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# UNWIRED PLANET v HUAWEI: BIRSS J. UPHELD BY THE COURT OF APPEAL

## **Abstract**

*The Court of Appeal delivered its eagerly awaited judgement in the appeal filed against Birss J's judgement in the Unwired Planet v Huawei case on 23 October 2018. Birss J's judgement included the analysis of some of the most controversial issues related to standard essential patents (SEP) and particularly the fair, reasonable and non-discriminatory (FRAND) concept. The Court of Appeal reviewed these issues and handed down a judgement (together with Birss J's judgement) that has the potential to become a legal foundation for SEP-related disputes in England. It is highly likely that these judgements will also provide a guidance to courts in other jurisdictions and shape the practice in this highly dynamic and developing area. The judgements also represent the English courts' unbiased view towards SEP owners.*

**Key words:** standards, patents, SEP, FRAND, abuse of dominance, licensing, patent valuation

## **Introduction**

Perhaps, Birss J's in *Unwired Planet v Huawei*<sup>1</sup> is one of the judgements that has been discussed most among the intellectual property (IP) community since it was delivered on 5 April 2017. The judgement included analysis of the fair, reasonable and non-discriminatory (FRAND) concept in relation to the licensing of standard essential patents (SEP) as well as rights and responsibilities of potential

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<sup>1</sup> Unwired Planet International Limited v Huawei Technologies Co. Limited [2017] EWHC 2988 (Pat), [2017] RPC 19.

licensors and licensees. In this judgement the judge of the Patents Court, Birss J considered and applied IP and competition law principles as well.

The judgement was appealed and given the importance of Birss J's judgement, the outcome of the appeal had been awaited eagerly. After the appeal hearings in May 2018, the Court of Appeal (Civil Division) (CA) dismissed the appeal and upheld Birss J's judgement on all substantive appeal grounds with the judgement delivered on 23 October 2018.<sup>2</sup>

This article mainly aims to summarize and comment on the key points of the CA's judgement. For that purpose, the first part will set the background of the dispute, the second part will provide a brief summary of Birss J's judgement while the third part will summarize the CA's judgement under the three sub-headings that correspond to the appeal grounds. The fourth part will be regarding the author's comments on the case and the final part will conclude the paper.

## **1. Background**

Before evaluating the CA's judgement in detail, giving brief factual background information about the parties and dispute will help to set the full picture.

The claimant, Unwired Planet International Limited (Unwired Planet)<sup>3</sup> is an undertaking which has been active in patent licensing since 2011.<sup>4</sup> In 2013 Unwired Planet acquired – from Ericsson - certain patents including SEPs, which constituted the subject matter of Unwired Planet v Huawei dispute.<sup>5</sup> After the acquisition Unwired Planet approached several undertakings including Samsung

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<sup>2</sup> Unwired Planet International Limited v Huawei Technologies Co. Limited [2018] EWCA Civ 2344

<sup>3</sup> Also Unwired Planet LLC was involved in the proceedings.

<sup>4</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [60]

<sup>5</sup> *ibid* [63], [64]

and Huawei<sup>6</sup> with the prospect of obtaining licenses relating to the Ericsson patents.<sup>7</sup> There appeared to be no dispute that licences were, subject to the question of validity, potentially required. During a negotiation period, Unwired Planet became convinced that most, if not all, of the potential licensees engaged in delaying tactics (*i.e.* hold out<sup>8</sup>) and that it would be very difficult to license their patents.<sup>9</sup> This eventually led to litigation.<sup>10</sup>

In the period 2009-12 Huawei had a license agreement with Ericsson for the SEPs subject to the current dispute.<sup>11</sup> Before commencing the proceedings which ended up before Birss J Unwired Planet approached Huawei.<sup>12</sup> They exchanged correspondence and certain documents.<sup>13</sup> However efficient licensing negotiations were, for whatever reason, not possible.

In March 2014, Unwired Planet issued patent infringement proceedings against Huawei, Samsung and Google in England<sup>14</sup> and in the Federal Republic of Germany.<sup>15</sup> Unwired Planet and Huawei continued the licensing negotiations after the proceedings were commenced, and open offers were made by both sides in

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<sup>6</sup> Huawei Technologies Co. Limited and Huawei Technologies (UK) Co Limited were involved in the proceedings.

<sup>7</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [66], [68], [70]

<sup>8</sup> *Patent hold out* is defined as a reverse patent hold-up. Unlike patent hold up, in *patent hold out*, an implementer (potential licensee) uses a SEP without paying license and engages in delaying tactics not to enter into a license agreement. The implementer abuses its bargaining power by using the SEP owner's FRAND undertaking as a leverage.

<sup>9</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [69]; Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [221]

<sup>10</sup> *ibid*

<sup>11</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [61], [71]

<sup>12</sup> *ibid* [74]

<sup>13</sup> *ibid*

<sup>14</sup> The main two judgements summarized and discussed in this paper from the courts of England and Wales. So their jurisdiction is England and Wales and *England* will be used instead of *England and Wales* throughout the paper.

