

Chapter 6

Interpreting the ‘FRAND’ in FRAND Licensing: Licensing and Competition Law Ramifications of the 2017 *Unwired Planet v Huawei* UK High Court Judgements



Noah D. Mesel

1 Introduction

Professors, pundits, patentees and practitioners around the world have spent nearly a year (as of the publication of this book) trying to decipher the significance of the UK High Court’s judgements in the *Unwired Planet v Huawei* case.¹ No one can seriously doubt that Mr. Justice Birss, who presided over both the technical and economic trials in the *Unwired Planet* cases, has added helpfully to the corpus of common law relating to FRAND licensing. Many also have attempted to tease out of these judgements new guidance under competition law as it relates to patent licensing post the Court of Justice of the European Union (CJEU) judgement in *Huawei v ZTE*.²

This chapter provides perspectives of a licensing practitioner. As discussed here, the *Unwired Planet* judgements should be read first and foremost as clarifications of (1) what fair, reasonable, and non-discriminatory (FRAND) means; (2) how to assess what is FRAND in a particular context; and (3) how to derive FRAND in the face of evolving telecoms standards and licensing practices. The competition law points in the case, while interesting to many, ultimately were distant secondary considerations in the court’s judgement. However, those points are discussed below mainly to show that the court was careful to build a record reflecting its consideration

¹*Unwired Planet International Ltd v Huawei Technologies Co. Ltd* [2017] EWHC 711 (Pat) (5 April 2017) (*Unwired Planet I*) and *Unwired Planet International Ltd v Huawei Technologies Co. Ltd* [2017] EWHC 1304 (Pat) (7 June 2017) (*Unwired Planet II*).

²Case No. C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH* EU: C:2015:477.

N. D. Mesel (✉)

Strategic Legal Advisors LLC, San Francisco Bay Area, USA

e-mail: nmesel@strat-legal.com

of the CJEU's elaboration of the process parties must follow in FRAND patent licensing cases where injunctive relief is a possibility.

Much literature exists already applying familiar antitrust-oriented economic analysis to the process of FRAND licensing. As a practical matter, however, competition law constructs and analysis only come into play when a licensing dispute ends up in court. Parties that practice the inventions in patents but do not want to pay a fair royalty invoke terms such as 'dominant position' and 'patent hold-up'. What happens in the marketplace during license negotiations, though, rarely involves a conscious application of competition economics theory. Rather, the parties will—as Unwired and Huawei did here—fight it out in hard-nosed negotiations until one of them (usually the patentee) seeks judicial relief.

In court, the experts bandy economic terms and hypothetical pricing models to argue their clients' respective cases as to the meaning of FRAND. Some of the economic and pricing models might resonate with antitrust lexicology. Despite efforts to make the entire case sound like a competition law proposition, as the recalcitrant licensee is prone to do, the overlap of competition and patent law here is very narrow. Pricing discrimination, as a competition law concept, and the 'non-discriminatory' prong of patent licensing FRAND law are the only areas of overlap in the legal Venn Diagram.

Certainly, some of the most interesting and provocative analysis of the *Unwired Planet* judgements come from commentators who are much better versed in anti-trust economics than this author. But those authors possibly are not aware, or have not considered, some of the nuances that inform how Justice Birss approached his reasoning and reached his conclusions in the two judgements.

Here is where this chapter attempts to shed additional light. Building on the author's perspective as General Counsel of Unwired Planet as the economic case was developed, this chapter lays out in Part two the context leading up to the economic trial, presents in Part three an analysis of the High Court's two judgements after the economic case, and contends in Part four that the court is mostly right but in parts wrong on how FRAND, as matter of patent licensing practice and competition law, should be applied going forward. Also in Part five, the author suggests the ultimate significance of the *Unwired Planet* judgements and evaluates other published critiques.

2 What Led to the *Unwired Planet* Decisions?

2.1 A Brief History of *Unwired Planet*

Justice Birss' judgements are best understood in the context of the facts he was very familiar with by the time of the economic trial. This part will start with a short history of Unwired Planet's role in the market, and how it engaged in the negotiations against some of the world's largest telecom equipment suppliers before and

during this litigation is informative. Unwired Planet, formerly a product company called Openwave Systems, Inc., had lost its market when smartphones became the *de facto* standard in 2007–08.³

As a result of its product lines becoming largely obsolete, Unwired Planet became, in the parlance of patent practitioners, non-practicing entity—or less politely a 'troll.' However, with just a few hundred patents, it was not a particularly formidable patent asserter in a market where the potential licensees and patentees are companies like Apple, Google, Huawei, and Samsung, among others—elephants on the savannah compared to Unwired Planet's field mouse. Unwired Planet's board and management saw the need to bulk up if they were to establish themselves as a credible licensing force to be reckoned with. Accordingly, they entered discussions with Ericsson⁴ about purchasing a substantial subset of Ericsson's mobile phone patent portfolio.

