

# Analysis of the UK Supreme Court’s Decision in Unwired Planet v Huawei

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On 26 August, 2020, the UK Supreme Court decided a standard-essential patent (SEP) dispute between Huawei and Unwired Planet.<sup>1</sup> The Supreme Court held that an English court can (a) enjoin infringement of a UK SEP where the infringer is willing to take a UK license, but refuses to take a *worldwide* licence on “fair, reasonable and non-discriminatory” (FRAND) terms, and (b) set the royalty rates and terms of such a license. The judgment clarifies other SEP licensing issues, including the interpretation of the non-discrimination component of FRAND and how an SEP holder seeking to enforce its IP rights can avoid Article 102 TFEU. Some commentary to date has suggested the judgment strengthens SEP holders’ position, but the necessary corollary that *any* nation’s courts can set worldwide FRAND rates is expected to lead to forum shopping, inconsistent outcomes, and anti-suit injunctions.

The other central holdings of the judgment are as follows:

- No discrimination issues arise so long as SEP owners offer a fair and reasonable price list available to all, and refrain from adjusting royalties based on individual licensee characteristics. The court accepts there may be commercial reasons to offer below-FRAND terms to some licensees without making those terms also available to others.
- An SEP holder does not breach Article 102 TFEU by seeking an injunction if it has given the infringer prior notice, and otherwise showed itself willing to license on FRAND terms, even if it does not strictly follow the steps set out by the CJEU in *Huawei/ZTE*.
- Injunctions are normally a proportionate remedy for SEP infringement by unwilling licensees. But courts may depart from this—including, possibly, in the context of patent assertion entities.

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<sup>1</sup> *Unwired Planet v Huawei*, [2020] UKSC 37, 26 August 2020, on appeals from: [2018] EWCA Civ 2344 and [2019] EWCA Civ 38



## FRAND, SEP, SSO, ETSI? Standard setting explained

In sectors like telecommunications, complex systems designed by different market players must integrate and work together. Without this, communication across the globe would be far less effective.

Standard setting organisations (SSOs) foster interoperability by bringing together industry participants to develop and promote technological standards. SSO members agree on standard frameworks like 3G, 4G and 5G, and design their products to work with these.

A patent protecting a technology which is essential to implement telecommunications standards is called a “standard essential patent” (SEP). A SEP’s inclusion in a standard confers market power on the SEP holder: before the adoption of the standard, an SEP owner might have to compete with alternative technologies, while afterwards it acquires exclusivity. Implementers are thus “locked in” and no longer able to use alternatives. Absent other constraints, this would convey on SEP owners the ability to “hold up” implementers by refusing a licence to downstream competitors to gain an advantage in products incorporating the standard, or charging higher royalty rates knowing that implementers have committed substantial investments in the development and production of implementations.

SSOs help to strike the balance between ensuring that SEP owners are fairly rewarded on the one hand, and preserving downstream competition on the other. The European Telecommunications Standards Institute (ETSI), the relevant body in the present case, requests owners of “Essential IPRs” (analogous with SEPs) to declare their patents to ETSI and enter into an irrevocable undertaking with ETSI to allow implementers to obtain a licence on FRAND terms. These requirements form part of ETSI’s IPR Policy. The validity of the patent and whether it is in fact

essential are left to be determined, if necessary, by national courts. ETSI is not involved.

Implementers can also behave in suboptimal ways. Aware that SEP holders have sunk investments in R&D and standard setting, and must offer them licences on FRAND terms, some may be tempted to engage in opportunistic conduct known as “hold-out.” They may knowingly infringe SEPs, while refusing to enter into good faith negotiations for a license.

## The role of antitrust in standard setting

Recent high-profile patent disputes have provided some guidelines on the approach to standard setting at EU and national level. Apple, Samsung, Motorola, Qualcomm, Huawei, and others have raised issues such as the interpretation of FRAND, the calculation of FRAND royalty rates and the extent to which ownership of SEPs might constitute dominance and the SEP-holder’s behaviour an abuse of this dominance. For example, the CJEU held in *Huawei v ZTE* that an SEP owner does not abuse its dominant position by seeking an injunction prohibiting the infringement of a patent, if it has previously alerted the infringer of the infringement and presented a written offer for a licence on FRAND terms, and the infringer has not accepted that offer.<sup>2</sup> These principles were considered in the German Federal Court of Justice in *Sisvel v Haier*,<sup>3</sup> and they arose again in the recent U.K. Supreme Court judgment (see **Issue 4** below).