<sup>15</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [78]

2015 following a direction from Birss J.<sup>16</sup> Both parties stated their lack of progress in open correspondence in 2016.<sup>17</sup>

The case before the English court concerned six United Kingdom patents, five of which were claimed to be SEPs.<sup>18</sup> There were five technical trials (*i.e.* trials in which the questions of patent infringement and validity were tested in addition to whether those patents were SEPs) and one non-technical trial before the Patents Court (a first instance court).<sup>19</sup> In the technical trials, two of the patents were found to be valid and essential to the relevant standards.<sup>20</sup> The non-technical trial, in basic terms, focused on the licensing of the SEPs on FRAND terms and whether Unwired Planet had, by commencing and perusing litigation or by proposing the terms which it did, engaged in anti-competitive conduct.<sup>21</sup> The parties in the non-technical trial were solely Unwired Planet and Huawei, as Unwired Planet had settled with Google in 2015 and with Samsung in 2016.<sup>22</sup> Following the non-technical trial, Birss J handed down his judgement on 5 April 2017.

## 2. Brief summary of Birss J'S judgement

Birss J examined the non-technical aspect of the dispute under three main headings of *FRAND*, *competition law* and *remedies*. Perhaps one of the most important conclusions that Birss J reached under the heading of FRAND was that there is only one FRAND rate for any set of circumstances, taking the opinion of the parties' economic experts into account and also in order to overcome the

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<sup>16</sup> *ibid* [79], [81]

<sup>17</sup> *ibid* [81]

<sup>18</sup> *ibid* [1]

<sup>19</sup> *ibid* (n 1) [2]

<sup>20</sup> The relevant standards are 2G-GSM/GPRS, 3G-UMTS and 4G-LTE set by the ETSI; *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [9]

<sup>21</sup> *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [4], [17]

<sup>22</sup> *ibid* [9], [10]

*Vringo* problem.<sup>23</sup> He also examined how the non-discrimination limb of FRAND applies and concluded that it should be derived as a principle which is applicable to all licensees seeking the same kind of license (*i.e. general non-discrimination*).<sup>24</sup> Birss J also determined the FRAND terms of the potential license agreement between Unwired Planet and Huawei for the SEPs which were the subject of the non-technical trial.<sup>25</sup>

In terms of TFEU<sup>26</sup> Article 102, Birss J determined the relevant market as being the market for licenses of each of the SEPs and concluded that Unwired Planet was monopolistic in these markets (and hence, so he concluded, dominant in the sense of having market power).<sup>27</sup> After considering Huawei's arguments regarding premature litigation (with reference to the Court of Justice of the European Union's (CJEU) *Huawei v ZTE* judgement<sup>28</sup> (*ZTE judgement*) which states, in essence, that litigation and threats of litigation must be a last and final resort for SEP owners), unfair excessive pricing, bundling/tying<sup>29</sup> SEPs and non-SEPs and multi-jurisdictional bundling, Birss J decided that Unwired Planet had not abused its dominant position.<sup>30</sup>

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<sup>23</sup> *ibid* [147]-[168]: *Vringo problem* occurs when offers presented by each party are different but they are both FRAND.

<sup>24</sup> *ibid* [177], [495]-[503]

<sup>25</sup> *ibid* [197], [626]

<sup>26</sup> Treaty on the Functioning of the European Union

<sup>27</sup> *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [670]; Monopolistic status of SEP holders is unique given that they are encumbered with a FRAND undertaking (*i.e.* they need to give a FRAND license to any willing licensee and not complying with that can lead consequences like not being able to enforce the patent or request an injunctive relief under certain circumstances) so they are not as independent as traditional monopolistic undertakings.

<sup>28</sup> Case C-170/13 [2015] All ER (D) 237 (Jul)

<sup>29</sup> Although Huawei's claim was regarding the bundling/tying of SEPs and non-SEPs, bundling is the appropriate terminology considering that Unwired Planet separated SEPs from non-SEPs upon the request of Huawei and they could be licensed separately. *Tying* refers to situations where a seller sells a product (tying product) on the condition that buyers buy another product (tied product). *Bundling* usually refers to the way the products are offered. If more than one product is sold as a single package, this is identified as *pure bundling*. However in case of *mixed bundling*, buyers can buy the bundled products separately as well.