2.2 Commencement of Licensing Campaign by Unwired Planet

In January 2013, The two companies eventually negotiated the terms of a Master Sale Agreement (the MSA) under which Unwired Planet purchased over 2,000 Ericsson patents, with additional patents to be added annually to the list of sold patents and/or swapped with Unwired Planet.⁵ Under the MSA's terms, Unwired was to initiate an active licensing program in part for Ericsson's benefit.⁶ Any proceeds from the licensing program would be shared with Ericsson according to a formula stated in the MSA. Many other details of the arrangement were also

³Openwave Systems, Inc., developed a technology called Web Application Protocol (WAP), which enabled feature phones to communicate with other devices on the Internet. WAP enjoyed a massive 90% worldwide market share until the advent of the modern Blackberry, iPhone, and Android-based phones in 2007–08. Then Openwave's market for WAP disappeared within a matter of months. Openwave eventually sold off its software products, and was left with a few hundred of its own patents and large balance in its bank accounts.

⁴Ericsson AB, based in Sweden, is one of the world's largest communications equipment manufacturers. The company holds over 42,000 patents. See 'Patents and Licensing' (Ericsson, 2017) <<https://www.ericsson.com/en/networked-society/innovation/patents-and-licensing>> accessed 8 January 2018.

⁵A redacted version of the MSA is publicly available on the US Securities and Exchange Commission website. See Securities Exchange Commission, 'Master Sale Agreement' (2017) <<https://www.sec.gov/Archives/edgar/data/1082506/000119312513012058/d466328dex102.htm>> accessed 15 October 2017.

⁶In such an arrangement, the party in Unwired Planet's position is commonly referred to as a 'privateer,' evoking the pirates of the mid-1600's in Europe who were commissioned by governments to use their privately-owned ships to fight or capture enemy ships.

dictated by Ericsson in the MSA.⁷ In the words of Mr. Justice Birss, ‘Ericsson were in control of the process.’⁸ Ericsson’s role later became an issue in the competition case, as will be discussed below.

Unwired’s management in the US immediately began a licensing campaign based upon the Openwave portfolio as well as the much larger Ericsson portfolio they had acquired. They aggressively pursued patent licenses from Huawei, Samsung and others. Perhaps not surprisingly, the large telecoms went through the motions of meeting to discuss potential licenses. But after months, and after multiple face-to-face and telephone meetings, none of the negotiations had made any meaningful progress. Just five months after beginning its effort to engage Huawei in serious licensing discussions, Unwired Planet, Inc.’s CEO told Ericsson in October 2013, ‘...we are having to initiate new litigation due to lack of any licensing happening.’⁹ The much larger companies apparently had decided they would wait out Unwired, which had no other revenue source than patent licenses, and let Unwired run out of funds. But the larger companies miscalculated.

2.3 *Failure of Licensing and Commencement of Litigation*

By early 2014, it was clear to Unwired that Huawei and Samsung had no intention of paying a license fee unless they were compelled to do so. Unwired responded by filing claims of patent infringement against Huawei, Samsung, Google and others in the UK High Court (Chancery Division, Patents court) and in Germany (in the Dusseldorf regional court).¹⁰ The claim in the UK alleged that defendants infringed six patents, five of which were standards-essential patents (SEPs) reading on the 2G, 3G and 4G (LTE) standards promulgated by the European Telecommunications Standards Institute (ETSI). In the UK action, Huawei and Samsung filed counter-claims, alleging *inter alia*, that Unwired, and Ericsson had acted in breach of Article 102 of the European Competition Law.¹¹ Notably, Unwired never sought pre-judgement injunctions against any of the defendants.¹² (Keep in mind that the CJEU’s hearing on *Huawei v ZTE* was not heard until 11 September 2014.)

After the UK action commenced, throughout the time during which the infringement/validity trials occurred, and up to the time of the FRAND/competition trial, the parties continued to exchange offers; however, they were unsuccessful. Indeed, based upon the public record, it is fair to say that the negotiations that began in June 2013 and continued at least through mid-2016 (to the author’s knowledge),

⁷*Unwired Planet I* (n 1), paras 62–64.

⁸*ibid*, para 63.

⁹*ibid*, para 73.

¹⁰For purposes of this discussion, only the UK case is covered.

¹¹*Unwired Planet I* (n 1), para 688.

