

# UK Supreme Court confirms UK courts' willingness to grant global licence in FRAND disputes

The UK Supreme Court has given a landmark decision in cases relating to standard essential patents (SEPs) and the obligations for "fair, reasonable and non-discriminatory" (FRAND) licensing.

Upholding the judgments of the Patents Court and Court of Appeal to find in favour of two patent assertion entities (PAEs), Unwired Planet and Conversant Wireless Licensing, the ruling confirms the UK courts' willingness to set the terms of a global FRAND licence and injunct a prospective licensee to keep it out of the UK market if that licence is not taken. The prospect of a global resolution will impact future licensing of telecoms patents, including for 5G technology, and makes the UK an attractive forum for holders of SEPs with global portfolios.





## The Supreme Court's decision

The Supreme Court convened in October 2019 for the joint hearing of appeals in two separate cases relating to the licensing of patents declared essential to the implementation of international standards for 2G, 3G and 4G telecommunications. Huawei and ZTE were appealing against the judgments of the Court of Appeal which had found in favour of Unwired and Conversant in their respective infringement actions. Apple, Ericsson and Qualcomm were also represented in the appeals to the Supreme Court, having been granted permission to intervene, and put forward views on industry practice.

The Supreme Court confirmed that the Patents Court in England & Wales has the jurisdiction, 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. The UK courts have the power to set the royalty rates and other terms of the worldwide licence, and to declare that such terms are FRAND.

The Supreme Court also confirmed that England is the proper forum for such a claim in the circumstances of the Conversant proceedings, where Huawei and ZTE sought to challenge jurisdiction and applied for a stay of the UK case in favour of the Chinese court. This further reinforces the prominence of the UK Patents Court as forum for SEP cases, and notably even where the parties have only a relatively small commercial stake, or patent interest, in the UK.

Consequently, companies needing to implement technical standards, for example by manufacturing 4G or 5G phones, must be prepared to take a global licence or face the possibility of an injunction which prevents them accessing the UK market. If a patent holder establishes that one of its UK SEPs is valid, essential and infringed, the court is likely to require a prospective licensee to take a global licence where offered a multinational patent portfolio. A prospective licensee can expect to be enjoined unless it makes an unqualified commitment to take a licence on FRAND terms determined by the UK court.

This is a powerful tool for SEP holders, made all the sweeter for non-practising entities (NPEs) by the Supreme Court's rejection of Huawei's concern that PAEs may abuse the power that SEP ownership bestows. The Supreme Court's reinforcement that PAEs have the same rights as any other entity may attract more licensing companies or other NPEs with global portfolios to the UK courts. Coinciding with the increased use of 5G patents across a range of connected technologies such as automotive, energy, e-health and infrastructure, the UK courts may be kept busy with waves of further SEP litigation in the UK for some years to come.

## Alternative evils

Central to the appeals were the contractual arrangements a patent owner makes with standard setting organisations (SSO). The Supreme Court considered the absolute need for interoperability of infrastructure and devices in a global telecoms market, which is potentially hampered not only by the patent holder's right to an injunction but also by the national nature of patent monopolies. With equipment manufactured in one country, sold in many others and used globally, it is impracticable for a patent owner to bring proceedings in every national court. The Supreme Court examined the role of the SSO in seeking to balance the "alternative evils" of abuse of monopoly rights by patentees on the one hand and the ability for implementers, on the other, to avoid paying the proper price for the invention internationally.



**THE SUPREME COURT  
... CONFIRMS THAT THE  
CONTRACTUAL ARRANGEMENTS  
ETSI HAS CREATED UNDER ITS IPR  
POLICY GIVE THE ENGLISH COURTS  
JURISDICTION TO DETERMINE THE  
TERMS OF A GLOBAL LICENSE  
OF A MULTI-NATIONAL  
PATENT PORTFOLIO."**

**UK Supreme Court, 26 August 2020**

## ETSI's IPR policy examined

The appeal hearing involved detailed consideration of the IPR Policy and objectives of the European Telecommunications Standards Institute (ETSI), the relevant SSO for the European patents within the claimants' portfolios. If a patented invention is included in the standard, it is not possible to comply with the standard (and implement a 4G device, for example) without infringing the SEP. However, assessment of the essentiality – and validity – of the patents is left to national courts. Seeking to balance the need for standardisation with the rights of SEP owners, ETSI requires SEP holders to give an irrevocable undertaking to grant a licence on FRAND terms – creating an enforceable obligation under French law. This seeks to address the potential mischief of "holding out" – by which implementers might knowingly infringe SEPs during the period in which the SEP owner is obliged to negotiate FRAND terms rather than seeking immediate injunctive relief.

The parties did not dispute that SEP owners with large portfolios covering many countries would voluntarily negotiate worldwide licences. As the judge at first instance had surmised, no rational business would seek to licence products on a country by country basis. This, and the prohibitive cost of litigating the validity and essentiality of patents in multiple jurisdictions, would have shaped ETSI's IPR Policy, the Supreme Court found.