<sup>30</sup> *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [671]-[791]

The denouement was that Birss J granted an injunction (*i.e.* FRAND injunction) restraining Huawei from infringing the SEPs which were found to be valid and infringed, leaving it open to the parties to agree license terms, should they wish to do so.<sup>31</sup>

### **3. CA'S judgement**

Considering Huawei's grounds of appeal, the CA focused on the issues of (i) whether the offer by Unwired Planet of a global license was FRAND (Birss J held that it was), (ii) whether royalty rates set by Birss J were compatible with the non-discrimination limb of FRAND and (iii) whether Unwired Planet had abused its dominant position.<sup>32</sup> Each of these points will be summarized under separate headings below, but before doing so, it is worth mentioning the CA's evaluation regarding the FRAND undertaking given by SEP owners to the European Telecommunications Standards Institute (ETSI)<sup>33</sup> as this had a considerable impact on the CA's reasoning.

The CA highlighted that the FRAND undertaking given to ETSI is irrevocable and has a global effect of considerable width; so that when an SEP owner gave an undertaking to ETSI (or, more generally any SSO) regarding one patent, that undertaking would also cover all patents in the same family of patents, unless they are explicitly excluded.<sup>34</sup> The CA also highlighted that neither a SEP owner nor an implementer (usually the name given to the person seeking a SEP licence, *i.e.* licensee) can be compelled to enter into a license agreement, so that simply because there is a FRAND undertaking, that undertaking only affects the

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<sup>31</sup> Unwired Planet International Limited v Huawei Technologies Co. Limited [2017] EWHC 1304 (Pat), [2017] RPC 919

<sup>32</sup> Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [16], [19]-[21]

<sup>33</sup> ETSI is the standard setting organisation that set the standards subject to the action.

<sup>34</sup> Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [25], [26]

ability of the SEP owner to obtain relief for patent infringement.<sup>35</sup> Thus if a SEP owner refuses to grant a license, despite there being a FRAND undertaking, it should be unable to obtain relief for patent infringement.<sup>36</sup>

### 3.1. Whether global license was FRAND

Birss J decided that global licensing, which is a common industry practice, was FRAND and not inherently anti-competitive.<sup>37</sup> He stated that Unwired Planet's patent portfolio subject to the action was sufficiently large and its geographical coverage was sufficiently wide, such that it would be inefficient for Unwired Planet to negotiate and agree licenses on a country-by-country basis and that because handset suppliers were global entities it made sense to have a single licence.<sup>38</sup> However he also mentioned the fact that Unwired Planet's portfolio was smaller, and its coverage more limited when compared to the patent portfolios of larger undertakings (e.g. Samsung, Ericsson).<sup>39</sup> He proposed to mitigate this by setting royalty rates accordingly.<sup>40</sup>

Huawei argued that Birss J's judgement was inappropriate as it set royalty rates and imposed licenses beyond the jurisdiction of the Patents Court. Huawei also asserted that Birss J's reasoning was neither complete nor coherent.<sup>41</sup> Huawei particularly referred to the extant proceedings in which validity was in issue against Unwired Planet's patents (which are SEPs) in the People's Republic

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<sup>35</sup> *ibid* [27]

<sup>36</sup> *ibid*: Conversely if the implementer refuses to take a FRAND license, then SEP owner could get a relief regardless of the prior undertaking.

<sup>37</sup> *ibid* [34]

<sup>38</sup> *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [543]-[544]

<sup>39</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [37]

<sup>40</sup> *ibid*

<sup>41</sup> *ibid* [45], [75]



of China and the Federal Republic of Germany, and the relatively small number of patents that Unwired Planet has in the People's Republic of China.<sup>42</sup>

While acknowledging that SEPs have a limited territorial scope, the CA also considered the international effect of standards and FRAND undertakings.<sup>43</sup> The CA mainly followed Birss J's reasoning focusing on negotiation inefficiencies arising from enforcing one of a portfolio of licences on exactly the same terms in each jurisdiction separately.<sup>44</sup> The CA stated that this approach does not change the fact that patents (even when they become SEPs) are protected territorially and it does not amount to *jurisdictional expansionism* on the ground that the approach is the natural consequence of the international effect of FRAND undertakings.<sup>45</sup>

The CA also considered the decisions/judgements of the European Commission (EC) and courts from other jurisdictions (*i.e.* the Federal Republic of Germany, the United States of America (US), the People's Republic of China and Japan) which the parties referred the court to. The CA concluded that none of these decisions/judgements supported Huawei's argument that licencing on a global basis was not FRAND. Despite acknowledging that the EC's decision in the *Motorola* case supported Huawei's position, the CA decided that it was not sufficient to accept that global license was not FRAND on the ground that the *Motorola* decision did not label all global licenses as not FRAND, it being a matter

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<sup>42</sup> *ibid* [33], [85]-[87]: Huawei emphasized on the importance of the People's Republic of China which is their largest market and the place of manufacture. Huawei argued that it should not be compelled to pay royalty for Unwired Planet's Chinese SEPs that had not been infringed, with the judgement of an English court.

<sup>43</sup> Text to (n 34) for *international effect* of FRAND undertaking; Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [52]-[54]: In terms of the international effect of FRAND undertakings, the CA stated that it is benefit of both implementers whose products traveling to different jurisdictions and SEP owners that should be able to prevent free-riders efficiently.