¹²Potential rationales for this decision are discussed in Part three.

took the form of: offer, then very different counter-offer, repeatedly for the three year period, with no real progress towards a voluntary license.¹³

The High Court acted with its typical efficiency. Infringement and validity for the six patents in suit were to be litigated over the course of five trials beginning in October 2015 and July 2016.¹⁴ The trial on damages (if any) and other economic issues would be heard beginning in October 2016. By early 2016, after three of the trials, Unwired had won two and lost one trial; of the four patents considered in the trials, two were found valid and infringed, and two were found invalid.¹⁵ All of the judgements were under appeal at the time the court handed down judgement in the economic trial.¹⁶

As the parties were awaiting the court's judgement in the third technical trial, the Unwired corporate group was in negotiations with another patent holding company, PanOptis Equity Holdings LLC (PanOptis), to sell the business. Unwired Planet's patent holding companies remained intact, and became subsidiaries of PanOptis. It was decided that there was a sufficient record, with wins on two of the SEPs in suit, to proceed to the economic trial without the need to litigate additional technical trials. Samsung and Huawei agreed to take the two remaining technical trials off calendar.

Not long after the closing of the Unwired Planet-PanOptis transaction, Samsung settled with Unwired Planet in July 2016, leaving Huawei as the sole remaining defendant in the economic trial.

3 The *Unwired Planet* Judgements: What Do They Mean and What Do They Add?

3.1 *The 5 April 2017 Judgement*

On 5 April 2017, Mr. Justice Birss handed down a judgement (the *Unwired Planet I*) that largely gave Unwired Planet the victory it had sought. The court evaluated the parties' conduct, the testimony of each side's experts, a number of comparable license agreements and then reached a number of conclusions. First, on the issue of what is a FRAND license rate, the court found that neither Unwired Planet nor Huawei's offers during the three years of negotiations were 'FRAND' in his opinion.¹⁷ It was possible to ascribe a specific relative value to the 2G, 3G and 4G patents in the Unwired portfolio which came out of the Ericsson portfolio, and the

¹³*Unwired Planet I* (n 1), paras 70–82.

¹⁴Before the first technical trial, Google settled with Unwired Planet as to the SEPs, and did not participate further in the UK litigation. See *Unwired Planet I*, para 9.

¹⁵*Unwired Planet I* (n 1), para 9.

¹⁶*ibid.*

¹⁷*ibid.*, paras 807(1), (2).

court enumerated those values.¹⁸ Of the various licenses suggested as ‘comparable,’ the court deemed the Ericsson-Huawei 2014 license and other Ericsson licenses as the best comparables.¹⁹ A FRAND license should not be limited to the UK; it should be a worldwide license.²⁰

Next, on the issue of competition law, the court studiously followed the CJEU’s *Huawei v ZTE* analysis to the facts of this case. Unwired Planet, as the holder of SEPs, is in a dominant position for purposes of applying competition law.²¹ The court reviewed the applicability of the ‘hard-nosed non-discrimination’ and ruled that Unwired did not abuse their dominant position in seeking injunctive relief, seeking a worldwide license, by attempting to impose ‘unfair’ prices or by bundling SEPs and non-SEPs.²² Because Unwired holds valid and infringed patents, and Huawei ‘have not been prepared to take a license on the terms I have found to be FRAND, and since Unwired Planet are not in breach of competition law,’ a final injunction was granted.²³

3.2 The 7 June 2017 Judgement

The 7 June 2017 judgement (the *Unwired Planet II*) is best described as a settling of accounts on open points related to matters resolved in the *Unwired Planet I* judgement. First, the court confirmed its ruling that Unwired Planet was entitled to an injunction unless Huawei entered the form of license as ordered by the court in April.²⁴ Second, the court awarded costs to Unwired Planet as the prevailing party.²⁵ Third, the court addressed specific arguments raised by the parties for purposes of positioning the case for their respective appeals.²⁶

Really the most striking aspect of the *Unwired Planet II* judgement is the court’s decision to publish the full text (minus the actual rates) of what it calls the Settled License.²⁷ This may be a first in published patent judgements in Europe and the US. This precedent establishes an important milestone in promoting transparency of licensing terms for others negotiating FRAND licenses for SEPs. While the tables

¹⁸ibid, paras 807(4), (5), (8) and (9).

¹⁹ibid, para 807(6).

²⁰ibid, para 807(11).

²¹ibid, para 807(16). In a point that will be covered below, the court prefaced its conclusion regarding Unwired’s being in a ‘dominant position’ by stating, ‘if a proper economic analysis had been done the answer might be different’.

²²ibid, 807(17).

²³ibid, para 807(18).

²⁴*Unwired Planet II* (n 1), paras 3–4, 23, 25.

²⁵ibid, paras 39–61. Huawei was ordered to pay £2.9 million out of Unwired Planet’s total £8.5 million in trial costs.

²⁶ibid, paras 62–69.

²⁷ibid, 16–40.

for the license fees remain blank in this license, anyone can import what the court has already adjudged to be FRAND rates—for Major Market, Other Markets (including China) and broken down even further by the various cellular standards set by ETSI (2G, 3G and 4G).