This topic also remains debated outside the EU. Recently, a U.S. Ninth Circuit Court of Appeals panel found that Qualcomm’s conduct in refusing to licence SEPs to rival chipset manufacturers, refusing to supply chipsets to OEMs unless they first executed a licence to its SEPs and making exclusivity payments to Apple did not infringe U.S. antitrust law.<sup>4</sup> The decision pointed to contract and patent law, rather than antitrust, as the preferred

<sup>2</sup> See further Cleary Gottlieb alert memorandum, ‘[Enforcing Standard-Essential Patents – The European Court of Justice Judgment in Huawei v ZTE](#)’, 3 August 2015.

<sup>3</sup> See further Cleary Gottlieb alert memorandum, ‘[German Federal Court of Justice FRAND Judgment in Sisvel v. Haier](#)’, 23 July 2020.

<sup>4</sup> See further Cleary Gottlieb alert memorandum, ‘[Our Analysis of the Ninth Circuit Panel Decision Reversing FTC v. Qualcomm](#)’, 27 August 2020. The FTC has requested an *en banc* review of this judgment.

avenues for dealing with FRAND disputes in the United States.

## Leading up to the UK Supreme Court judgment

Unwired Planet is a patent assertion entity (PAE) that acquires and licenses patents. In 2013, it acquired telecoms patents from Ericsson, 276 of which were declared essential to ETSI. In 2014, it sought an injunction against Huawei, Samsung and Google based on five UK patents from the Ericsson portfolio. Huawei had previously licensed the patents from Ericsson, but the license expired in 2012 and it nevertheless continued to use the patented technology. At trial, the judge had to decide whether the terms of the parties' latest licensing offers to each other were FRAND, and, if not, to determine the terms that would be FRAND. The judge set worldwide licence terms, holding that a UK-only licence between the parties would not be FRAND because a willing licensor with a global portfolio and a willing licensee with almost global sales would reasonably agree a worldwide licence. Birss J. imposed an injunction if Huawei did not accept the terms he had set.

Huawei appealed against the judge's findings and failed in the Court of Appeal on all grounds (except that the Court of Appeals found that a FRAND royalty rate can be a range rather than a single percentage). It then appealed to the Supreme Court.

## The UK Supreme Court judgment

The Supreme Court unanimously dismissed Huawei's appeal. The judgment has five key holdings:

**1: The English court has jurisdiction to enjoin infringement of a UK patent even if the infringer accepts a UK licence on FRAND terms set by the courts, but resists a worldwide licence.**

**2: England is a more appropriate forum for the dispute than China because Chinese**

**courts have no jurisdiction to determine FRAND terms for global licences without the parties' consent.**

**3: The non-discrimination prong of FRAND does not impose obligations that are separate from the "fair and reasonable" prong, and does not prohibit differing royalties for similarly-situated licences if commercially justified.**

**4: *Huawei v ZTE* provides a 'safe harbour' for SEP holders seeking injunctions against infringers, but not a set of mandatory requirements.**

**5: An injunction may be a proportionate remedy for infringement of a UK patent unless a worldwide licence is taken.**

### Issue 1: Jurisdiction

Huawei argued that the English court had no jurisdiction to set FRAND terms for a worldwide licence.

*Commercial pragmatism is a core principle of interpretation*

A thread running through the judgment is the Supreme Court's desire to discern and enforce the intentions behind ETSI's IPR Policy, taking into account what it found were the realities of commercial practice. It prefaces its findings on the five issues in dispute with an overview of ETSI's IPR Policy and its view of the practicalities of SEP licensing.<sup>5</sup> This framework goes on to inform much of its reasoning.

As an example, one of Huawei's jurisdiction arguments was that the lower courts' decision to essentially force Huawei to take a global licence compromises Huawei's rights to challenge the

<sup>5</sup> See for example *Unwired Planet v Huawei*, [2020] UKSC 37, at 8-15.

validity of the foreign patents. As the validity and infringement of a patent issued in another country can only be tested in that country's courts, Huawei argue that compelling a licence including that foreign patent effectively forces it to licence rights which may not exist.

The Supreme Court rejected this argument. It reasoned that parties need ways to pursue commercial agreements even when elements of those agreements—*i.e.*, the validity and essentiality of patents within the portfolio—may be uncertain. Specifically, the implementer may need authority from the outset to use the technology covered by the patents, without knowing which of those patents are valid and infringed. Similarly, the SEP holder may not know which, if any, of its alleged SEPs are valid and are or will be infringed by use pursuant to the developing standard. The practical solution is for the parties to agree on a license of the entire portfolio of declared SEPs worldwide, and reflect any uncertainty in the royalty.