<sup>44</sup> Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [55], [56]

<sup>45</sup> *ibid* [58]

of fact and circumstance.<sup>46</sup> The CA also took the views of the EC into account and concluded that, even in the case of the EC's approach in *Motorola*<sup>47</sup> is interpreted as meaning that global licenses were not FRAND at all, then the Communication<sup>48</sup> admitted that the EC had changed its view and now took a more flexible and cost-effective approach for the assessment of whether an offer is FRAND. In support of this notion, the CA also stated that Huawei was still free to challenge the validity and essentiality of Unwired Planet's patents in different jurisdictions despite the existence of a FRAND license.<sup>49</sup> It is unclear what impact there would be if the portfolio of licenced patents decreased.

In terms of the issue of whether global license was FRAND, the only point on which the CA reached a different conclusion than Birss J was *whether there can be only one set of FRAND terms for any set of circumstances*.<sup>50</sup> Unlike Birss J, the CA found it more realistic, and more in line with mainstream competition law, to accept that the notion of what constituted FRAND was not fixed but could vary in any given set of circumstances, bearing in mind the complexity of patent licensing and the many variables involved in the process.<sup>51</sup> Overall the CA considered this issue as a theoretical problem given that, in practice any court fulfilling the task of determining FRAND terms would determine one set of terms

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<sup>46</sup> *ibid* [59]-[60]

<sup>47</sup> *Case AT.39985 - Motorola - Enforcement of GPRS Standard Essential Patents* Decision Judgement C(2014) 2892 final [2014] OJ C 344/6: In this decision the EC decided that the global license that Motorola insisted on was not FRAND.

<sup>48</sup> Setting out the EU approach to Standard Essential Patents (Communication) COM(2017) 712 final

<sup>49</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [79], [82]: Considering the fact that the FRAND license does not prevent Huawei to take patent infringement actions against Unwired Planet in other jurisdictions, the CA stated that the ongoing patent infringement actions between the parties are not purposeless due to the license.

<sup>50</sup> *ibid* [121]

<sup>51</sup> *ibid*

or, even if the court determines that the relevant FRAND terms for some sort of continuum, the SEP owner would pick something from within that continuum.<sup>52</sup>

### 3.2. Whether royalty rates set by Birss J were non-discriminatory

Huawei argued that the license terms set by Birss J were discriminatory as the royalty rate was higher than the one agreed between Unwired Planet and Samsung.<sup>53</sup> Before expressing its view, the CA discussed the application of the TFEU Article 102(c) (which determines as abusive the application of dissimilar conditions to equivalent transactions by a dominant undertaking), the EC's decision laying down the test to determine *comparable transactions*<sup>54</sup> (EC decision 72/440/ECSC) and judgements made in different jurisdictions,<sup>55</sup> to which the parties referred.

In order to deal with this ground of appeal, the CA first evaluated whether the licenses to Samsung and Huawei were comparable transactions in light of the EC decision 72/440/ECSC and then investigated the appropriate interpretation of the non-discrimination limb of FRAND.

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<sup>52</sup> *ibid* [125]

<sup>53</sup> *ibid* [132]

<sup>54</sup> *Commission Decision amending Decision No 30-53 of 2 May 1953 on practices prohibited by Article 60(1) of the Treaty in the common market for coal and steel* Commission Decision 72/440/ECSC [1972] OJ L239/39: 'Article 3(1) Transactions shall be considered comparable within the meaning of Article 60 (1) if (a) they are concluded with purchasers, - who compete with one another, or - who produce the same or similar goods, or - who carry out similar functions in distribution, (b) they involve the same or similar products, (c) in addition, their other relevant commercial features do not essentially differ.'

<sup>55</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [148]-[157]; *OLG Dusseldorf*, I-15 U 66/15 of 30 March 2017 - *Sisvel v Haier*, US Court of Appeals, Federal Circuit, *Ericsson v D-Link*, 773 F.3d 1201 (2014) and US District Court for the District of California, *TCL v Ericsson* (unreported) are three of the judgements evaluated by the CA. In *Sisvel v Haier*, the court stated that even a dominant undertaking can treat undertakings differently as long as it is objectively justified. In *TCL v Ericsson*, the court stated that in order to successfully argue *discrimination*, the claimant must prove the competitive harm as a result of the discrimination. However in *Ericsson v D-Link*, it is stated that even though *commercial relationship between licensor and licensee* is one of the *Georgia Pacific factors* that the US courts have been using to calculate royalty rates, it is not relevant when there is a FRAND undertaking (p 1230).