3.3 *FRAND—New Guidance from the Unwired Judgement*

A number of key issues were raised and resolved (at least preliminarily) in the High Court's April and June 2017 judgements:

- (1) What does 'FRAND' mean?
 - Is FRAND a worldwide rate or just a national rate?
 - Is a FRAND rate a range or a specific number?
 - Is FRAND a value or a process?
 - What does a FRAND license look like?
- (2) How should the court evaluate FRAND in a particular context? Is a Top-Down or a Comparable License Analysis more reliable?
 - Do FRAND offers and counter-offers inform whether the parties are acting reasonably?
 - How do 'comparable licenses' inform whether the parties' offers and counter-offers are FRAND (or not)?
- (3) How should the court interpret 'FRAND' taking into account evolving telecoms standards?

These three interrelated issues and their sub-parts are explored in the following subsections.

3.3.1 'FRAND' Means Worldwide

Patent owners, licensees and litigators have been asking courts in the UK, Germany, the US, India and elsewhere for clarity on the meaning of FRAND in both the valuation and procedural dimensions. Practically speaking, straightforward answers to this question and its component parts will guide negotiations normatively. Licensors and their counsel realize that failed negotiations likely will land the parties in court, where a judge will apply tests of fairness, reasonableness, and non-discrimination to the parties conduct. Assuming that parties want their conduct to be adjudged as reasonable, they will follow rules that are clearly stated.

In this respect, Mr. Justice Birss does not disappoint. In perhaps the judgement's most important application of FRAND to a license for a multi-national portfolio of

SEPs being offered to a worldwide telecom vendor, FRAND means a *worldwide license rate*. The court begins its analysis by noting:

Aside from the rate, the question of scope is the most significant point in the case. The parties are diametrically opposed. Huawei are willing to take a licence under Unwired Planet's UK patent portfolio, but only the UK portfolio. Unwired Planet wish to grant a worldwide licence and contend that they are entitled to insist on it.²⁸

The court then proceeds with a detailed, analysis of the facts and the law. Huawei makes and sells its equipment in multiple jurisdictions.²⁹ Patentee such as Unwired Planet should not be forced to chase an infringer in multiple jurisdictions to enforce its patent rights adequately. Otherwise, the purpose of the standard setting organization (SSO) and the FRAND commitment are undermined by the recalcitrant licensee. While a court may only have power to grant an injunction in the country in which that court resides, once it is determined that a SEP is valid and infringed, the court's coercive power may be used to impose a result that is extra-territorial.³⁰ Accordingly, the court...

...conclude[d] that a worldwide licence would not be contrary to competition law. Willing and reasonable parties would agree on a worldwide licence. It is the FRAND licence for a portfolio like Unwired Planet's and an implementer like Huawei. Therefore, Unwired Planet are entitled to insist on it.³¹

This is indeed a landmark ruling. No prior court had determined that FRAND is, by definition, a worldwide licensing scheme when the patentee's portfolio is worldwide in nature. Now that patentees and prospective licensees have this guidance, this should eliminate much of the haggling that characterized the Unwired Planet—Huawei negotiations.

3.3.2 FRAND—Top-Down and Comparable License Analyses: Is One Superior to the Other?

A major point of contention between Unwired Planet and Huawei was the question of whether either party had offered a FRAND rate during negotiations.³² To establish a framework for assessing the FRAND-ness of the parties' respective offers, the court considered two methodologies: the so-called 'top-down' approach and a review of comparable-licenses.³³

²⁸*Unwired Planet I* (n 1) 524.

²⁹*ibid*, paras 525–572.

³⁰*ibid*, para 562.

³¹*ibid*, para 572.

³²*ibid*, para 151.

³³*ibid*, paras 178–79.

Top-Down Models—Only Good So Long as They Are Objective

A generic top-down approach to determining FRAND licensing rates for SEPs starts by assuming the total royalty burden (or T for total) for a given standard, then determines a particular patentee's proportionate share (or S for share) of the total based upon the fraction of the total number of patents applicable to the standard held by that patentee. Multiply $T \times S$, and one should get the total royalty rate due to the patentee.³⁴ Both Unwired Planet and Huawei had devised top-down methodologies to get to the percentage of the total SEP pool held by the different patentees of note—Ericsson, Huawei, Nokia, Qualcomm, Samsung, and Unwired Planet among others.³⁵

The court dissects, critiques and largely debunks many aspects of both the Unwired Planet MNPA and the Huawei HPA methodologies.³⁶ In short, Unwired's claimed FRAND rate was too high and Huawei's was too low.³⁷ As the lengthy analysis reflects, there are many reasons why these top-down approaches are infirm, some objective and mathematical, some more subjective. For example, a model like the MNPA tends to overstate the importance of SEPs in a smaller portfolio like Unwired Planet's by virtue of how the MNPA calculates the ration of 'Relevant SEPs' to the whole portfolio.³⁸ Furthermore, any top-down model that attempts to ascribe 'importance' or that claims to mathematically determine an 'essentiality rate' ultimately relies upon subjective judgement to define what is 'important' and what patents are 'truly essential'.³⁹

