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U.K. Supreme Court Permits SEP Holders to Require Worldwide FRAND Licenses

On August 26, 2020, the U.K. Supreme Court—the U.K.’s highest court—issued its highly anticipated decision in *Unwired Planet International v. Huawei* involving the “Fair, Reasonable, and Non-Discriminatory” (“FRAND”) licensing of standard essential patents (“SEPs”) in the telecommunications space. The decision in several consolidated cases rejected all appeals from Huawei and ZTE and affirmed the decisions from the London High Court (Justice Birss) and Court of Appeals. The Court concluded that owners of patents essential to ETSI’s telecommunications standards (including 2G, 3G, and 4G (LTE)) can demand that an implementer practicing a U.K. SEP take a license on FRAND terms to all of the patent owner’s worldwide telecommunications SEPs, and can obtain an injunction should the implementer refuse. This decision has significant implications for FRAND licensing, assertion of SEPs, and antitrust issues both in the telecommunications context and more broadly.

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Background

The U.K. Supreme Court’s decision was based on the consolidated appeal of multiple cases involving the assertion and licensing of SEPs on FRAND terms. In 2013, Unwired Planet (which is now owned by PanOptis), a company in the business of licensing patents, acquired from Ericsson a worldwide portfolio of patents, including many SEPs for the 2G, 3G, and 4G (LTE) standards. Unwired Planet then asserted a subset of that portfolio against Huawei and other entities. As relevant to this appeal, in response, Huawei argued that the asserted patents were invalid and not infringed, and that Unwired Planet had failed to offer a license on FRAND terms.

After a technical trial found Huawei to have infringed valid U.K. patents, Justice Birss of the English High Court determined that Huawei could be forced to take a FRAND license for not only the patents in suit, but to all Unwired Planet’s worldwide SEPs. Justice Birss set the terms of the license, and enjoined Huawei from practicing Unwired’s patents (and thus selling products that comply with the 2G, 3G, and 4G (LTE) telecommunications standards) unless it agreed to those licensing terms. Huawei appealed to the Court of Appeal, which affirmed Justice Birss’ opinion in most respects. Huawei then appealed to the U.K. Supreme Court.

U.K. Supreme Court Decision

The U.K. Supreme Court determined that there were five issues raised on appeal:

1. Whether a court in the U.K. has jurisdiction and may properly exercise a power without the agreement of both parties (a) to grant an injunction restraining the infringement of a U.K. SEP unless the defendant enters into a global license on FRAND terms of a multinational patent portfolio and (b) to determine royalty rates and other disputed items for a settled global license and to declare that such terms are FRAND.
2. Whether England is the appropriate forum to determine those matters.
3. The nature of the requirement that the license, which the owner of an SEP must offer to an implementer, be “non-discriminatory.”
4. Whether the court should refuse to grant the owner of such a SEP an injunction on the ground that it has breached EU competition law because it has not complied with the guidance given in the judgment of the Court of Justice of the European Union (CJEU) in *Huawei v. ZTE*; and

5. A more general question as to the circumstances in which it is appropriate for an English court to grant a prohibitory injunction or to award damages instead.

The Court affirmed on all five issues.

1. Jurisdiction (¶¶ 49-90)

With respect to the first issue, the Court concluded that for SEP patents, a U.K. court is entitled to condition injunctions against U.K. patents on a defendant not agreeing to a global license. In making this determination, the Court made clear that it was focusing on the particular circumstances of the telecommunications industry, noting (¶ 58, ¶ 90) that “[i]t is the contractual arrangement which ETSI has created in its IPR Policy which gives the court jurisdiction to determine a FRAND licence and which lies at the heart of these appeals.” As part of its reasoning, the Court surveyed similar approaches and key FRAND cases in the United States, Germany, and China, among other countries, and concluded (¶ 84) that Justice Birss’s decision was not “out of line with the approach of courts in most significant jurisdictions.” The Court also noted (¶ 90) that it was aware of the danger of forum shopping, but that, as the standard-setting organizations such as ETSI have not provided for any forum to determine the terms of FRAND licenses, it is up to the national courts to determine those terms. And the Court observed (¶ 65) that implementers challenged to take global licenses could seek to make reservations in those licenses concerning the effect on royalties should the SEP owner’s non-U.K. patents, “or a relevant sample of them,” be successfully challenged in a non-U.K. court.