The CA stated, without justifying why, that while assessing the comparability of transactions, the focus should be on *the relevant commercial features* of the relevant transactions rather than *the economic circumstances* surrounding them.<sup>56</sup> The CA considered some of the factors that Unwired Planet relied on to posit that the Samsung license was not a comparable transaction when compared to the Huawei license; a powerful factor in this regard was Unwired Planet's ancillary goal of wishing to have a strategic partnership with Samsung.<sup>57</sup> The CA regarded these factors as pre-existing economic circumstances that motivated Unwired Planet to enter into a license agreement with Samsung but it ignored those factors when assessing whether the Samsung and Huawei licenses were equivalent transactions.<sup>58</sup> Consequently the CA ignored the powerful factor of aiming to have a strategic partnership with Samsung, that affected the terms of the Samsung license without providing any concrete justification and concluded that Birss J was correct to regard the Samsung and Huawei licenses as comparable as their functions as patent licenses were equivalent.<sup>59</sup>

The CA then moved to investigate the non-discrimination component of the FRAND undertaking. Huawei argued that non-discrimination requires the payment of the same royalty rate by similarly situated firms.<sup>60</sup> On the other hand Birss J favoured a more flexible approach also considering the potential competition law redress mechanisms. He decided that non-discrimination requires the determination of a benchmark FRAND royalty rate and the licensor should grant

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<sup>56</sup> Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [169]

<sup>57</sup> *ibid* [172]-[175]

<sup>58</sup> *ibid* [173]

<sup>59</sup> *ibid* [174]

<sup>60</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [501]-[502]: *hard-edged non-discrimination obligation*.

licenses on this rate to all licensees seeking the same kind of license.<sup>61</sup> Birss J stated that this approach still enables licensors to grant licenses on a rate lower than the benchmark rate and other potential licensees can demand to get a license on this lower rate, if applying different rates to different licensees distorts competition (*i.e.* discriminatory pricing).<sup>62</sup> The CA particularly considered non-discrimination criteria as a tool for implementors to access a technology while ensuring that the SEP owner is rewarded fairly for its invention.<sup>63</sup> The CA decided that the Birss J's approach strikes the right balance between the interests of SEP owners and implementers<sup>64</sup> and that the license terms determined by Birss J were non-discriminatory.<sup>65</sup>

### **3.3. Abuse of a dominant position**

Before the CA, Huawei argued that Unwired Planet had abused its dominant position by bringing patent infringement proceedings prematurely whilst Unwired Planet in the other hand sought to challenge Birss J's conclusion that it held a dominant position in the relevant market.<sup>66</sup>

The CA first dealt with the issue of whether Unwired Planet was in dominant position. It was decided that Unwired Planet was in a dominant position in the market for mobile telephony patent licences specific to the SEPs in question, even though market power was arguably restricted by reason of the FRAND undertaking and also the costs associated with hold out.<sup>67</sup> The CA particularly emphasized the 100% market share of Unwired Planet and stated that this created

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<sup>61</sup> *ibid* [503]: *general non-discrimination* approach.

<sup>62</sup> *ibid*

<sup>63</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [194]-[207]

<sup>64</sup> *ibid* [198]

<sup>65</sup> *ibid* [207]

<sup>66</sup> *ibid* [212]

<sup>67</sup> *ibid* [216]-[218]

a strong (but rebuttable) presumption that Unwired Planet was in a dominant position, although it is only one of the factors<sup>68</sup> used to assess dominance capable of abuse.<sup>69</sup>

Then the CA turned to the issue of whether Unwired Planet abused its dominant position. For that purpose the CA evaluated the ZTE judgement to find the answer to the question whether the CJEU laid down specific *mandatory conditions* which must be satisfied before seeking an injunctive relief or a *safe harbour*.<sup>70</sup> According to Huawei's interpretation of the ZTE judgement, the CJEU did lay down specific *mandatory conditions*; given that Unwired Planet did not comply with them, seeking an injunction amounted to be an abuse of a dominant position.<sup>71</sup> On the other hand Birss J opted for a more flexible interpretation of the ZTE judgement; provided that the SEP owner contacts the implementer in terms of the patent infringement before initiating any proceedings, non-compliance with the other conditions of the ZTE judgement (e.g. alerting the alleged infringer by specifying the patent and how it has been infringed, making a specific and written FRAND offer to the alleged infringer) will not automatically give rise to abuse of dominance.<sup>72</sup> Thus the issue of whether there is an abuse should be assessed considering the specific circumstances. The ZTE judgement conditions (except the one requiring the SEP owner to contact the alleged infringer before commencing a proceeding) can be characterised as a *safe harbour* so if a SEP owner satisfies all the conditions, the commencement of proceedings itself will not amount to an

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<sup>68</sup> See *Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings* Communication 2009/C 45/02 [2009] OJ C 45/7 para 12 for the factors that will be taken into account in the assessment of dominance.

