states that patents obtained in various countries shall be independent of patents obtained for the same invention in other countries, allowing for different outcomes and rights for the same invention in different countries.

***Unwired Planet* and the Principle of Territoriality**

In the context of SEPs, the principle of territoriality comes into focus when patent owners seek injunctions and payment of royalties for patent portfolios that include patents held in jurisdictions across the world. Such a situation notably arose in *Unwired Planet* before the UK Supreme Court, where Huawei was being sued for using technology in relation to 2G, 3G, and 4G wireless telecommunications standards without obtaining a licence.

The UK Supreme Court found that it had jurisdiction to determine the royalty payable for the global patent portfolio, primarily due to the undertaking, provided by Unwired Planet to the European Telecommunications Standards Institute (ETSI). In this undertaking, Unwired Planet agreed to license its portfolio of essential patents in relation to 2G, 3G and 4G technologies on FRAND terms to any third-party implementer. The Court noted that this undertaking allowed third parties to enforce the obligations in the undertaking against Unwired Planet and since payment of royalty was an obligation in the undertaking made to ETSI, courts in the UK had jurisdiction to determine the royalty payable under the contract (this is known as the contractual approach, although it has been [contested](#) whether the Supreme Court truly followed this approach). The Court also found that the relevant market practice also indicates that licences for patents across jurisdictions are negotiated collectively for commercial and operational efficiency.

The Court also noted that the contractual approach does not encroach upon the power of national courts of the jurisdictions in which the patents have been granted, since it has not decided on the question of validity of the patents. The question of validity would remain open for the courts of the relevant jurisdiction to determine in accordance with its laws. The Supreme Court, in calculating the royalty payable, accounted for the possibility that some patents are invalid and notes that if a patent is subsequently found to be invalid, an adjustment may be made in the amount of royalty payable.

Criticism

In our view, the contractual approach or ‘global licensing approach’ adopted by the Supreme Court may not be consistent with the principle of territoriality. This is because the power to adjudicate disputes in relation to SEPs lies with the jurisdiction in which the patent is obtained, and the highest British court has encroached upon this by undertaking the calculation by itself. This power of national courts cannot be contracted away by way of an agreement entered into by the patentee in a different jurisdiction. Further, it would be improper to displace the well-founded principle of territoriality under international intellectual property law due to market practice and commercial expedience.

While the principle of territoriality has survived the spate of international patent treaties including TRIPS (which has provided for some form of harmonisation but has also incorporated Article 4*bis* Paris by reference), there is now a risk of it being eroded by national courts deciding disputes in relation to SEPs. The UK Supreme Court is not the only court which seems to erode the principle of territoriality, with similar rulings being made by courts in other countries (see the cases discussed in *Unwired Planet* in paragraphs 66 to 84).

Thus, it appears that courts may now be forced to decide on issues that should be decided by courts of other jurisdictions due to the commercial realities and the real-world consequences of not resolving disputes in relation to SEPs in an efficient and effective manner.

Commenting on such extra-territorial impact, experts have gone as far as [arguing](#) that the decision constitutes an “impermissible jurisdictional overreach” and that the UK Supreme Court has adopted a “neo-colonial” or “neo-imperialist” approach. Although the injunction granted in *Unwired Planet* does not extend to jurisdictions beyond the UK, it is based on the court’s assessment of royalty payable for a patent portfolio which includes patents held in jurisdictions beyond the UK. This directly affects the right to receive royalty in relation to a patent, which according to the principle of territoriality, should be determined by courts of the country in which

the patent is held.

Additionally, injunctions such as the one granted in *Unwired Planet* give the patent owner significant leverage in negotiations over a global licence. This in practice – if not in law – affects patents valid in other territories. That is, a SEP implementer might end up paying high global royalties (for patents held in other jurisdictions) as a result of a judgment of a court in the UK because of the indirect impact on negotiations for licenses for patents valid in other jurisdictions. In practice, this seems to overstep the boundaries set by the principle of territoriality.

It would be interesting to see whether the global licence approach is going to be challenged at the WTO for an alleged violation of Article 4*bis* of the Paris Convention, which as mentioned has been incorporated into TRIPS. After all, the ability of extracting profits out of a patented invention derives directly from the patent, which is granted by a national (or regional) office. It seems reasonable to affirm that the courts of the country where these profits are extracted should have sole jurisdictions over “national” patent matters – including the ability of monetising the patent itself in that specific jurisdiction. In this regard, a ruling from a WTO Panel in the context of a TRIPS dispute settlement procedure could provide a much-needed clarification. Time will tell.

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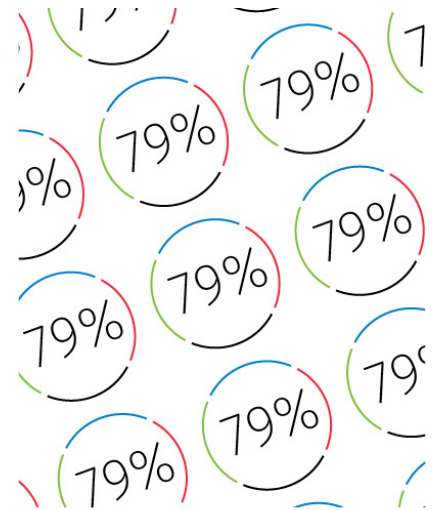
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