In the Court's view, the ETSI IPR Policy recognises that parties must resolve disputes about validity or infringement in national courts or by arbitration. Even where there is uncertainty on validity and infringement of foreign patents, the grant of an injunction against unwilling licensees is a "*necessary component of the balance which the IPR Policy seeks to strike*" between the interests of the implementer and the SEP holder. The IPR Policy gives the implementer an incentive to negotiate and accept FRAND terms, and recognises that the SEP holder's ability to seek an injunction is limited by its obligation to make a licence offer on FRAND terms.<sup>6</sup>

*Implementers may insist on clauses that adjust royalties if national patents are successfully challenged*

The Supreme Court acknowledged that implementers may reserve the right to make royalty adjustments in the event that challenges to individual national

patents are successful.<sup>7</sup> The licence that the first-instance judge imposed had such a clause, though it only provided for adjustment of royalties payable in "*major markets*". Huawei had not sought a provision to alter the royalties payable if Unwired Planet's Chinese patents were successfully challenged. While an adjustment clause can be a helpful mechanism for implementers concerned about invalidity or non-infringement of patents in the portfolio, its scope should be carefully negotiated.

*Requiring worldwide licensing is not out of step with foreign courts*

Huawei argued that the lower court's approach did not align with foreign courts' approaches to SEPs and FRAND licensing. It objected to the English court trying to act as "*a de facto international or worldwide licensing tribunal for the telecommunications industry*".<sup>8</sup>

Reviewing case law in the US, Germany, China, Japan and the EU, the Supreme Court found foreign courts' judgments were consistent with the principle that an English court could set the terms of a global FRAND licence.<sup>9</sup> The Court accepted that Birss J has "*gone further than other courts have done thus far in his willingness to determine the terms of a FRAND licence which the parties could not agree*".<sup>10</sup> The Supreme Court nonetheless perceived a willingness, in principle, for foreign courts to grant an injunction against the infringement of a national SEP if an implementer refuses a licence on FRAND terms and to determine the FRAND terms of worldwide licences.<sup>11</sup> We should thus expect other courts, including in the US or China, to set worldwide rates, too.

**Issue 2: *Forum non conveniens* (Conversant only)**<sup>12</sup>

Huawei and ZTE argued that the High Court should have stayed proceedings in England, as China was

<sup>6</sup> *Id.* at 61.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Id.* at 52.

<sup>9</sup> See *id.* at 66-84.

<sup>10</sup> *Id.* at 67.

<sup>11</sup> *Id.* at 84.

<sup>12</sup> This point arose in a related appeal dealt with in the same judgment, stemming from an action brought by another patent assertion entity, Conversant, against Huawei and ZTE (*Huawei Technologies Co, Ltd v Conversant Wireless Licensing SARL* [2019] EWCA Civ 38).

the appropriate forum for the dispute to be tried.<sup>13</sup> The Supreme Court held that the Chinese court could not be the appropriate forum, because Chinese courts have not yet found that they have jurisdiction to determine the terms of a global FRAND licence without the parties' agreement. The Court did not agree to stay the claim to await the outcome of concurrent Chinese proceedings, citing (among other factors) the fact that Conversant's patent portfolio is elderly and delaying outcomes should be avoided.<sup>14</sup>

The issue of *forum non conveniens* may be decided differently if and when the alternative foreign courts do have jurisdiction to set worldwide rates. Current practice is to race to the most advantageous court and prepare for anti-suit (and anti-anti-suit) injunctions.<sup>15</sup> This precedent may embolden English courts not to defer to parallel proceedings in other jurisdictions, although there are good arguments that a UK court should carve out jurisdictions from its worldwide license where a local court has been asked, and is competent, to set the rate for a license under local patents. These complexities may provide an impetus for SSOs to provide arbitration or other dispute resolution mechanisms, like DVB does.

### Issue 3: Non-discrimination

Huawei argued that the non-discrimination limb of FRAND required Unwired Planet to offer it rates as favourable as those Unwired Planet had offered to Huawei's close competitor Samsung in 2016. Huawei's interpretation was that all equivalent licences should be treated the same unless there are objective reasons to treat them differently.<sup>16</sup>

The Supreme Court held that non-discrimination is not a separate requirement from the obligation to license on fair and reasonable terms. Below the

level of fair and reasonable rates, the Policy does not prohibit differential treatment, and does not impose a "most-favourable licence" obligation. (In fact, ETSI had previously considered and rejected a clause imposing this obligation.)<sup>17</sup> The Supreme Court took the view that price discrimination is the "*norm as a matter of licensing practice*" as there may be a number of commercial justifications for differing rates on comparable licences (such as a "early-bird discount" or "fire sale" deal).<sup>18</sup> However, royalties should not be adjusted based on the "*individual characteristics of a particular market participant*" and there should be a "*single royalty price list available to all*".<sup>19</sup>

