

CLA Evening Meeting

The *Unwired Planet v Huawei* judgments:
FRAND valuation, FRAND injunctions, and the role of
competition law

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10 July 2017

Agenda

1. Background (Sophie Lawrance)
2. The main findings (Sophie Lawrance)
3. Worldwide portfolio licences from English patent litigation? (James Segan)
4. Application (and non-application) of *Huawei v. ZTE* (Sophie Lawrance)
5. Hard-edged or soft-edged non-discrimination? (James Segan)
6. Is there still a role for competition law in FRAND disputes? (James Segan)
7. A new type of injunction (Sophie Lawrance)
8. Some thoughts on practicalities (Both)

Background and context

Context – ETSI, SEPs and FRAND licensing

- Standard setting involves selection of technology by competing undertakings
- Article 101 therefore applies due to potential for collusion
- Holders of SEPs acquire a gate-keeper position => Article 102 relevant due to risk of 'hold-up'
- Licensing commitment to ETSI given by SEP holders to alleviate these concerns

Irrevocable undertaking to grant irrevocable licences [to standard essential patents] on fair, reasonable and non-discriminatory terms

- Contractual basis – French law
- Consider also risk of 'hold-out' by implementers

Unwired Planet history

- Acquired approximately 2,100 patents (SEPs and implementation) from Ericsson in January 2013
- Master Sale Agreement (MSA) with Ericsson – contained revenue sharing and ‘royalty floor’ provisions
- March 2014 – licence with Lenovo:
 - Received \$100 million lump sum payment
 - In return for licence and sale of a number of patents
- Struggled to negotiate with other implementers
- Eventual purchase by PanOptis (mid-2016)

The Unwired Planet litigation saga (1)

- Unwired Planet sued Samsung, Google and Huawei in March 2014 (parallel litigation in Germany)
- 5 SEPs, 1 non-SEP => 5 technical trials listed
- Three trials heard; two SEPs valid and essential, two invalid
- Google settled in respect of the SEPs in suit in early 2015
- Ericsson added as a party to the counterclaims (based on Article 101)
- Summer 2016: PTR, followed by Samsung / UP settlement
- Huawei also discontinued its Article 101 claims, so Ericsson no longer a party to the proceedings

The Unwired Planet litigation saga (2)

- Autumn 2016: Non-technical trial (originally scheduled to cover Art. 101, 102 and FRAND issues)
- Issues addressed:
 - FRAND valuation
 - Huawei's competition law defences/counterclaims:
 - Proceedings issued prematurely
 - Excessive prices
 - Discrimination (vis-à-vis Samsung)
 - Bundling (SEPs/non-SEPs)
 - Remedies (injunction / damages)

The Unwired Planet litigation saga (3)

- April 2017: (Partially redacted) judgment made available
- May 2017: Further hearing and further judgment on remedies
- June 2017: Hearing on remaining redactions – judgment awaited...
- Huawei appeal (& UP cross-appeal) pending

The main findings

Ten key points

1. FRAND is enforceable as a contract
2. The Court can and will set a FRAND rate and licence terms
3. Calculation involves comparators and patent counting
4. All patents are treated as valid and valuable
5. FRAND is a two-way street – balance between patentees and implementers
6. There is only one true FRAND in any given bilateral relationship
7. FRAND will generally mean worldwide licences
8. Not all offers in negotiations need be FRAND
9. “FRAND Injunctions” are available
10. Damages are payable at the FRAND rate

Calculation of the FRAND rate

- Hypothetical negotiation approach – what would a willing licensor and a willing licensee have agreed?
- ‘Unpacking’ relevant licences to make them comparable and to calculate a ‘benchmark’ rate
- ‘Top-down approach’ as cross-check (judgment at [268, 476, 806(10)]): calculate the total number of Relevant SEPs and work out the patentee’s share
- Finding of fact on the number of Relevant SEPs (potential for future use by other SEP holders?) [378]:

