

HIGH COURT RULES ON FRAND PATENT LICENSES

- ▶ What are fair, reasonable and non-discriminatory (FRAND) terms (including rates) for a licence of standard essential patents (SEPs)?
- ▶ Guidance within two judgments on negotiating FRAND licences and precedent terms for a licence, and on the outcomes/remedies
- ▶ Interplay between patent and competition law

What's it about?

The European Telecommunications Standards Institute (**ETSI**) sets standards for operators in the mobile telephony industry. It requires ETSI members to inform ETSI of the 'essential' intellectual property rights that they own, which are known as standard essential patents (**SEPs**). This is because SEPs must be licensed to users of SEPs on '*fair, reasonable and non-discriminatory*' (**FRAND**) terms, in order to prevent monopolisation.

In April 2014, Unwired Planet International Ltd (**Unwired**), a US based patent owner, sued several companies, including Huawei Technologies Co. Ltd (**Huawei**), for infringement of six UK patents, five of which it claimed to be SEPs. The dispute was subsequently split into a number of technical trials determining the validity, essentiality and infringement of each patent, followed by a non-technical trial to determine the effect of the FRAND and competition issues as well as the nature and quantum of appropriate relief (if any).

By the commencement of the non-technical trial in autumn 2016, two patents had been found to be valid and infringed, and all the defendants had settled the claim apart from Huawei. Both Huawei and Unwired had made offers of licence terms regarding the SEPs, which they characterised as FRAND but were rejected by the other party. The findings of this non-technical trial are discussed below.

Why does it matter?

In an April 2017 judgment, the High Court gave the first UK court determination of FRAND benchmark licence terms and rates. The decision does not provide a definitive framework, but rather valuable guidance when determining what constitutes FRAND terms during a dispute regarding SEPs.

In terms of quantification, the Court presented two approaches for determining the FRAND licence rate: the 'top-down' (apportioning the total royalty burden for a portfolio to account for the relevant SEPs being licensed) and 'comparable licences' methods. Both provide a useful starting point but are still subjective in their application, whether by considering what constitutes a relevant SEP or a comparable licence (particularly when first having to "unpack" it from a combined product). Additionally, it was held that a FRAND rate need not match a lower royalty rate agreed with a third party unless the difference is large enough to distort competition.

The Court held that a company's FRAND undertaking to ETSI was public and irrevocable and, as such, may be enforced and quantified in the English courts, as well as relied upon by a third party. In each instance, FRAND terms are not a range but, alternatively, can be distilled down to a single set of terms by the court, eliminating the potential difficulty arising if two parties were to present offers at either end of a hypothetical FRAND spectrum.

It was determined that the concept of FRAND extends beyond the operative terms to the process by which a licence is negotiated. A party seeking to take advantage of its counterpart's FRAND obligation must, themselves, negotiate in a FRAND manner. Any offers made in the course of negotiation, above or below the subsequently determined FRAND terms were legitimate, providing that they did not disrupt or prejudice any negotiation.

The court found in this case that neither parties' offers were FRAND. As the holder of the SEPs, Unwired was in a dominant position, but did not abuse this position, despite issuing proceedings for an injunction prematurely (that it later maintained), attempting to impose unfair prices and by bundling SEPs and non-SEPs together. Since Unwired was not in breach of competition law and had established that Huawei had infringed two valid patents, for which Huawei had not been prepared to accept a licence on FRAND terms, Unwired was entitled to damages for past infringement as well as an injunction.

Significantly, a FRAND licence may be worldwide (as was the case here), depending on the industry custom and providing that it does not infringe competition law. Furthermore, if the prospective licensee refuses to take a licence on FRAND terms, then it has effectively chosen to have no licence and, therefore, can have an injunction granted against it, if it has been found to have infringed a patent. The opening offer of the prospective licensor need not be FRAND, provided that absent agreement, it provides a FRAND offer at some point, or proposes that the matter be decided by a court or arbitrator.

Following the April judgment, the parties negotiated and agreed terms of a licence (**Settled Licence**). As the result of a May 2017 quantum/remedy related hearing, the Court granted a declaration in a June judgment that the Settled Licence represented the FRAND terms. It also granted Unwired an injunction which would be automatically discharged if Huawei entered into the FRAND terms within the Settled Licence. Furthermore, the injunction would not automatically be revived, if the proposed FRAND licence expired before all the relevant patents. The injunction issue would be decided by the court contemporaneously with the end of the Settled Licence period, if agreement between the parties had not been reached by that stage.

Importantly, the terms of the Settled Licence are annexed to the June judgment and provide a useful precedent for anyone concerned with IP licensing terms.

Now what?

Various issues within the case have been appealed to the Court of Appeal (and the judgment stayed). Given its position at the forefront of the consideration of FRAND, the involvement of EU competition law (post triggering Article 50) and the length of litigation between the parties, this judgment is likely to be far from final.

[Unwired Planet International Ltd v Huawei Technologies Co. Ltd & Anor: \[2017\] EWHC 711 \(Pat\) \(05 April 2017\), and \[2017\] EWHC 1304 \(Pat\) \(07 June 2017\)](#)

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