What motivates a party to build specific rationales into its top-down royalty model imposes yet another layer of subjectivity in the process. Knowing that motivation informs how trustworthy such a model is as a probative economic tool. Huawei first claimed that its HPA was undertaken to respond to the supposed flaws in Unwired Planet's MNPA.⁴⁰ In fact, at a later point in the trial it was disclosed that the HPA was created as a filtering tool for one of Huawei's experts to evaluate

³⁴ibid, para 178.

³⁵Unwired Planet's method is referred to as the Modified Numeric Proportionality Approach (MNPA) and Huawei's is called the Huawei Patent Analysis (HPA) ibid, para 199. The MNPA was originally constructed by Unwired Planet for the purpose of determining what a reasonable royalty rate proposal would be for purposes of licensing discussions prior to the filing of any litigation. A revised MNPA was prepared specifically to submit as evidence in the economic trial.

³⁶ibid, paras 198–371.

³⁷ibid, paras 522 and 807(3).

³⁸ibid, para 299.

³⁹ibid, para 303. The court identifies other issues with the revised MNPA prepared for the trial.

⁴⁰ibid, para 293.

patents during an earlier arbitration between Huawei and Ericsson—not to derive a FRAND license right.⁴¹

After analyzing the MNPA and the HPA, Mr. Justice Birss decided that neither generated completely accurate or legally satisfactory royalty rates.⁴² However the two competing top-down approaches provided a cross-check against each other as well as a sanity check against the comparable license approach. This is one aspect of the judgement in which the court's conclusions appear inconsistent yet ultimately form the basis for its judgement. On one hand, although neither the Unwired Planet nor the Huawei method accurately reaches the correct royalty rate, the court finds they are somewhat consistent in defining a range of possible royalties.⁴³ So the judgement appears to say at one point that there is a range in which one can establish a FRAND rate.⁴⁴ However the court ultimately reverses course and states that a FRAND rate is a specific number.⁴⁵ So what is that rate? And absent a reliable top-down method, how does one determine that rate?

Comparable Licenses—Superficially Good but Problematic Idea

Turning then to the comparable license approach as a way to answer that question, the court reviewed several licenses disclosed by the parties pre-trial.⁴⁶ It is difficult to fully compare these licenses or to comment on the court's findings specifically for the simple reason that the documents are confidential and the details of those licenses were redacted from the published opinion.⁴⁷ Indeed, anyone searching the April 2017 *Unwired Planet* judgement for useful data on which to understand the comparable licenses does so in vain. This section of the judgement might as well have been written in invisible ink.⁴⁸

As best can be explained from the judgement, the parties and Ericsson had provided pre-trial disclosure of multiple license agreements. Not surprisingly, each

⁴¹ibid, para 341. Mr. Justice Birss was very critical of what he believed was an intentional misrepresentation by Huawei about this point in its pre-trial statement of the case:

The way the HPA was presented by Huawei in these proceedings in the FRAND Statement of Case was wrong and should not have happened ... What has happened is that the truth about how the HPA was devised and the reasons for it were not presented properly from the outset. Although more came out at trial I am not satisfied the full picture has been presented to the court.

⁴²The process of determining reasonable royalty rates is covered in numerous law and economics journals. A good example of this perspective is provided by Contreras. Jorge L Contreras, 'A New Perspective on FRAND Royalties: Unwired Planet v Huawei' (2017) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2949449> accessed 10 November 2017 (Contreras).

⁴³ibid, paras 261–264.

⁴⁴ibid, para 501.

⁴⁵ibid, para 807(8).

⁴⁶ibid, paras 179–80.

⁴⁷See, e.g., ibid, para 383, describing the 2014 Unwired Planet-Lenovo license, but redacting the royalty numbers.

⁴⁸ibid, paras 383–468.

party argued that one or more licenses it disclosed were the better precedents on which to rely.⁴⁹ The court took evidence from the parties' experts and eventually concluded that the 2014 license between Ericsson and Samsung is 'the best place to start, but other Ericsson licenses are relevant.'⁵⁰ Using the data from these Ericsson licenses and from a separate analysis of Unwired Planet's share of all SEPs, the court found that specific benchmark FRAND rates applied to Unwired Planet's portfolio.⁵¹

For the reasons elaborated in Part four, it is unlikely that the data from any of these licenses could be helpful in assisting the court to establish what other licenses suggest are FRAND rates.

