

Unwired Planet v Huawei [2020] UKSC 37: The UK Supreme Court Declared Competence to Determine Global FRAND Licensing Rate

1. Background

The UK Supreme Court delivered the landmark judgment on *Unwired Planet v Huawei and Conversant v Huawei and ZTE*, [2020] UKSC 37 on 26 Aug 2020. In 2014, the US company Unwired Planet sued Huawei and other smartphone manufacturers for infringing its UK patents obtained from Ericsson. Some of these patents are essential to the 2G, 3G and 4G wireless telecommunication standards set by the European Telecommunications Standards Institute (ETSI), an international standards setting organization (SSO). Since Ericsson and Nokia are subject to various ETSI policies including patent policies, these policies continue to apply after they are acquired by Unwired Planet. The ETSI patent policy requires that holder of patents that are indispensable for the implementation of ETSI standards, referred to as standard essential patents (SEP), must grant licence to implementers (such as the smartphone manufacturers) on “fair, reasonable and non-discriminatory” (FRAND) terms. In 2017, Canadian company Conversant filed similar lawsuits against Huawei and ZTE.

Unwired Planet and Conversant proposed to grant the worldwide licence, but Huawei proposed a UK only licence. Huawei believes that the UK litigation only concerns the UK licence and the licence fees paid to resolve disputes under the UK procedure should cover only British patents and not global patents. The UK Supreme Court upheld the High Court and Court of Appeal judgments, ruling that the FRAND licence will need to be global between large multinational companies. If Huawei refuses to pay the FRAND global licence rate determined by the court, the court will issue an injunction restraining Huawei’s sale of infringing products in the UK.

2. Legal Issues

The Supreme Court answers five legal questions: 1. Does the English court have the power or jurisdiction without the parties' agreement to require the parties to enter into a global licence under a multinational patent portfolio? 2. Is England the proper forum for such a claim? 3. What is the meaning and effect of the non-discrimination component of the FRAND undertaking? 4. Does the CJEU's decision in *Huawei v ZTE* mean that a SEP owner is entitled to seek an injunction restraining infringement of those SEPs in circumstances such as those of the *Unwired* case? 5. Should Court grant damages in lieu of an injunction?

Given our focus on private international law, this note only focuses on the private international law related issue, namely the English court's "long arm" jurisdiction to grant a global licence for dispute concerning the infringement of the UK patent and to issue an injunction if the global licence rate is not complied.

3. Territoriality of Patents and Globalisation of Telecommunication

Telecommunication industry faces the conflict between territoriality of patents and globalisation of telecom products and equipment. Products made in different countries should be able to communicate and inter-operate and keep operational in different jurisdictions. It would be unrealistic to require patent holders to defend their patent country by country. It is also harmful to the industry if SEP holders demand unreasonable licence fees and prohibit the use of its invention within a national jurisdiction. It is unreasonable for consumers if they cannot use their mobiles smartphones or other telecom devices when travel abroad. To reconcile the conflict, the ETSI policy requires the SEP holders to irrevocably license their SEP portfolios on fair, reasonable and non-discriminatory ("FRAND") terms. The policy reconciles conflict of interest between SEP holders and SEP implementers but does not, at least directly, resolve the conflict between territoriality and globalisation. In terms of the later, the industry practice shows that multinational SEP holders and implementers usually negotiate worldwide licences, bearing in mind that the SEP holders and implementers cannot test validity of each patent of the portfolio in each country. The licence rate is thus based on the understanding that some patents may be invalid in some countries.

The Supreme Court confirmed the territoriality principle. English court only has

jurisdiction to determine validity and infringement of the UK patent. But the English court, based on the jurisdiction on the UK patent, has the competence to grant a global licence rate.

This judgment includes a few private international law matters. Firstly, the granting of global licence rate is a matter in relation to applicable law instead of jurisdiction from the private international law perspective. The case concerns the infringement and validity of the UK patents and the English court has no problem to take jurisdiction. After ruling the defendant indeed infringed the valid UK patents the English court moved to remedy. The remedy to the infringement of SEPs is the grant of FRAND rate pursuant to the ETSI policy and industry practice. This, however, does not mean the English court directly treats business custom or ETSI policy as the governing law, which, standing alone, may not be able to acquire the status as other non-state norms under the current legal framework. (Rome I Regulation) They are applied pursuant to the contract principle. The judgment heavily relies on the ETSI policy, including its language and purpose. The court concludes that the ETSI policy creates a contractual arrangement between SEP holders and implementers and it is the intention of the policy to grant global licences for SEP portfolios taking into account of industry practices and the purpose. English courts' power to determine a global FRAND licence rate is inherently consistent with the ETSI policy, given there is no alternative international forum available. There is no much consideration of any choice of law rules, except the clarification that the ETSI policy was governed by French law. The court nevertheless does not consider the French law principle in interpreting contracts. Instead, the court naturally applies these non-state norms as part of the contract between the parties. Relying on contract to seize the power to determine the global rate helps the court to avoid the necessity to determine the validity of foreign patents of the same patent family.