<sup>69</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [225]-[226]

<sup>70</sup> *ibid* [268]

<sup>71</sup> *ibid* [251]

<sup>72</sup> *ibid* [253]-[254]

abuse.<sup>73</sup> Birss J considered the contact between the parties prior to the proceedings as being in compliance with the condition set out in the ZTE judgement and decided that Unwired Planet had not abused its dominant position by seeking an injunctive relief.<sup>74</sup> In the appeal, Huawei contended that Birss J misunderstood the ZTE judgement and erred in its interpretation as he did not consider it as a whole.<sup>75</sup>

Prior to its evaluation, the CA provided information about the ZTE judgement and the behavioural criteria that the CJEU set there - to bring an action against an alleged infringer by a SEP owner without infringing TFEU Article 102.<sup>76</sup> For the CA, the main purpose of the judgment was *striking the right balance between the interests of SEP owners and those of implementers* and this view was supported with reference to the Communication<sup>77</sup>, highlighting the importance of efficient standardization and SEP licensing environments.<sup>78</sup>

In line with Birss J's approach, the CA concluded that the behavioural criteria set in the ZTE judgement was *a safe harbour*<sup>79</sup> rather than a prescriptive set of *mandatory conditions* and listed their reasons for so holding.<sup>80</sup> For instance, it was acknowledged that the ZTE judgement required SEP owners to give notice to alleged infringers prior to seeking an injunctive relief without infringing TFEU

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<sup>73</sup> *ibid* [268]

<sup>74</sup> *ibid* [258]: Birss J acknowledged that Unwired Planet did not provide the FRAND license terms to Huawei before the proceedings. However he decided that Huawei had indeed a sufficient notice that Unwired Planet was the owner of the SEPs for which a license might be required, given their contact prior to the proceedings. Huawei also knew that Unwired Planet was ready to engage in licensing negotiations and license their SEPs to them.

<sup>75</sup> *ibid* [261]

<sup>76</sup> *ibid* [234]-[250]

<sup>77</sup> EC SEP Communication (n 48)

<sup>78</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [266]

<sup>79</sup> *ibid* [282]: If the SEP owner does not comply with the ZTE judgement conditions, this will not automatically amount to abuse of dominance, instead all circumstances must be considered to assess whether the conduct is abusive.

<sup>80</sup> *ibid* [269]-[279]

Article 102, but the CA also stated that the CJEU did not provide one single form or process for giving that notice, so it is possible that notices given in different forms or of a differing scope or indeed in different ways could all satisfy the ZTE judgement condition.<sup>81</sup> Again it was stated that *the safe harbour* approach better serve the purpose of striking the right balance between the interests of SEP owners and implementers than a more cast iron set of rules.<sup>82</sup> The CA also emphasized on the flexibility of *the safe harbour* approach and stated that it made sense given the different procedural rules of the member states.<sup>83</sup> Finally the CA pointed out that the current action was taken before the CJEU made its judgement in ZTE, so it would be unfair to coerce Unwired Planet to comply with the pre-action protocol that was identified at a later time.<sup>84</sup>

#### 4. Comment

The CA recognized that the SEP-related legal framework is still developing and consequently took a flexible approach – whether this will be so in the future remains to be seen. The CA considered the characteristics of the information and communications technologies sector (ICT)<sup>85</sup> that the parties were active in and the economic effects of standardization. Perhaps this is the main reason why the CA highlighted the international effect of standards and FRAND undertaking and accepted that a global license could be FRAND on the ground that it would be

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<sup>81</sup> *ibid* [271]

<sup>82</sup> *ibid* [272]

<sup>83</sup> *ibid* [274]

<sup>84</sup> *ibid* [275]

<sup>85</sup> Technologies in the ICT sector are, generally, fast changing so patent owners have shorter time to recoup their research and development investments compared to other sectors (*e.g.* pharmaceutical sector). Again the ICT products travel from one country to another more, at least as personal items.



unreasonable to expect a SEP owner to negotiate and enforce its patent rights on a country-by-country basis.<sup>86</sup>

Favouring the global FRAND license approach is good news for SEP owners. However, it also creates a risk that by compelling implementers – especially those who are even slightly risk adverse - to take licenses for SEPs which are not valid and/or essential, that there can result in a number of inefficiencies not least being the failure to innovate.

Any judgement imposing a global SEP license also indirectly enforces foreign patents and that contradicts with territorial patent protection and enforcement. The CA's grounds regarding the ability of an implementer to challenge the validity of patents which consist of the portfolio, in different jurisdictions and the international effect of FRAND undertaking can be seen as a theoretical justification of the approach favouring global license. However in practice, it is highly likely that the judgement regarding that a global license is FRAND will coerce the implementer to get a license for the non-UK/non-EU patents that are not prima facie valid and/or essential and the implementer will pay royalty for them to avoid an injunction in the UK. Thus it is unclear whether the global FRAND license approach serves to the purpose of striking the right balance between the interests of SEP owners and implementers, particularly considering that getting a judgement regarding the validity or essentiality of a patent in different jurisdictions can be lengthy process. There is also a risk that a SEP owner can get an injunctive relief against an implementer in another jurisdiction through relying on a global FRAND license judgement (which confirms the validity

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<sup>86</sup> In recent Huawei v Conversant judgement (Huawei Technologies Co. Limited v Conversant Wireless Licensing S.A.R.L. [2019] EWCA Civ 38, [2018] 1 WLUK 278), the CA reaffirms the global FRAND license approach.

and essentiality of relevant SEPs) regardless of the validity/essentiality of the patent registered in that jurisdiction and prevent the implementer to use the patented technology, at least for a while.