3.3.3 The Meaning of FRAND in Light of Evolving Standards

Another factor contributing to the complexity of the court's valuation exercise is the manner in which telecommunications standards have evolved over time, and the impact of this evolution on FRAND rates. The court addresses this problem in part by noting how the Unwired Planet patents may apply in varying ways to the 2G, 3G and 4G standards.⁵² A few challenges related to the evolution of the standards exist in establishing FRAND rates for Huawei's different mobile phone products. Some phones are 2G/GSM only. Some are 2G and 3G/UMTS. Others also have 4G/LTE capabilities.⁵³ As the court observes, 'it is impossible to be consistent'.

What the court never resolves is what happens over the life span of a multi-year license as an older standard becomes less used or eventually obsolete. And what happens to the value of the most current standard when industry deploys equipment based upon a new standard? One standard not at issue in the case, 5G, will be implemented during the first term of the expected Unwired Planet-Huawei license. Left hanging in the discussion of rates associated with specific standards is the question of the basis on which parties should set SEP royalty rates when the underlying standard is used less or become obsolete.

The Competition Law Points—No News is Good News?

Although the worldwide patent licensing community may have wanted a new elaboration of the path to seeking injunctive relief after *Huawei v ZTE* CJEU decision, the Unwired Planet I analysis of the competition law points does not so much fill in any gaps in the CJEU judgement as there are gaps to be considered.

⁴⁹ibid, paras 382–468.

⁵⁰ibid, para 807(6).

⁵¹ibid, para 807(8).

⁵²See, e.g., ibid, paras 770–771.

⁵³ibid, para 5.

Mr. Justice Birss contributes a typically British common law jurisprudential interpretation when he states:

I am not persuaded that the CJEU in *Huawei v ZTE* sought to set out a series of rigid predefined rules, compliance with which is never abusive whereas deviation from which is always abusive, all regardless of the circumstances. Abuse of dominance is a serious matter and the court will have had well in mind that circumstances can vary.⁵⁴

Put differently, the facts and circumstances matter. Therefore, given the facts of the case before the court, the main issues addressed that are of general interest to the licensing community are:

- (1) How does injunctive relief in this case fit into the analysis under the CJEU's 2016 *Huawei v ZTE* judgement?
- (2) Did the asserted SEP patents from Ericsson put Unwired in a dominant position, as defined by the CJEU's *United Brands* application of EU competition law, and did Unwired Planet abuse that dominant position?⁵⁵
- (3) What effect, if any, did the 'bundling' of non-SEPs with the SEPs, have on the competition law issues?

Injunctive Relief in Favor of Unwired Planet: Pre-trial Notification

Huawei argued at trial against an injunction prohibiting it from selling its phones on the grounds that Unwired Planet abused its dominant market position and had not offered a FRAND rate for the UK before initiating litigation.⁵⁶ The dominant position element of the argument is discussed in the next part. The court acknowledges that Unwired Planet did not provide its FRAND terms to Huawei before bringing the claims in the case, but did so within a very short time after commencing the proceedings.⁵⁷ Indeed, the court recognizes that Huawei is a 'sophisticated organization well versed in technology and licensing',⁵⁸ and there had been plenty of prior contact between the parties and Ericsson, so Huawei was hardly caught off-guard when Unwired Planet commenced proceedings seeking as one form of relief an injunction on sales of infringing products.⁵⁹ The main point here is that the court will not let a large recalcitrant licensee try to use a strict construction of the *Huawei v ZTE* judgement to avoid a common sense interpretation of the factual history.

The court also distinguished the German line of cases that followed *Huawei v ZTE* based upon the German and English courts' fundamentally different

⁵⁴ibid, para 741.

⁵⁵Case 27/76 *United Brands v Commission* [1978] ECR 207.

⁵⁶*Unwired Planet I* (n 1), paras 747, 793.

⁵⁷ibid, para 753.

⁵⁸ibid, para 750.

⁵⁹ibid, para 748.

approaches to patent infringement proceedings. Because German courts try infringement and validity separately (infringement first), and patentees are entitled to injunctive relief upon finding of infringement but before validity is tried, it matters much earlier in the German system whether an injunction is issued at the end of the infringement trial.⁶⁰ But in *Unwired Planet*, not only did the patentee not seek a prejudgement injunction, it was willing to forego injunctive relief entirely if Huawei was ordered to pay fair royalties.