The Supreme Court also considered the *forum non conveniens* in *Conversant* case (*forum non conveniens* was not plead in *Unwired Planet*). The court refused to accept that China would be the more appropriate alternative forum. Although 64% of Huawei's sales occur in China and only 1% in the UK and 60% of the ZTE's operating revenue in the first six months of 2017 was from China and only 0.07% from the UK, the Supreme court held that Chinese courts might not assume jurisdiction to determine the global FRAND term. It seems possible that if China, or any other country, which maybe the most important global market for

the disputed patents, follows the UK approach to grant global licence for SEP portfolios, the English court may apply *forum non conveniens* to decline jurisdiction. In fact, Chinese law does not prevent a Chinese court from issuing licence with broader territorial coverage, though there is not yet any case on this matter. The “Working Guidance for Trial of SEP disputes by the Guangdong Province Higher People’s Court (for Trial Implementation)” of 2018 provides in Art 16 that if the SEP holder or implementer unilaterally applies for the licence covering areas exceeding the court’s territory, and the other party does not expressly oppose or the opposition is unreasonable, the court could determine the applied licence rate with broader geographic coverage.

A more controversial point of the judgment is that the Supreme Court concludes that the ESTI policy would allow the court to issue injunction if the implementer refuses to pay the global licence rate. It is important to know that the ESTI policy does not expressly state such an effect. The UK court believes that an injunction would serve as a strong incentive for the patentee to accept a global licence. Damages, on the other hand, may encourage implementers to infringe patents until damages are applied and received in each jurisdiction. This conclusion is rather surprising as the injunction of SEPs in one jurisdiction may have the potential to disturb the whole telecommunication market for the given manufacturer. There is even argument that the purpose of ESTI is to prohibit injunction for SEPs (here; and here) The use of injunction may not “balance” the conflicting interests, but significantly favours the SEP holders to the disadvantage of the implementers

4. Forum Shopping and Conflict of Jurisdiction

It is important to note that regardless of the current geopolitical tension between the US and China, the UK Supreme Court’s judgment should not be interpreted as one that has taken the political stance against China’s High-Tech companies. (here) It upholds the judgments of the lower courts dated back to 2017. It is also consistent with the principle of judicial efficiency, protection of innovation and business efficacy. Although the final result protects the patent holders more than the implementers, it is hard to argue anything wrong in terms of policy. Furthermore, since Huawei and Unwired Planet had already settled and the rate set by the court had been paid, this judgment will not result in additional payment obligations or an injunction. (here) Finally, although Huawei lost this case as the implementer, Huawei is also the biggest 5G SEP holder. Pursuant to this

judgment, although Huawei has been banned from the UK's 5G network, it can still require other 5G implementers for a global FRAND licence rate and apply for injunction upon a refusal.

If there is any political drive, it may be the intention to become an international litigation centre for patent disputes after Brexit. This judgment allows the English court jurisdiction to determine a global licence rate simply based on the infringement of a UK patent, no matter how small the UK market is. The one-stop solution available in the English court would be particularly welcome by patent holders, especially SEP holders, who would no longer need to prove validity in each jurisdiction. This judgment also enhances the negotiation power of the SEP holders versus implementers. It is likely that more FRAND litigation would be brought to the UK.

On the other hand, some implementers may decide to give up the UK market, especially those with small market share in the UK. Some companies may decide to accept the injunction instead of paying high global licence rate. This may also suggest that the UK consumers may find it slower and more expensive to access to some high-tech products.

Furthermore, the Supreme Court's judgment does not depend on any unique domestic legislation but the ETSI contractual arrangement which applies to its members and the industry practice and custom. There is no barrier for other countries, including China, to follow the same reasoning. It is possible many other countries may, fully or partly, follow this judgment. If the courts of multiple countries can set the global FRAND rate and they apply different standards to set this rate, forum shopping and conflict of jurisdictions may be inevitable. Anti-suit injunction and anti-enforcement injunction may be more frequently applied and issued. The China Supreme Court IP Tribunal recently restrained the Conversant from applying the German court to enforce the German judgment in a related case, which awards Conversant the FRAND rate 18.3 times of the rate awarded by the Chinese courts on the infringement of the Chinese patents of the same family. This is called act preservation in China with the similar function as the anti-enforcement injunction. ((2019) Supreme Court IP Tribunal Final One of No 732, 733 and 734) This case suggests Chinese courts would be ready to issue the similar act preservation order or injunction to prevent the other party from enforcing a global FRAND rate set by the foreign court against the Chinese implementers, whether or not Chinese court could issue the global FRAND

licence. The long term impact of the Unwired Planet v Huawei may be the severer competition in jurisdiction between different courts which may require reconciliation either through judicial cooperation arrangement or through the establishment of a global tribunal by the relevant standard setting organisation.