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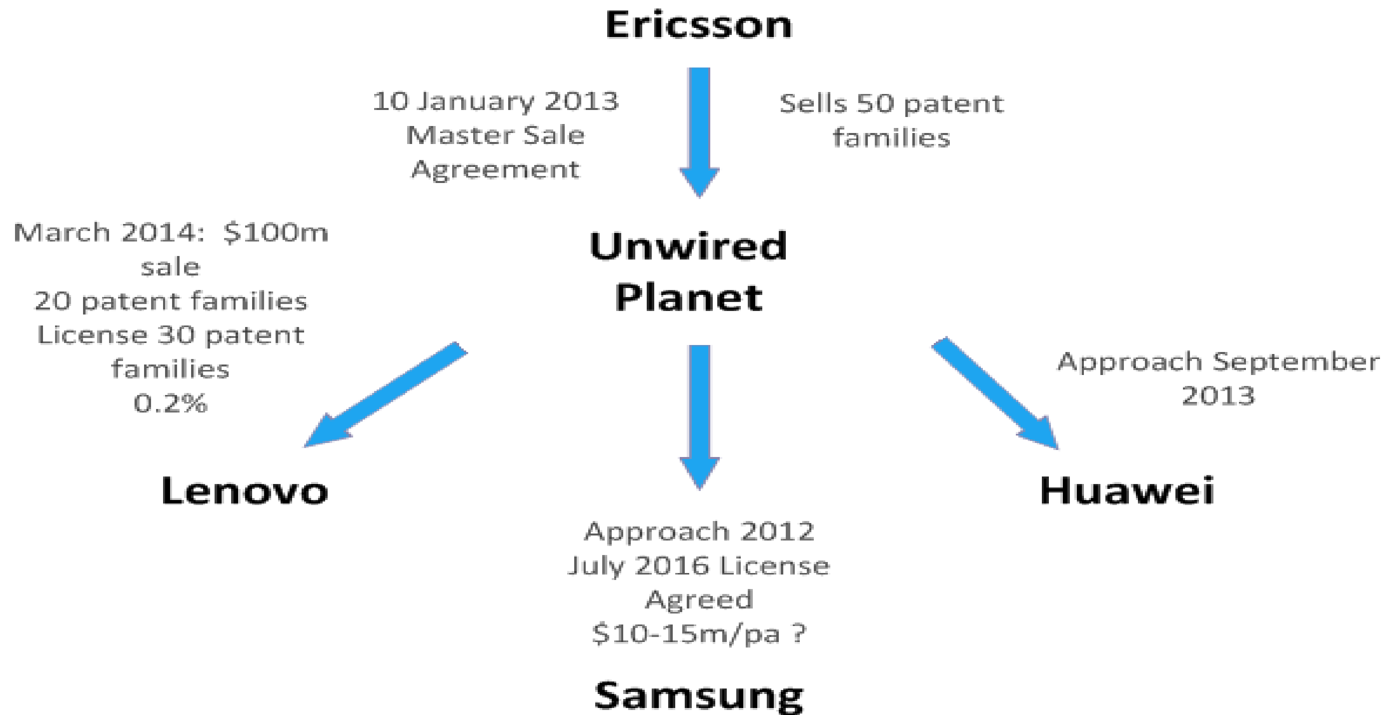
Unwired Planet v Huawei

Part two

The Rt. Hon. Prof. Sir Robin Jacob
Richard Vary

Background



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First instance decision

Contract law:

The FRAND undertaking is legally enforceable by an implementer against a patentee as a matter of French law.

First instance decision

Contract law:

The
imp
law

Competition law:

- Unwired Planet held a dominant position
- Unwired Planet did not abuse that dominant position:
  - The Huawei v ZTE scheme is a safe harbour. It does not mean that an abuse has taken place if a patentee does not follow the CJEU's scheme.
  - High offers made during negotiation are not an abuse so long as they do not disrupt or prejudice the negotiation.

First instance decision

Contract law:

The
imp
law

Competition law:

- Unwired Planet held a dominant position
-

Jurisdiction

- The English Court can determine the terms of a worldwide FRAND licence. It is not restricted to ruling on whether a given set of terms is FRAND.
- If an implementer of SEPs is found to infringe a valid patent and refuses to take a licence on terms found by the Court to be FRAND then an injunction can be granted against them.