The Court's suggestion, therefore, is that the FRAND obligation did not prohibit Unwired Planet from granting better terms to Samsung than it imposed on Huawei, so long as the terms to Huawei were fair and reasonable. The Supreme Court left open the possibility of a successful non-discrimination argument based on Article 102(c) TFEU.<sup>20</sup> "*it is to be expected that any anti-competitive effects from differential pricing would be most appropriately addressed by [competition laws].*"<sup>21</sup> Such a claim could not be based on the FRAND license obligation, and would require evidence that the discrimination placed the licensee in question at a competitive disadvantage vis-a-vis other licensees.

Going forward, we may see licensees who believe themselves placed at a disadvantage seek redress by invoking the non-discrimination obligation under Article 102(c) TFEU and equivalent provisions of national law, rather than FRAND obligations.

<sup>13</sup> *Unwired Planet v Huawei*, [2020] UKSC 37, at 92.

<sup>14</sup> *Id.* at 104. The Patent Court took a similar approach in *InterDigital v Lenovo & Motorola* [2020] EWHC 1318 (Pat), refusing to postpone the listing of a non-technical FRAND trial pending parallel US and Chinese proceedings (though the Court in that case was alert to the fact that the Supreme Court judgments in *Unwired* and *Conversant* were yet to be handed down, so it was not able to take advantage of any clarification on this point).

<sup>15</sup> See, for example, the Paris Court of Appeal decision to uphold first instance court decision to grant an

anti-injunction injunction ordering Lenovo and Motorola to withdraw application for anti-suit injunction in US proceedings (*IPCom v. Lenovo*, Court of Appeal of Paris - RG 19/21426).

<sup>16</sup> *Unwired Planet v Huawei*, [2020] UKSC 37 at 105-106.

<sup>17</sup> *Id.* at 116.

<sup>18</sup> *Id.* at 124-125.

<sup>19</sup> *Id.* at 114.

<sup>20</sup> *Id.* at 107.

<sup>21</sup> *Id.* at 124.

#### Issue 4: The negotiation process under *Huawei/ZTE*

Huawei argued Unwired Planet had failed to comply with the guidelines set down by the Court of Justice of the European Union (CJEU) in *Huawei v ZTE* because it had not made a FRAND licence offer to Huawei before issuing proceedings for injunctive relief. It had therefore abused its dominant position contrary to Article 102 TFEU.<sup>22</sup>

The CJEU in *Huawei v ZTE* found that an SEP owner will not abuse its dominant position by seeking an injunction prohibiting the infringement of a patent as long as it has previously alerted the infringer of the infringement and presented a written offer for a licence on FRAND terms, such offer then being refused by the infringer. In line with this judgment, the Supreme Court confirmed that bringing an “*action for prohibitory injunction ... without notice or prior consultation with alleged infringer*” will infringe Article 102 TFEU.<sup>23</sup> Once “*notice or prior consultation*” is available, “[*w*]hat mattered [...] was that Unwired had shown itself willing to license Huawei on whatever terms the court determined were FRAND, whereas Huawei, in contrast, had only been prepared to take a licence with a scope determined by it.”<sup>24</sup> The guidance set out in *Huawei v ZTE* should not therefore be treated as a set of prescriptive rules or a mandatory protocol, but only as a more flexible “safe harbour” for the SEP owner. For instance, there is no requirement that the terms ultimately approved by the Court are provided before litigation begins.

#### Issue 5: Whether an injunction is a proportionate remedy

The Court finally considered whether it would be disproportionate for an English court to enforce an injunction that effectively excludes the products of implementers from the UK market when Unwired Planet’s lost interests—the reasonable royalties in respect of the UK SEPs—could be fully recognized by an award of damages.<sup>25</sup>

The Supreme Court noted that in most cases of patent infringement judges have exercised discretion in favour of granting an injunction.<sup>26</sup> It found that *UK-only* damages are inadequate to compensate for failure to achieve a *worldwide* license. This will be true in many SEP cases, but the balance may be struck differently in non-SEP cases, or in SEP cases where the implementer offers to take a FRAND license set by the court, while the SEP owner demands more.