Availability of compensation claims for implementers or adjusting the royalty rates considering the ongoing and genuine invalidation actions are few alternative solutions that one can think of. Possibly future judgements will provide a more detailed analysis of this complication and a framework for its solution.

Perhaps the fact that the courts ignored *United Brands*<sup>87</sup> laying down the two-stage test<sup>88</sup> for excessive pricing and *AKKA/LAA*<sup>89</sup> reaffirming the same, in the assessment of abuse of dominance, despite of a specific excessive pricing claim of Huawei, is one of the most controversial aspects of the judgements. Birss J determined the FRAND benchmark rates considering the evidence (including the economists experts' statements) submitted by the both sides and then used the same benchmarks in evaluation of the excessive pricing claim even though he acknowledged that FRAND and excessive price benchmark can be different.<sup>90</sup> The CA mainly focused on the *ZTE* judgement when evaluating the excessive pricing claim. One can argue that it is relatively difficult to apply the two-stage test to SEP royalty rates or the final outcome regarding the excessive pricing claim would not be different even the test was applied. However considering *United Brands* and *AKKA/LAA* was the correct route for assessing excessive pricing, the courts could

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<sup>87</sup> Case 27/76 *United Brands v Commission* [1978] 2 CMLR 147

<sup>88</sup> *United Brands* two-stage test: *i.* Is the price excessive? and if it is, *ii.* Is the price unfair in itself or when compared to competing products? Whether there is a rational economical explanation for the excessive price.

<sup>89</sup> Case C-177/16 *Autortiesību un komunikēšanās konsultāciju aģentūra/Latvijas Autoru apvienība* [2017] (GC, 14 September 2017)

<sup>90</sup> *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [757]: Birss J stated accepted that excessive price benchmark is higher than FRAND benchmark; FRAND royalty rate would always be below excessive price benchmark and continue to be competitive until it reaches excessive price benchmark.

have an exhaustive excessive price analysis by applying the two-stage test, or, at least, they could explain the reason of why it was omitted.

Also applying the two-stage test of United Brands could give the CA a chance to provide a substantive reasoning for why it did not agree with Birss J's conclusion regarding that *there can be only one set of FRAND terms for any set of circumstances*. Although the CA was right to accept that there can be more than one FRAND rate in any given set of circumstances, it did not provide any substantial reasoning beyond pointing out the complexity of patent licensing. The CA's conclusion giving the right to choose the license terms to the SEP owner if the court determines the continuum of FRAND terms, may also cause some controversies as the reason of why the SEP owner makes this choice, was not clarified in the judgement.

The CA decided that Samsung and Huawei licenses are comparable transactions despite that Unwired Planet agreed to license the SEPs to Samsung at the lower royalty rate, with the prospect of establishing a strategic partnership with Samsung and due to the financial difficulties that it was facing at that time. The CA supported this conclusion with making a distinction between the relevant commercial features of Samsung and Huawei licenses and the economic circumstances surrounding them. Unwired Planet's aim of having a strategic partnership with Samsung and its financial problems were considered as economic circumstances and they were disregarded when the compatibility of the transactions were assessed. The CA did not provide any substantial reasoning for this approach; instead it just referred to the wording of the EC decision

72/440/ECSC<sup>91</sup> and stated that the economic circumstances can justify the difference in treatment of transactions.

The CA's judgement confirmed that not only implementers but also SEP owners need protection. In a sense the CA judgment does provide some relief for SEP owners, who have been under considerable adverse scrutiny of competition authorities in the last twenty or so years when the first Rambus disputes<sup>92</sup> arose. Rather than only focusing on a patent licence hold up<sup>93</sup>, the CA acknowledged that patent licence hold out<sup>94</sup> is also a real risk and, in line with Birss J's judgement, supported the idea that FRAND is only achievable when there is no patent hold up or hold out. However it is also fair to point out that the economic analysis of this was not rigorous. Experience recalls that in any given SEP licencing situation the time periods are comparable to the innovation cycles, in which case the argument for encouraging hold out is more compelling.