First instance decision

Contract law:

The imp law

Competition law:

- Unwired Planet held a dominant position
-

Jurisdiction

-
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Valuation

- Theoretically, there is only one set of terms which are FRAND in any particular case.
- An appropriate way to determine a FRAND royalty is to determine a benchmark rate which is governed by the value of the patentee's portfolio
- This benchmark rate will not vary depending on the size of the licensee (i.e. small new entrants are entitled to pay a royalty based on the same benchmark as established large entities) and will eliminate any hold-up and hold-out.
- This rate can be determined by using comparable licences if they are available. Freely negotiated licences are evidence of what may be FRAND.
- A top down approach can also be used by determining the patentee's share of relevant (i.e. essential) SEPs and applying that to the total aggregate royalty for a standard. This is useful as a cross-check.

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Three appeal points

- Global licensing or UK only?
- Is Non-Discrimination hard-edged?
- Did Unwired Planet need to first comply with the *Huawei v ZTE* steps?
  - Cross appeal of whether UWP is dominant

Is a FRAND licence global or national?

Huawei: imposition of a global licence on terms set by a national court based on a national finding of infringement is wrong in principle

CA:

- May be wholly impractical for a SEP owner to seek to negotiate a licence of its patent rights country by country. This suggests that a global licence between a SEP owner and an implementer may be FRAND.

- Other cases suggest global offer is FRAND (except Commission in Moto)

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The Vringo problem

If FRAND is a range, and the SEP owner makes an offer at the top of the range but the licensee will pay at the bottom of the range, should the court give an injunction?

Birss: FRAND isn't a range. For a given set of circumstances, there is only one FRAND rate.

Court of Appeal:

- FRAND may be a range (willing licensor and wiling licensee test)
- The solution to the Vringo problem is that the obligation on the SEP owner is to make an offer within the range. If there are a number of possibilities, SEP owner gets to choose. If the implementer does not accept, he risks injunction

Is ND hard-edged?

Birss J found that the non-discrimination limb of FRAND is not “hard edged”.

- A licensee may not demand a lower rate than the benchmark "fair and reasonable" rate solely because that lower rate had once been given to a different but similarly situated licensee.

Court of Appeal agreed.

- differential pricing not *per se* objectionable,
- once "hold-up" problem addressed by ensuring that licence is available at a fair reasonable rate no purpose in preventing the patentee from charging less than the licence is worth if it chooses to do so.
  - patent owner may prefer to license its technology for a return which is commensurate with the value of the portfolio, such an approach is not always commercially possible.
- "hard-edged" interpretation would be akin to the re-insertion of a “most favoured licensee” clause in the FRAND undertaking. This had been considered and rejected by ETSI.

Did Unwired Planet need to first comply with the *Huawei v ZTE* steps?

- *H –v- ZTE* is a safe harbour. Being outside the harbour doesn't necessarily mean abuse
- German courts have generally not regarded steps as mandatory
- This is a "transitional" case
- Huawei had "sufficient notice"
- Dominance finding: appealed by UWP but appeal dismissed

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How has the decision been received?

Iam Media	Positive	"...Judgement that is likely to confirm the UK as a go-to jurisdiction for SEP owners seeking to secure global FRAND deals with recalcitrant licensees"
Telegraph	Negative	"Huawei faces bill for tens of millions for 'theft of 4G technology'"
Kirkland & Ellis	Positive	"The U.K. is now arguably the most attractive forum globally for SEP holders looking for assistance in settling long-running licensing negotiations with implementers.
NIPC Law	Positive	The courts had to consider the business efficacy of the clause [6.1 ETSI IPRP] and a construction that applied only to the UK is unlikely to have been intended by the policy's framers.
Kluwer	Negative	"...it remains to be seen whether the courts of other countries will be prepared to sit back and allow the English courts to play ringmaster on FRAND/SEP issues."
Trevisan & Cuonzo	Positive	"The decision has already received a warm welcome by SEP holders, as it opens the door to global FRAND rate setting in the framework of national infringement proceedings."
SpicyIP	Negative	"Perhaps some part of the judgement seems to be yearning for the good old days of the British legal system and hence the grand assumption of having global jurisdiction, or maybe a colonial hangover that refuses to go away."
Slaughter & May	Positive	"Hopefully the judgment in Unwired Planet v Huawei has helped the Commission to conclude that the courts are best left to navigate the path towards patent peace."
Mishcon de Reya	Positive	"...a decision that will cement the attractiveness of the UK courts as a forum for the resolution of standards disputes..."
Herbert Smith	Positive	"The Court of Appeal makes friends with SEP holders"
Law360	Neutral	"Huawei can't dodge injunction in UK after patent license row"
Venner Shipley	Positive	"This reaffirms UK courts are able to set a global FRAND rate and licence terms, and the availability of FRAND injunctions in the UK should an infringer refuse to take a licence on such terms."
Carpmaels	Bad pun award	"Many FRANDS make light work "
Managing IP	Positive	"...the Unwired Planet decision has done a lot to calm some company's nerves when it comes to licensing and tech prices..."
IP Draughts	Slightly Negative	"Reading through the CoA's judgment, IP Draughts was struck by the number of arguments that they addressed and decided, and he wondered whether, in the interests of efficiency, litigation should be reduced to counting the number of arguments that each party makes."
FOSS Patents	Silence...	