GSM – 154

UMTS – 479

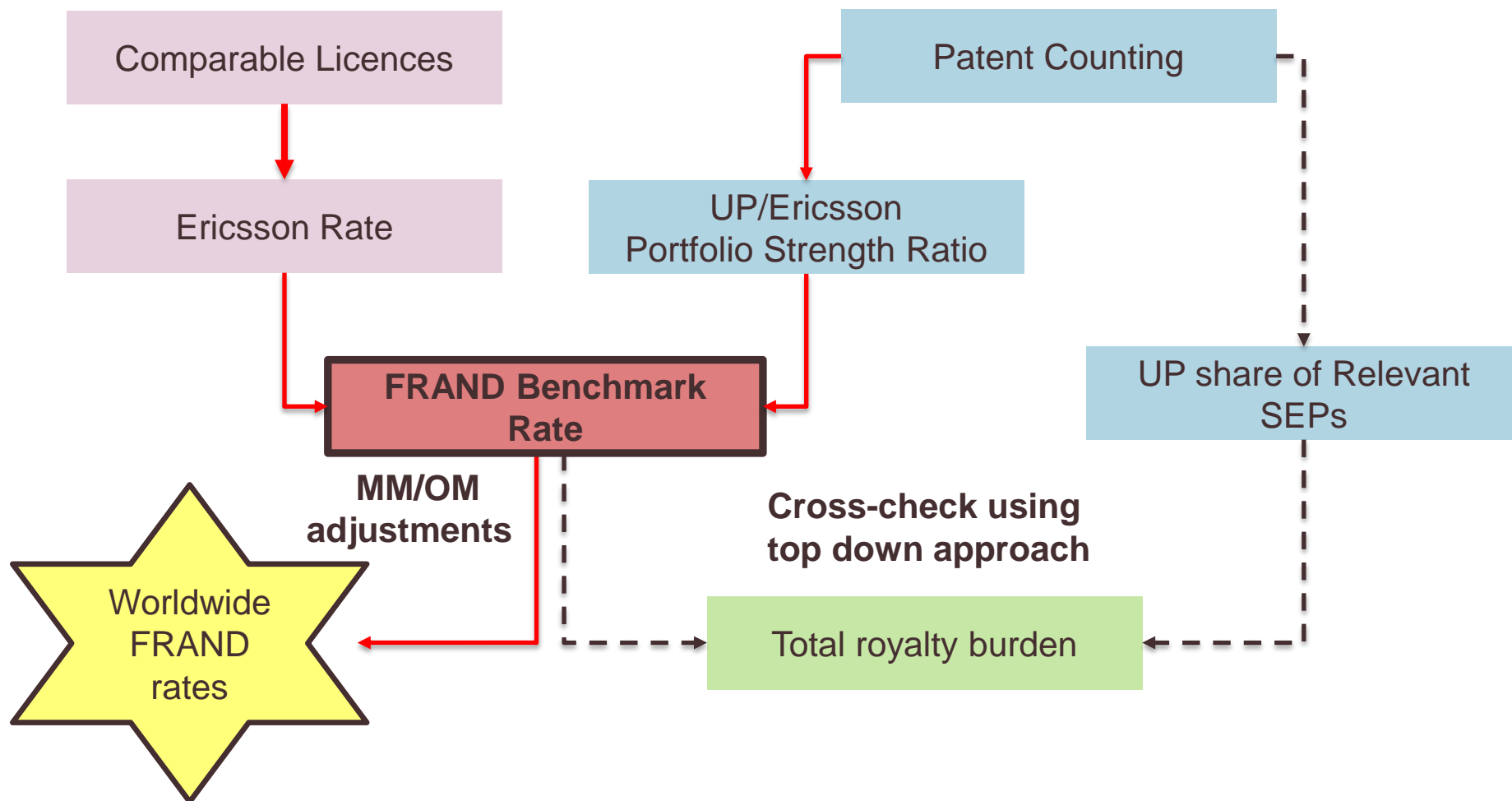
LTE – 800

- Context: the total number of patent families *declared* essential to LTE is around 6,000 [212] – so truly essential only 13% or so

All patents are treated as valid and valuable

- Counting patents is ‘the only practical approach’ to determine FRAND, at least for sizeable portfolios (Judgment at [182])
- Evaluating the importance of each invention is disproportionate (especially with large portfolios)
- Patents treated equally, though ‘keystone’ patents accorded a higher value are theoretically possible [184]
- In practice, revocation of one or two patents in one or two countries unlikely to have much impact on rate

FRAND rate calculation (overview)



Comparable licences (1)

- ‘Freely negotiated’ comparables [420] may be useful – judgement needed to assess how useful evidence they provide
- Some deals may not be comparable – if not representative of market value [409]
- In theory not appropriate to rely on only few comparables (as Huawei did), unless there are objective reasons for excluding them [173]
- But in practice, few comparables were relied on:
 - Those with UP or Ericsson as licensor were best in theory
 - But UP’s only granted licences were not considered a good guide

Comparable licences (2)

- ‘Recent’ licences are preferable as comparables [175] – older licences (pre-2013 [432]) may include hold-up value, but no clear guidance on what proportion of such rates should be discounted
- No distinction to be made on identity of licensee (given non-discrimination obligation) – no reason why small licensee should have to pay a higher rate than a small one [175]
- No need to disclose background negotiation documents but arbitral awards carry little weight without reasoning [171]

Finally, the FRAND rates determined:

	Major Markets		China and Other Markets	
	Handsets	Infrastructure	Handsets	Infrastructure
2G/GSM	0.064%	0.064%	0.016%	0.032%
3G/UMTS	0.032%	0.016%	0.016%	0.004%
4G/LTE	0.052%	0.051%	0.026%	0.026%

Judgment at [586, 591] (3G and 4G are multimode)

- ‘Major Markets’ = those with 3+ Relevant SEPs (4G, 3G) or 2+ Relevant SEPs (2G) [587]
- ‘Other markets’ = all others plus China
- Implied total royalty burden [478]:

2G	4.9%
2G/3G	5.6%
2G/3G/4G	8.8%

Worldwide portfolio licences from English patent litigation?