Abuse of Dominant Position

For recalcitrant licensees, the *Unwired Planet I* may be a case of bad facts making bad law. The court held that while *Unwired Planet*'s efforts to license SEPs put it in a dominant position, the patentee did not abuse its position based upon the facts before the court.⁶¹ *Unwired Planet* did seek injunctive relief if Huawei persisted in its unwillingness to enter into a FRAND license.⁶² *Unwired Planet* consistently maintained its position that it was willing to enter a 'FRAND'—meaning worldwide—portfolio license.⁶³ However 'Huawei have never made an unqualified commitment to enter into a FRAND license.'⁶⁴ As noted in Part 3.3.1 above, the court determined that on the facts of the case, a FRAND license was a worldwide portfolio license.⁶⁵ Huawei would only agree, though, to a patent-by-patent license for any patent found valid and infringed—in the UK.⁶⁶

Huawei's nit-picky approach and non-standard approach to FRAND licensing did not impress the court. The court reviewed nearly the entire course of the parties' negotiations dating from 2013 to 2016.⁶⁷ Time-after-time Huawei refused to engage with *Unwired Planet* on a worldwide portfolio license basis. As the court determined that only a worldwide license is FRAND in these circumstances, and so Huawei never came close to meeting its obligations under the *Huawei v ZTE* framework. Thus the court gave Huawei no deference and found that *Unwired Planet* had not abused its position as a SEP-holder in connection with its action to obtain injunctive relief.

The court also found that there is no mathematical benchmark to define unfair or excessive pricing.⁶⁸ There is no alignment of what a FRAND price might be and

⁶⁰*ibid*, paras 713–15.

⁶¹*ibid*, para 807(17).

⁶²*ibid*, para 706.

⁶³*ibid*, para 750.

⁶⁴*ibid*, para 754.

⁶⁵*ibid*, para 752.

⁶⁶*ibid*, para 706.

⁶⁷*ibid*, paras 678–706.

⁶⁸*ibid*, para 756.

what constitutes unfair pricing under Article 102(a).⁶⁹ While Unwired Planet's price proposals might have been higher than a proper FRAND rate (Justice Birss found that they were), it does not necessarily mean that those offers, which were made for negotiation purposes violated Article 102(a). Accordingly, the court rejected Huawei's case on unfair competition based upon competition law.⁷⁰

Bundling SEPs, Non-SEPs

Little Unwired Planet helped its cause considerably when the much-bigger Huawei demanded that SEPs and non-SEPs be separated for licensing purposes, and Unwired Planet did so.⁷¹ 'These are not the actions of a party trying to use its market power' by bundling SEPs and non-SEPs.⁷² The court rejected the bundling argument with ease. This specific argument is an excellent example of how the court looked deeply into the actual facts presented at trial and resisted an overly formulaic application of the *Huawei v ZTE* abuse of market dominance analysis to reach a reasoned conclusion.

4 Unwired Planet's Significance Going Forward: Points for Consideration

4.1 FRAND Means Worldwide

Perhaps the best news for practitioners is the court's determination that in a worldwide industry with patents granted in multiple jurisdictions, and with products across the planet, a FRAND license is, *de facto*, a worldwide rate. This is a particularly good precedent for patentees who have had to chase unwilling licensees around the planet in order to achieve patent peace. Although this aspect of Unwired Planet I is currently under appeal, it seems unlikely that the court of Appeal will overturn this part of the judgement. Mr. Justice Birss' explanation that sophisticated companies such as Huawei should expect to take a worldwide license is practical. And his mechanism for enforcing a worldwide FRAND license is clever – he states simply that he will enjoin sales of Huawei products in the UK if they do not comply with his order. In other words, his enforcement is strictly territorial.

⁶⁹ibid, para 757.

⁷⁰ibid, para 784.

⁷¹ibid, para 790.

⁷²ibid, para 790.

At least one commentator disagrees with the concept that for SEPs in the cellular technology field, FRAND terms necessarily mean a worldwide portfolio license.⁷³ Choudhry argues against this result because he disagrees with the concept of portfolio licensing in general. Portfolio licenses disregard differences in claims between patents granted in different countries and because patents expire.⁷⁴ This critique is superficial and inaccurate in at least three practical respects. First, all of the major licenses between parties in the cellular industry reviewed by the *Unwired Planet* court are portfolio licenses, including SEPs and non-SEPs. The argument that licenses should be negotiated only after infringement and validity are court-tested is an un-economic approach to licensing. In that model, the only parties sure to profit from testing patents are the patent litigation solicitors and barristers.⁷⁵

Second, the differences between SEPs granted in different countries are largely irrelevant. If the parties negotiate a consensual license, they implicitly concede that the licensee is practicing the standard. Any critique on this point ignores the business imperative to conclude reasonable license deals in order to avoid costly litigation.

Third, portfolio licenses are generally written to avoid the pitfalls and expense of valuing individual patents that come into existence and that expire during the license period. A typical patent license would grant the licensee rights to use, manufacture, etc. the invention(s) described in the portfolio in the designated field of use during the term of the license. It is further understood that patents may be added to the portfolio during that time as well as that some patents may expire. But the scope of the license permits the licensee to obtain patent peace during the term of the agreement. This is why licenses in the cellular industry have five to seven year terms. Everyone understands that standards change, and therefore the SEPs in the portfolio will have increasing or decreasing value depending upon the standard to which they read.