Licence to all?

53. …So any implementer must be able to secure a licence on FRAND terms under all the SEPs it needs to produce and market its products which meet the standard.

80. … the judge decided, as he was entitled to decide, that this undertaking is enforceable by third party implementers and it requires a SEP owner to grant a licence to any such implementer under its SEPs on FRAND terms.

178. The development of the notion of general non-discrimination can be traced to the judge's reasoning in deciding on the benchmark rate. Thus at [175] he says it would not be FRAND, for example, for a small new entrant to the market to have to pay a higher royalty rate than an established large entity. (…) In my judgment the FRAND rate ought to be generally non-discriminatory in that it is determined primarily by reference to the value of the patents being licensed and has the result that all licensees who need the same kind of licence will be charged the same kind of rate.

196. …The undertaking therefore requires it to offer to license the portfolio on terms which reflect the proper valuation of the portfolio, and to offer those terms generally (i.e. in a non-discriminatory manner) to all implementers seeking a licence.

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What effect will it have?

SEP cases in the UK post Unwired Planet

- Conversant v. H & ZTE
- Apple v. QC (Jurisdiction challenge)
- Philips v. HTC
- Philips v. Tinno
- TQ Delta v. Zyxel

- (Nokia v Apple… settled)

Approach of other courts

German courts can adopt a quasi-mediator role. Düsseldorf judges are encouraged to:

- Consider parties' respective offers
- Consider anonymised comparable licences and other evidence put forward (top down, expert reports)
- If they believe that the patentee's offer is close to but not FRAND, *advise informally at the outset of a hearing (eg 1.5% is too high but 1% we would consider FRAND)*
- Allow a patentee to submit a revised offer which, if not accepted, would form the basis for an injunction under a German infringed SEP.

Guangdong High Court SEP Guidelines (effective from 26 Apr 2018)

> *"If either the SEP holder or the implementer seeks the adjudication of licence [terms] of patents in territories other than the jurisdiction of the place of adjudication, and the counter party does not expressly raise any objection in the litigation proceedings or if an objection is raised by the counter party, such objection is found unreasonable, [the court] can determine the royalties applicable for such other territories ."*

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How does the UK stay ahead?

- Improve speed
  - Allow FRAND to go first where sensible
  - 2-3 week trial
  - 18 months to a decision
- Reduce cost
  - Arbitrations: cost 2% or less of license value
  - Speed reduces cost
- Improve sophistication to level of arbitrations
- Overcome our reputation as the graveyard of patents

More sophisticated use of comparable licences

Adapting for a new licence requires adjusting for changes in portfolio :

- Numbers of patents over time between the date of the comparable licence and today
- Between different jurisdictions
- Between handset and infrastructure sub-portfolios
- Take account of lump sum or past release discounts
- Take account of changes to inbuilt "weightings" between 4G, 3G and 2G

Comparison requires adjustment for risk allocation

High risk to licensee: lower royalties	Low risk to licensee: higher royalties
Fixed sum	Running royalty
Front-loaded payments	Back-loaded payments
Early licensee (before uptake of standard is known)	Late licensee (after uptake is known)
Long licence	Short licence

Improved metrics for portfolio strength

Patent counting

- Simple approach: easy to explain to judge
- Does not allow for different values of patents:

Contribution Counting

- Counting contributions to standard
- Rejected in TCL v Ericsson but used in Huawei v Samsung

Citation analysis

- Described in the economics literature as the metric which correlates most closely to patent family value (i.e. technical merit)
- Can be used with essentiality data to limit to "relevant SEPs".
- Raw citations are subject to inherent biases which need to be overcome, primarily in:
  - Age of cited patent; and
  - Jurisdiction of citing patent.

Third party essentiality studies

- Ding
- PA consulting
- iRunway
- Article One
- Fairfield
- AI generated studies…

Jurisdiction-weighted patent counting

- Jurisdiction weighting is discussed in literature as indicator of value
- Not yet used in any dispute, so no judgments discussing it

Conclusions

- Resolved a lot of the basic questions
- Sets the UK up as a very real option to unblock the licensing bottleneck
- Can we keep the momentum?

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Thank you