2. Which forum should decide? (¶¶ 91-104)

With respect to the second issue, the Court (¶ 93) characterized the appellants’ argument as being that, “in substance, the real dispute between the parties is as to the terms of a FRAND licence, with the claim to enforce English patents by injunction being no more than a convenient peg upon which to hang the dispute so as to attract English jurisdiction.” The Court suggested (¶ 96) that it was inclined to disagree with this characterization. That said, it avoided the question by noting (¶ 97) that in China, the only alternative forum that the parties had suggested, the courts “do not, at present, have jurisdiction to determine the terms of a global FRAND license, at least in the absence of agreement by all parties that they should do so.” The Court further observed (¶ 98) that other *forum non conveniens* question could have more relevance in other cases, with different circumstances.

3. FRAND and “Non-Discrimination” (¶¶ 105-127)

With respect to the third issue, the Court rejected Huawei’s argument that Unwired Planet had violated the “non-discriminatory” portion of FRAND by (as all parties agreed) offering Huawei less favorable rates than those contained in an Unwired Planet license with Samsung. Huawei argued that, in order for a license to be on FRAND terms, SEP owners must grant the same terms to all potential licensees. The Court noted (¶ 106) that “[t]he non-discrimination limb of the undertaking means that the SEP owner must grant the same or similar terms to all similarly situated licensees, unless it can be shown that there are objective grounds for treating them differently.” That said, the Court rejected the argument that this means that the ETSI IPR policy requires that a patent owner offer every prospective licensee the *most favorable* license terms offered to anyone. Instead, the Court explained (¶ 122), “[t]he role of the non-discrimination limb is to ensure that the fair and reasonable royalty is one which does not depend on any idiosyncratic characteristics of the licensee.”

4. Abuse of Dominant Market Position (¶¶ 128-158)

With respect to the fourth issue, the Court rejected Huawei’s argument that Unwired Planet had abused a dominant position in violation of Article 102 of the Treaty on the Functioning of the European Union by not making a FRAND license offer before filing suit. The Court observed (¶ 150) that, in view of the CJEU’s decision in *Huawei v. ZTE*,

“[b]ringing ‘an action for a prohibitory injunction ... without notice or prior consultation with the alleged infringer’ will amount to an infringement of article 102.” But, the Court added (¶ 151), “the nature of the notice/consultation that is required must depend upon the circumstances of the case.” Here, the Court (¶ 158) concluded that there was “no reason to interfere” with Justice Birss’s determination that Unwired Planet had not behaved abusively, that “sufficient notice was given to Huawei,” and that there was “no mandatory requirement that Unwired itself make an offer of terms which coincided with those that were ultimately determined by the court to be FRAND.”

5. *Proper Remedy* (¶¶ 159-169)

Finally, with respect to the fifth issue, the Court rejected Huawei’s argument (which was made first to the U.K. Supreme Court) that an injunction is disproportionate, and instead the U.K. courts should substitute an award of damages for adjudged infringement by Huawei in the U.K. of a U.K. SEP. The Court rejected this argument because it determined there was no basis for it to award damages in place of the injunction, and because there was no risk of future holdup since Unwired Planet was required to license on FRAND terms.

Importance

The U.K. Supreme Court’s decision addresses numerous aspects of SEP assertion in the U.K. and FRAND licensing more broadly, and is perhaps most important for its holding that English courts can set the terms for global licenses of telecommunications SEPs. Despite the fact that UK courts often consider infringement and invalidity issues together, and the proceedings move more slowly than in some other national courts, this holding likely provides incentives for SEP holders to seek out English courts in order to assert global patent portfolios without needing to re-litigate in multiple countries. Furthermore, where licenses have been previously granted, the Court’s conclusion that the “Non-Discriminatory” portion of FRAND does not require that an SEP owner offer the most favorable prior rates could have serious implications for implementers seeking to make the best possible deals for SEP licenses. It also remains to be seen how and whether courts in other jurisdictions will respond to these developments in U.K. jurisprudence.