The CA took the notion of the FRAND undertaking as a concept and was trying to strike a fair balance between the interests of SEP owners and implementers, by ensuring that the former can obtain sufficient return for their innovations while the latter can access them on reasonable terms. At this point it is worth pointing out the CA's reference to the ZTE judgement in order to eliminate

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<sup>91</sup> *Unwired Planet v Huawei* [2018] EWCA Civ 2344 (n 2) [169]: 'Commission Decision 72/440 speaks of the "relevant commercial features" of the transactions, not all the economic circumstances prevailing at the time the transaction was entered into.'

<sup>92</sup> There were series of disputes related to Rambus in the US and EU. The main reason of these cases was the fact that Rambus did not disclose its potential SEPs while the JEDEC was adopting three standards and then tried to enforce their patents against implementers. US Court of Appeals, Federal Circuit - *Rambus Inc v Infineon Technologies*, 318 F.3d 1081, 1096 (2003), US Court of Appeals, District of Columbia Cir. - *Rambus Inc. v FTC*, 522 F.3d 456 (2008), *Rambus* (COMP/38.636) Commission Decision 38636 [2009] OJ C 30/17

<sup>93</sup> Michael A. Lindsay, Robert A. Skitol, 'New Dimensions to the Patent Holdup Saga' (2013) 27 *American Bar Association Antitrust* 34: *Patent hold up* can be defined as 'the ability of the patent owner to extract higher royalties (or other more onerous license terms) than the owner could have obtained before its patented technology was incorporated into an industry standard'; *Unwired Planet v Huawei* [2017] EWHC 2988 (Pat) (Birss J) (n 1) [92]: Not only extracting higher royalties but also declining to grant a SEP license can cause *patent hold up*.

<sup>94</sup> (n 8) for the definition of *hold out*.

any confusion about the first limb of the FRAND undertaking's purpose. In terms of the problem that the ZTE judgement addressed and the purpose of the framework that it laid down, the CA stated that, '... the *innovators are adequately rewarded for the investment that they have made* and that they are encouraged to continue to invest in research and development and standardisation activities'.<sup>95</sup>

This statement should not be confused with the purpose of FRAND. The CA intended that SEP owners ought to be rewarded for their research and development investments given that this is the principal (but by no means only) function of classic patent protection and, lest it be forgotten, SEPs are fundamentally patents. Perhaps what the CA tried to clarify here is that the FRAND undertaking should not prejudice the essence of the patent protection unjustly to protect implementers.

The CA also analysed the nature of the conditions that the CJEU laid down in the ZTE judgement in detail to answer the question of whether initiating a patent proceeding without complying with all these conditions will automatically lead to abuse of dominance. It is highly unlikely that the CA's interpretation of the ZTE judgement conditions, providing a limited guidance, will be widely accepted. This proves that the ZTE judgement which is the cornerstone of SEP-related legal framework in the EU is still in need of clarification and will be discussed further.

Patent valuation is another sensitive issue that was briefly discussed in the judgement.<sup>96</sup> Birss J stated that, besides the *ex ante* value<sup>97</sup> of the SEP, a proper

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<sup>95</sup> Unwired Planet v Huawei [2018] EWCA Civ 2344 (n 2) [266] (emphasis added)

<sup>96</sup> *ibid* [83]: The CA did not evaluate the patent valuation issue in detail in the judgement as the parties did not challenge this aspect of Birss J judgement.

<sup>97</sup> Value of a patented invention before it is incorporated into a standard.

evaluation of value could include the fact that the SEP was just that, a SEP.<sup>98</sup> This argument was vaunted by the parties' economic experts.<sup>99</sup> As the CA appreciated, patent valuation is a complex issue as it is and increasing the number of factors that can be taken into account in patent valuation and disrupting the established principles may not be the best way to tackle with this complexity. Hopefully future judgements will provide more detailed assessments of this issue and present well-grounded judgments.

## **Conclusion**

SEP-related disputes and determining FRAND royalty rates are challenging as they are technical and require legal and economic analysis. They can be also tricky considering the court's limited jurisdiction, territorial patent protection and the ICT sector's realities requiring a quick solution. There are traces of these challenges in both Birss J's and the CA's judgements and it is clear that there is room for improvement.

It is particularly important that the English courts take the view that SEP owners (and thus, to some extent anyway, the cause of innovation) are entitled to some protection. Given this, coupled with the courts' willingness to decide for a global FRAND license, it seems that England is a strong candidate of being a preferred forum for SEP owners.

Birss J's and the CA's judgements dealt with several SEP-related issues yet did not give satisfactory answers to all the questions, they are still important for English jurisprudence as they provided a medium for discussion. Probably their

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<sup>98</sup> Unwired Planet v Huawei [2017] EWHC 2988 (Pat) (Birss J) (n 1) [97]

<sup>99</sup> *ibid*

effect will be beyond the boundaries of England and may serve to be of influence in other jurisdictions.<sup>100</sup>

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<sup>100</sup> Indeed only seven months after it was delivered, the EC considered Birss J's judgement in the EC SEP Communication (n 48)