## UK's first FRAND determination

The Supreme Court hearing was the culmination of nearly seven years of legal battles between Unwired and Huawei and others, in a seminal action for the UK courts which had previously never reached a determination of FRAND licence terms.

Unwired had brought the action against Huawei, Samsung and others for infringement of five patents which it had declared as essential to standards for 2G (GSM), 3G (UMTS) and 4G (LTE) set by ETSI.

Unwired's business is the licensing of patents to companies who make and sell telecommunications equipment, and the SEPS in dispute formed part of a worldwide portfolio acquired from Ericsson (and previously licensed by Ericsson to Huawei). The PAE claimed that Huawei had refused to take a FRAND licence in respect of the SEPs and sought an injunction against Huawei to prevent patent infringement. In response, Huawei argued that the patents were neither essential nor valid and that Unwired had breached competition law by failing to offer a licence to the patents on FRAND terms.

Following a series of technical trials in 2015 and 2016, two of the SEPS were held to be both valid and essential. After a subsequent non-technical trial, in April 2017, Mr Justice Birss gave the UK's first decision on the meaning of the FRAND commitment. He held that Unwired's undertaking to license its SEPs on FRAND terms was justiciable and enforceable in the English courts, and that an implementer who refused to take a licence on terms determined to be FRAND may be enjoined for infringement of a UK patent. For a licensor with Unwired's worldwide patent portfolio and an implementer like Huawei with sales around the world, it was held that the FRAND licence would be a global one.

The global licence offered by Unwired to Huawei (with adjustment by the court of the licence fees) was FRAND. By instead asking for a UK-only licence, Huawei was potentially forcing Unwired to sue in every jurisdiction where it had patent protection. Birss J rejected Huawei's competition law counterclaim, finding that Unwired had not abused its dominant position. Importantly, it had kept negotiating and the sums demanded were not 'inconceivable'.

Having failed to make an unqualified commitment to take a licence on FRAND terms, the Court indicated that Huawei would be enjoined unless it agreed a licence quickly. Two months later, with no sign of a global licence on the terms the Court had determined to be FRAND, the Court granted an injunction – which it noted offered flexibility as the effect could be delayed pending ongoing appeal by Huawei and because it provided for potential future renegotiation of the licence imposed.

The Court gave guidance on the protocols SEP owners and licensees should follow when seeking to negotiate the terms of FRAND licences. In particular, patentees should not wait for existing licence agreements to expire before opening negotiations over new terms.

In October 2018 the Court of Appeal gave its judgment on Huawei's appeal and Unwired's cross-appeal. The Court of Appeal agreed with the Patents Court that a global licence was FRAND. Licences for global entities are necessarily global and should not be limited to a single jurisdiction. However, unlike Birss J at first instance, it found it unrealistic that two parties, acting fairly and reasonably, will necessarily arrive at precisely the same set of licence terms as two other parties. The aim of the FRAND requirement in striking a balance between implementers and SEP holders was emphasised.

## Jurisdictional challenge

In the second case heard by the Supreme Court Huawei and ZTE had raised jurisdictional challenges in the action brought by Conversant, which similarly related to patents declared essential to international wireless communication standards. Conversant had claimed infringement of four SEPs acquired from Nokia and part of a worldwide portfolio of about 2,000 patents. Like Unwired, Conversant's business is also the licensing of patents for royalty income.

Huawei and ZTE applied for an order dismissing the PAE's actions on the basis that the English court did not have jurisdiction to determine the validity of foreign patents or, alternatively, for a stay of proceedings on the basis that the English court was not the appropriate forum to hear the case. Dismissing the applications, the judge at first instance held that the court had jurisdiction to enforce the patent owner's undertakings under ETSI's IPR policy and to determine the terms of a FRAND licence; any terms determined by the English court could be adjusted to reflect rulings of foreign courts on the validity or infringement of foreign patents, so there was no intrusion on the other courts' ability to make their determinations.

In 2019 the Court of Appeal upheld the decision rejecting the defendants' jurisdictional challenge and application for a stay in favour of the Chinese court. Conversant's claim therefore proceeded to a series of technical trials and a separate FRAND trial. However, in the meantime Huawei appealed against the Court of Appeal's decision on the jurisdiction of the UK court.

In upholding the decision, the Supreme Court drew on the fact that the Chinese courts had not made a relevant claim and also found that a global rate is a "market practice". This is notable given the defendants' objection to having the case decided in England & Wales, and it is thought to be one of very few cases in the world where jurisdiction has been taken in the face of a party's jurisdictional objection to the court determining the terms of a patent licence on FRAND terms.

## Contacts:



**Victoria Bentley**

Partner

Intellectual Property

+44 (0) 7858 908 922

[victoria.bentley@shoosmiths.co.uk](mailto:victoria.bentley@shoosmiths.co.uk)



**Andrew Brennan**

Partner

Intellectual Property

+44 (0) 7889 306 071

[andrew.brennan@shoosmiths.co.uk](mailto:andrew.brennan@shoosmiths.co.uk)

### Disclaimer

This information is for educational purposes only and does not constitute legal advice. It is recommended that specific professional advice is sought before acting on any of the information given.