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## *Unwired Planet v Huawei* - UK court sets FRAND rates First substantive EU decision

On 5 April 2017, the UK Patents Court gave judgment ([here](#)) in the long-running litigation between Unwired Planet and Huawei on Unwired Planet's commitment to grant licences to its standards essential patents ("SEPs") on fair, reasonable and non-discriminatory ("FRAND") terms.

The court examined principles of FRAND licensing and set the terms of the FRAND licence in this case. The court also considered competition law issues and held that FRAND obligations are separate from a duty to license based on competition law, and that Unwired Planet had not abused its dominant position. A final injunction would be granted against Huawei if it did not take a licence on the FRAND terms determined by the court, and Huawei was liable for damages for past infringement.

This is the first decision in the EU in which a court has substantively determined FRAND royalties and licence terms, and the first UK decision on competition law relating to SEPs since the CJEU's decision in *Huawei v ZTE* (Case C-170/13).

### Background

Unwired Planet holds a portfolio of telecommunication patents, consisting mainly of patents assigned to it by Ericsson. Unwired Planet earns its revenue by licensing its patents to manufacturers. By assigning part of its portfolio to Unwired Planet, Ericsson sought a greater return on its portfolio.

Many of Unwired Planet's patents have been declared to the European Telecommunications Standards Institute ("ETSI") as essential to telecommunication standards, including 2G (e.g. GSM/GPRS), 3G (e.g. UMTS) and 4G (e.g. LTE) standards (that is, they are SEPs). A declaration that a patent is a SEP means the patent holder believes an implementer of the standard cannot make a device that operates to the relevant standard without infringing that SEP. In return, standards-setting organisations such as ETSI require the patent holder to undertake to license any declared SEP to all would-be users on FRAND terms.

Proceedings began in March 2014, when Unwired Planet sued Huawei, Samsung and Google, claiming that they infringed six of Unwired Planet's patents (five SEPs originally from Ericsson, and one non-essential patent

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developed by Unwired Planet itself). The defendants claimed that the patents were invalid and not essential and/or were not infringed. The parties also disagreed as to the terms of any FRAND licence, including whether it should be worldwide or UK-only, and the FRAND royalty rate. The defendants also argued that various aspects of Unwired Planet's behaviour breached competition law.

The case has led to much litigation, including applications to strike out parts of the case (including an appeal decision of the Court of Appeal), five technical trials into the validity and infringement of the patents (three have taken place, upholding some of the SEPs, and are on appeal; two have been stayed indefinitely), and the non-technical trial on FRAND and competition law issues, which was heard by Mr Justice Birss in autumn 2016 and resulted in this decision. By this time, Google had settled in relation to the SEPs, and Samsung had settled all claims.

## Nature and effect of FRAND undertaking

First, Birss J settled several underlying questions about the effect of a FRAND undertaking to ETSI and its relationship with competition law.

- > **A FRAND undertaking is legally enforceable, separately from competition law:** ETSI undertakings are governed by French law under which they are legally enforceable obligations on which any implementer can rely against the SEP holder, pursuant to the French doctrine of *stipulation pour autrui*. The implementer does not need to rely on competition law to enforce the undertaking: a FRAND undertaking is justiciable and enforceable in a UK court. While a patent holder could breach competition law in relation to SEPs, for example by abusing a dominant position, compliance with competition law does not necessarily imply compliance with FRAND obligations, and a royalty rate might be consistent with competition law but not be FRAND.
- > **Only one set of licence terms is FRAND in each case:** The FRAND standard is an objective one and there can only be one set of FRAND licence terms in a given set of circumstances. This is essential for the FRAND undertaking to be justiciable and enforceable. Therefore, the problem of resolving different but equally FRAND offers from both sides does not arise.
- > **FRAND is enforced by the granting, or withholding, of patent infringement remedies:** Although the FRAND undertaking is legally enforceable, its effect is not that an implementer is already licensed. Parties cannot be compelled to enter into a licence on the FRAND terms determined by the court. Instead, if a patent holder refuses to enter into a FRAND licence, the court should normally refuse to grant relief for patent infringement. If the implementer refuses to enter into the FRAND licence then it has chosen to have no licence and the court would grant normal relief for any patent infringement – including, if appropriate, an injunction.

- > **Parties must negotiate in a FRAND way:** The FRAND obligation also requires the parties to negotiate a licence in a FRAND way. The patent holder is bound by its undertaking, and the implementer must also behave in a FRAND way in order to take advantage of the patent holder's obligations. This does not mean every offer made in negotiation has to be FRAND, but "making extreme offers and taking an intransigent approach" which prejudices FRAND negotiations would not be a FRAND approach.
- > **Worldwide licence:** In some circumstances a patentee may insist on licensing its SEPs on a worldwide basis without breaching competition law; and, where a worldwide licence is FRAND, a licensee may not insist on a limited national licence.

## Determining FRAND terms

While the court cannot create a set of FRAND terms "out of thin air", it can assess rival sets of terms and determine a set of terms different from either side's proposal. The following factors are relevant.