For all of these reasons a FRAND license needs to be a worldwide portfolio license.

4.2 *FRAND Should Be a Range, not a Fixed Number*

Where the *Unwired Planet I* judgement veers off course is the determination that FRAND is a fixed number. Several points raised in the judgement support this view. As the court notes, at least three rates comprise what one would deem the

⁷³See Rajiv K Choudhry, 'A Critique of the Decision in *Unwired Planet v Huawei*' (*Spicy IP*, 2017) <<https://spicyip.com/2017/04/a-critique-of-the-decision-in-unwired-planet-v-huawei.html>>.

⁷⁴*ibid*.

⁷⁵Indeed, the consequence of the overly-litigious approach to patent licensing has now surfaced in the *Unwired Planet-Huawei* dispute. Dissatisfied with the outcome in the UK, Huawei has now initiated proceedings in China, and *Unwired Planet* has responded by bringing a claim in Mexico.

‘FRAND rate’: the benchmark rate,⁷⁶ the ‘Major Markets’ rate and the ‘Other Markets (including China)’ rate.⁷⁷ While one might interpret each rate to be a fixed number, the reality is that no single rate is a FRAND rate. Thus by the court’s own reasoning, a FRAND rate spans a range. The court even accepts the broad statement that

‘different prices and terms are ubiquitous in real-world markets, which means that the practical scope of a strict non-discrimination rule would enormous’ and ‘the impracticality of rules that would insist on uniform prices and terms is obvious.’⁷⁸

In addition, the court finds that competition law ‘does not seek to prohibit different prices being charged to different customers.’⁷⁹

Contreras agrees that a FRAND range, not a fixed rate, is a more practical rule.⁸⁰ A FRAND range is in keeping with how parties conduct the standards-setting process and creates a more definite framework for assessing parties’ compliance with their FRAND commitments. A range also allows licensors to take into account the size of the licensee, the location, the types of applications the licensee will have for the invention, and a host of other variables.

4.3 Transparency Is the Key to Meaningful Application of FRAND

Ultimately, the only way for licensing parties and their lawyers to know whether a particular offer is FRAND is for there to be greater transparency in the system. Greater access to data that shows exactly what the market rates for licenses to SEPs have been will assure that parties are giving and getting non-discriminatory rates that are, according to market pressures, fair and reasonable. No longer could it be alleged in a virtual vacuum that a licensor’s rates are greatly in excess of FRAND and violate competition law. Similarly, allegations that unwilling licensees’ proposed rates are too low could be held to a widely known measuring stick.

However, that degree of transparency is unlikely to happen in today’s global SEP licensing market.⁸¹ Licensors and licensees each want to be able to claim that they have gotten the better end of the deal in a given situation. So, they write the licenses in a manner most likely to give both parties to the agreement the maximum flexibility in making their arguments. This phenomenon remains the most

⁷⁶ibid, para 807(8).

⁷⁷See ibid, para 807(13).

⁷⁸ibid, para 492, citing Robert O’Donoghue and Jorge Padilla, *The Law and Economics of Article 102 TFEU* (2nd edn, Hart 2013), ch 15.1.

⁷⁹ibid, para 501.

⁸⁰Contreras (n 42) 3.

⁸¹The one exception to this opacity is patent licensing pools, such as those that exist for Blu-Ray licensing. The pools will publish rates and other terms, and any licensee is welcome to take a license on those terms.

solution-resistant aspect of modern patent licensing practice. Given the enormous financial stakes—hundreds of millions of US dollars annually—there are huge incentives not to promote transparency.

5 Conclusion

Mr. Justice Birss’ judgement in *Unwired Planet v Huawei* thoughtfully establishes new law on several key points related to licensing SEPs in the context of the FRAND commitments and reaffirms the basic procedural competition law requirements announced in the CJEU’s *Huawei v ZTE* judgement. Most importantly, FRAND licenses are worldwide licenses when the parties have multinational portfolios and operate in a global industry. While his rationale may not withstand scrutiny by the Court of Appeal in London, Justice Birss defines a FRAND rate as a specific rate, not a range. This seems contrary to practice and to the principles of competition law, and is also contradicted in part by the *Unwired Planet I* judgement. What would be most helpful, but very elusive, is an opening up of the process so that participants are able to see what prevailing license rates for SEPs are in the market. That would settle the matter with great certainty. However, the incentive to continue cloaking the process with secrecy remains too great.

Disclosure From June 2015 to July 2016, Mr. Mesel was the General Counsel of Unwired Planet, Inc. The opinions and analysis in this chapter are those of the author and do not necessarily reflect those of Unwired Planet.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution 4.0 International License (<http://creativecommons.org/licenses/by/4.0/>), which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this book are included in the book’s Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the book’s Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