*There may be scope for a disproportionality defence in the PAE context*

The judgment leaves open the possibility of a disproportionality defence, and suggests that there may be scope to refuse injunction requests from PAEs. The Court referred to the United States Supreme Court decision in *eBay v Mercexchange LLC*, in which a PAE was denied permanent injunctive relief for patent infringement.<sup>27</sup> A denial of injunction might be appropriate, for example, where an injunction is by a PAE as a bargaining tool to charge exorbitant fees: “*where the patented invention was only a small component of the product the defendant sought to produce, and the threat of an injunction was employed simply for undue leverage in negotiations, damages might well be sufficient to compensate for the infringement, and an injunction might not serve the public interest*”.<sup>28</sup>

Huawei argued that the rationale of *eBay* applied here. However, the Supreme Court rejected the disproportionality defense in this case: Unwired Planet could not have used the threat of an injunction as a bargaining tool, since it was under an obligation to offer to license the SEPs on FRAND terms before seeking an injunction.<sup>29</sup>

Although the exploitation argument did not succeed in this case, the judgment does suggest that it could be a factor in future cases. The Court stated that there is no “*legal basis under the general law for treating PAE owners of SEPs differently from other SEP owners*”, but it added to this an important caveat: “*unless they have different interests which*

<sup>22</sup> *Id.* at 129.

<sup>23</sup> *Id.* at 150. From paragraph 60 of CJEU judgment.

<sup>24</sup> *Id.* at 158.

<sup>25</sup> *Id.* at 55 and 159.

<sup>26</sup> *Id.* at 162.

<sup>27</sup> 547 US 388 (2006).

<sup>28</sup> *Unwired Planet v Huawei*, [2020] UKSC 37 at 162.

<sup>29</sup> *Id.* at 164.

*merit different remedies.*”<sup>30</sup> Unlike a practicing entity, a PAE does not lose sales of its own product during the period before a final judgment; it just loses money, and so absent special circumstances it lacks irreparable harm. This may be a basis for assessment of “*different interests*” in a balance of interest test in a proportionality analysis in cases where an implementer offers a reasonable rate.

### Implications of the judgment

The interplay of standards and patents will continue to be controversial, particularly for the Internet of Things.

With implementers likely seeking to avoid legal proceedings in the UK, there may be a rise in races to file first in favourable jurisdictions. The UK may be seen as a jurisdiction of choice, in addition to the US, for patent-holders seeking global FRAND licences and rates fixed by the courts. Germany remains a preferred jurisdiction for SEP owners who want injunctions to exert pressure.<sup>31</sup> Implementers may prefer to file suit in their home jurisdiction and seek anti-suit injunctions to block foreign courts from setting rates for that jurisdiction or even worldwide. Over time, arbitration may be used more often as an alternative forum to determine worldwide FRAND licences, so as to avoid procedural complexities and obtain awards that are easily enforceable in many countries under the New York Convention on the Recognition and Enforcement of Arbitral Awards.

The judgment also leaves open, or does not touch upon, a number of issues that are the subject of current debate:

- What is the limit beyond which imposition of differential terms will fall foul of Article 102(c) TFEU? Are justifications other than “fire sales” or “early bird discounts” acceptable under the non-discriminatory prong of FRAND?

- Are component manufacturers entitled to a FRAND license, or are SEP owners entitled to refuse such a license upstream so long as they license the maker of the end-product?
- Should the royalty for a SEP that is substantially embodied in a component be based on the price of the end-product or the price of the ‘smallest saleable patent practicing unit’?
- Should royalties be calculated based on a top-down analysis, a review of comparable licences, or an incremental value analysis – and should an incremental value analysis be done on an *ex ante* or an *ex post* basis?
- Can an injunction be issued without review of whether the SEP owner’s offer is FRAND, simply on the ground that an implementer’s counteroffer is not FRAND (which the Mannheim Court did in *Nokia v Daimler*), or should the SEP owner’s offer be reviewed too?<sup>32</sup>

These types of disputes will not die down, even with the UK Supreme Court judgment. A report to be issued later this year by the European Commission’s “Expert Group” on FRAND will likely lead to further debate on these issues.

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<sup>30</sup> *Id.* at 89.

<sup>31</sup> See further Cleary Gottlieb alert memorandums, ‘[Germany: Revised Draft Law to Introduce Much Awaited Proportionality Requirement for Patent Injunctions](#)’, 15 September 2020, and ‘[German Federal](#)

[Court of Justice FRAND Judgment in \*Sisvel v. Haier\*](#)’, 23 July 2020.

<sup>32</sup> Paragraph 77 of the judgment suggests that the right approach “*is, first, to look to see whether the SEP owner’s offer of a licence is apparently FRAND. If it is not, they will not grant an injunction.*”