- > **Willing licensor and willing licensee:** It is useful to consider what a willing licensor and willing licensee in the circumstances acting without hold-out or hold-up (i.e. refusing to license or only agreeing to license for an excessively high or low royalty) would agree upon. Evidence from the parties, including how negotiations work in practice in the industry, is relevant.
- > **Rate does not depend on licensee's size:** The royalty rate should not differ based on the size of the licensee. Small new entrants should not have to pay a higher royalty rate than an established large entity.
- > **Other courts' decisions:** Decisions of other courts may be useful as persuasive precedents.
- > **Worldwide portfolio benchmark:** One way to determine the FRAND royalty rate is to determine a benchmark rate based on the value of the patent holder's worldwide SEP portfolio. The rate can then be adjusted, e.g. based on territorial scope.
- > **Comparable licences:** Freely negotiated licences can be referred to as comparables, ideally including other licences granted by the same licensor and/or recent licences in the field. The royalty rate in a comparable licence from another licensor should be adjusted by the ratio of the patent holder's portfolio value compared to that other licensor's.
- > **Share of SEPs:** Another approach, more useful as a cross-check, is a "top-down" determination of the fair overall royalty burden for implementing a standard, then multiplying it by the fraction of all relevant SEPs for that standard held by the particular patent holder.
- > **Assessing portfolio value:** Assessing the share of SEPs or comparing the patent holder's portfolio with another licensor's requires

assessing the relative value of portfolios. For telecommunications standards, it is in practice inevitable that this is done by counting patents, because assessing the value of individual patents would require disproportionate effort.

- > **No “hard-edged” non-discrimination:** The “non-discriminatory” part of “FRAND” does not require a licensee to be offered a rate lower than the benchmark because the lower rate was given to another similarly situated licensee. Such an obligation would only apply if the difference in royalty rates would distort competition between the licensees.

Applying this approach, the court decided that none of the offers made by each side in the course of the proceedings was FRAND. The court determined relative strengths of Unwired Planet’s patent portfolio as compared to Ericsson and to all SEPs for 2G, 3G and 4G standards respectively. Comparing against earlier Ericsson licences, the court determined the benchmark FRAND rates for Unwired Planet’s portfolio for 2G, 3G and 4G, and cross-checked the reasonableness of the overall royalty burden for each standard implied by the benchmark rate and Unwired Planet’s share of all SEPs.

On the facts, the court determined that a worldwide, and not UK-only, licence is FRAND, and adjusted the benchmark rates by territory. For “major markets” (where Unwired Planet holds more SEPs), the rates are 0.052% (handsets)/0.051% (infrastructure) for 4G, 0.032%/0.016% for 3G and 0.064% for 2G. For China (where royalty rates are generally lower, and where Unwired Planet has fewer SEPs) and other markets (since Huawei manufactured in China), the rates are 0.026% for 4G, 0.016%/0.004% for 3G, and 0.016%/0.032% for 2G. The other terms of the licence were determined by reference to the parties’ proposals.

## Competition law

Huawei’s competition law complaints were that Unwired Planet abused its dominant position (contrary to Article 102 of the Treaty on the Functioning of the European Union (“TFEU”)) by issuing proceedings for an injunction prematurely, maintaining a claim for an injunction, insisting on a worldwide licence, and bundling SEPs with non-SEPs.

There had been debate whether a SEP holder is necessarily in a dominant position in the market for licensing a SEP. Mr Justice Birss held that, in assessing the dominant position of a SEP holder, the practical effect of the FRAND undertaking and the potential for hold-out by an implementer are relevant factors, which may mean a SEP holder is not in a dominant position. In this case Unwired Planet was in a dominant position, but the answer might be different on a proper economic analysis.

However, the court held that Unwired Planet’s behaviour did not abuse its dominant position. In particular, the court interpreted the CJEU’s decision in *Huawei v ZTE* to mean that, in the present parties’ circumstances, a patentee

is only required, in order to comply with competition law, to indicate a willingness to grant a FRAND licence before commencing proceedings.

## Outcome

The court determined the FRAND rate and terms and held that Unwired Planet had not abused its dominant position. As Huawei had not previously been willing to take a licence on those terms, an injunction was an available remedy unless Huawei took a licence on the FRAND terms before the further hearing on the injunctive relief. Huawei would be liable for damages for past infringement at the same FRAND rate. The FRAND rates determined by the court are lower than Unwired Planet's last offer of 0.13% for 4G and 0.065% for 2G and 3G for a worldwide licence.

## Comment

Following a trial held over seven weeks, the judgment is over 160 pages long. It answers many key questions about the FRAND standard and SEPs, including that a FRAND undertaking is enforceable separately from competition law and that there is only one set of FRAND terms (which a court can determine) in a given set of circumstances.

It indicates that parties entering FRAND negotiations will need to be well-prepared with economic and technical arguments and that the UK court is prepared to engage with these in substantial detail. While implementers may be reluctant to become involved in this way, it appears that it will be necessary to engage on level terms with patentees.

It remains to be seen whether the framework adopted here will be approved or adopted elsewhere in the EU and how it will interact with the European Commission's anticipated policy paper on FRAND terms.

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