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Developments on SEP/FRAND Issues in the U.S. and abroad

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Case No: A3/2017/1784

Neutral Citation Number: [2018] EWCA Civ 2344

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM CHANCERY DIVISION, PATENTS COURT
Mr Justice Birss
[2017] EWHC 711 (Pat)

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 23/10/2018

Before :

LORD KITCHIN
LORD JUSTICE FLOYD
and
LADY JUSTICE ASPLIN

- -

Between :

(1)UNWIRED PLANET INTERNATIONAL LIMITED **(2) UNWIRED PLANET LLC**	**Claimant/ Tenth Party/ Respondents**
- and -	
(1) HUAWEI TECHNOLOGIES CO. LIMITED **(2) HUAWEI TECHNOLOGIES (UK) CO LIMITED**	**Defendants/ Appellants**

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- -

Andrew Lykiardopoulos QC and James Segan (instructed by **Powell Gilbert**) for the **Appellants**
Adrian Speck QC, Sarah Ford QC, Isabel Jamal and Thomas Jones (instructed by **EIP and Osborne Clarke LLP)** for the **Respondents**

Hearing dates: 17th May- 23rd May 2018

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Judgment

Lord Kitchin:

1. This is the judgment of the court to which we have all contributed.

2. This appeal raises a number of important points of principle concerning the obligation upon the owner of a patent which protects a technology which its owner has declared to be essential to the implementation of one or more of the telecommunications standards such as 2G-GSM, 3G-UMTS and 4G-LTE. A patent of this kind is called a standard essential patent (a "SEP").

3. It is generally accepted that the publication of such a standard supports innovation and growth by ensuring the interoperability of the digital technologies to which it relates. It leads to an increase in the range and volume of products which meet the standard and it allows consumers to switch more easily between the products of different manufacturers. Standards are set by standard setting organisations ("SSOs"). SSOs bring together industry participants to evaluate technologies for inclusion in a new standard, encourage those participants to contribute their most advanced technologies to that standard and promote the standard once it has been agreed. There are various SSOs around the world and each of them operates in much the same way. The SSO with which these proceedings are most concerned is the European Telecommunications Standards Institute ("ETSI").

4. As the European Commission has recognised, SEPs can be of great value to their holders. These holders can expect a substantial revenue stream from their SEPs as the standard for which they are essential is implemented in products sold to millions of consumers. This revenue stream is supported by the fact that alternative technologies which do not meet the standard may well disappear from the market. But the potential for anti-competitive behaviour is obvious. The owner of a SEP has the potential ability to "hold-up" users after the adoption and publication of the standard either by refusing to license the SEP or by extracting excessive royalty fees for its use, and in that way to prevent competitors from gaining effective access to the standard and the part of the telecommunications market to which it relates. ETSI and other SSOs therefore require the owners of SEPs to give an irrevocable undertaking in writing that they are prepared to grant licences of their SEPs on fair, reasonable and non-discriminatory ("FRAND") terms. This undertaking is designed to ensure that any technology protected by a SEP which is incorporated into a standard is accessible to users of that standard on fair and reasonable terms and that its owner cannot impede the implementation of the standard by refusing to license it or by requesting unfair, unreasonable or discriminatory licence fees.

5. As we shall explain, the negotiation of licences for SEPs on FRAND terms may be far from straightforward, however. The owner of a SEP may still use the threat of an injunction to try to secure the payment of excessive licence fees and so engage in hold-up activities. Conversely, the infringer may refuse to engage constructively or behave unreasonably in the negotiation process and so avoid paying the licence fees to which the SEP owner is properly entitled, a process known as "hold-out".

6. In these proceedings, the claimant ("UP International") sued the Huawei defendants (together "Huawei"), Samsung and Google for infringement of five SEPs in the UK. For reasons to which we shall come in a moment, we are now concerned only with the proceedings against Huawei. The SEPs in issue formed part of a worldwide patent

portfolio which UP International and its associated companies had acquired from Ericsson. UP International contended that the five SEPs had been infringed and were essential, and that Huawei, having refused to take a FRAND licence, should be restrained by injunction from further infringement. Huawei responded that the SEPs were neither essential nor valid. It also raised defences and counterclaims based on breaches of competition law, aspects of which were founded upon the contention that UP International and its associated companies had not made an offer to license these patents on FRAND terms.

7. The dispute was case managed by Birss J into a series of trials. The first group of trials were technical trials concerning the validity of the SEPs and whether they were indeed essential (and so, it could be assumed, infringed). By April 2016 three technical trials had been completed and the parties agreed to postpone any further such trials indefinitely. The outcome of these three trials was that two of the SEPs were found to be both valid and essential. Two other SEPs were found to be invalid.

8. The final trial came on for hearing before Birss J in late 2016. It was concerned with FRAND licensing and lasted for seven weeks. By this time UP International and its associated companies had settled the proceedings for infringement of the SEPs against Google and Samsung. In the case of Samsung, that settlement was reached in the summer of 2016, relatively shortly before trial. On 28 July 2016 it took a licence ("the Samsung licence") from UP International and the 10th party, Unwired Planet LLC ("UP LLC" and, together with UP International, "UP").

9. The parties to this final trial were therefore UP and Huawei. Over the course of the preceding two years each had made licensing offers to the other. In April 2014, after proceedings had begun, UP made an open offer to Huawei to license its entire global portfolio of SEPs and non-SEPs. Huawei undertook from the outset of the proceedings to take a licence under any of the UK SEPs which were found to be valid and infringed.

10. In July 2014 UP made a further offer which related only to its SEPs. In broad terms, it offered to license the use of its SEP technology in connection with the sale of mobile devices and infrastructure which met the 4G-LTE standard at a rate of 0.2%, or which met other standards (that is to say, 2G-GSM and 3G-UMTS) at a rate of 0.1%. This offer was not acceptable to Huawei. We should explain at this point that the terms 2G, 3G and 4G are not strictly interchangeable with, respectively, the terms LTE, UMTS and GSM, but the differences are not material to this appeal and so we draw no distinction between them.

11. In June 2015 and as a result of directions from the court, each side made further licensing offers. UP offered a worldwide SEP portfolio licence, a UK SEP portfolio licence and per-patent licences for any SEP that Huawei chose. The royalties claimed for per-patent licences or a UK portfolio licence were higher than the global rate on offer which remained at a rate of 0.2% for products meeting the 4G-LTE standard and 0.1% for products meeting other standards. Huawei offered to take a per-patent licence of the UK SEPs only at a collective rate of 0.034% for products meeting the 4G-LTE standard and 0.015% for products meeting the 3G-UMTS standard. It offered nothing for products meeting the 2G-GSM standard.

Title search: Developments on SEP/FRAND Issues in the U.S. and Abroad

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