Birss J: FRAND licences will generally be worldwide

- A FRAND licence will likely be a worldwide portfolio licence where (i) SEP owner has portfolio large enough that it would be impractical to fight over every patent (Judgment [542]) and (ii) the implementer operates globally
- Multi-national implementers cannot insist on patent-by-patent or country-by-country approaches to licensing when negotiating with holders of global SEP portfolios
- The English Court will issue an injunction to exclude a multi-national implementer from the market even if that implementer will take a licence under all UK SEPs on terms to be settled by the Court
- So one valid and infringed UK SEP = an entitlement to a global licence, absent which UK injunction
- True even if implementer and SEP owner are in litigation in other states
- Is this the right approach, given that the asserted patents are national rights and Huawei had not consented to this?

Application (and non-application) of *Huawei v. ZTE*

UP / Huawei negotiations – overview of chronology

- 2009: Expiry of Huawei licence with Ericsson
- Mid-2013: Huawei rejects UP's offer to sell SEPs to it
- Late 2013: UP writes to open licensing negotiations; Huawei responds but no NDA concluded
- March 2014: UP starts infringement proceedings seeking injunctive relief (injunction requested “only if Defendants are entitled to and take a licence on FRAND terms and UP remains obliged to give such a licence”)
- April 2014: First offer of terms (global portfolio, SEP/non-SEP) by UP
- July 2014: Further offer of terms by UP (global portfolio, SEP only)
- August 2014: Without prejudice offer by Huawei
- June 2015: UK patent-specific offers by both parties (ordered by the court)
- October 2016: UK portfolio offer made by Huawei

Reminder of the *Huawei v. ZTE* process

Reminder: *Huawei v. ZTE* (CJEU, 2015)

- Abuse of a dominance to seek SEP injunction against a willing licensee
 - Process established:
 - a) Licensor to indicate patents and how infringed
 - b) Licensee to state willing to take licence
 - c) Licensor to make written FRAND offer including how calculated
 - d) Licensee to make FRAND counter-offer and provide security if rejected
 - e) Arbitration/litigation if no agreement

Differences in context

- *Huawei v. ZTE* based on implementers' 'legitimate expectation' of a FRAND licence being granted (*H v ZTE* at [53])
- In this case a contractual basis (under French law) established [146, 744(viii)]
- Starting proceedings including a request for an injunction not always equivalent to a refusal to license [726]
- Influence of the different stage at which an injunction is requested in English vs. German litigation? [715]

Relevant findings (1)

- UP dominant – market for licensing of SEPs (Judgment at [670])
- UP’s request for an injunction was qualified: “*Save insofar as the Defendants ... are entitled to and take a licence to the Declared Essential Patents on FRAND terms ... and insofar as the Claimant is and remains required to grant such a licence...*”
- Court held that UP had requested an injunction – otherwise patentees could avoid *Huawei v. ZTE* by saying “I don’t want an injunction if I can’t have one” [681]
- The information Huawei had by March 2014 was sufficient to understand that proceedings did not mean UP refused to license [750]
- YET acknowledgement that the proceedings were intended to apply pressure [749] – an issue at the heart of the Commission’s *Motorola* and *Samsung* (commitments) decisions

Relevant findings (2)

- Huawei's open offers were all qualified: only willing to take a licence to UK SEPs held valid and infringed
- **Litigation was not premature / request for injunction not abusive** (Judgment at [755])
- Overall – *Huawei v ZTE* process need not be rigidly followed; offers need not be actually FRAND – but:
- **Implementers who wish to show they are willing licensees would be well-advised to make open offers** (See Judgment at [701])
- Even if the start of the litigation was an abuse (because no offer had been made), this was 'cured' by later offers / Huawei's failure to make unqualified counter-offers

Hard-edged or soft-edged non-discrimination?

Non-discrimination

- Discussion of comparable licences: no distinction to be made on identity of licensee (given non-discrimination obligation) – no reason why small licensee should have to pay a higher rate than a small one (Judgment at [175])
- Benchmarking approach: the only rate to which Huawei could hold UP under the “ND” limb of FRAND was a “*benchmark rate set by reference to the value of the portfolio*” by the Court (Judgment [175], [408], [480], [498], [806(8)]), rather than the rate which UP is actually charging to others – does this deprive “ND” of any content independent of “FR”?
- Samsung and Huawei similarly situated – but no discrimination against Huawei unless:
 - Price above the ‘benchmark’
 - Proof of impact on competition (cf. recent competition authority cases which look at potential/likely effects: *Socrates* at [150]-[151])

Is there still a role for competition law in FRAND disputes?

Excessive pricing – competition law

- Only offers which are so far above FRAND that they disrupt or prejudice negotiations will engage Article 102(a) (Judgment at [765])
 - Neither UP nor Huawei's offers were FRAND (Judgment at [807(1)-(2)])
 - UP's offers were not FRAND by a factor of 1x-3x (a few specific exceptions where the margin was larger – e.g. China/3G (x25))
 - **But** neither party had any intention to prejudice negotiations, and did not do so by the offers made
 - Reasonable for UP to set rates by reference to information it had available – suggestion that it should have reduced its rates further once it had more information, but no legal consequences
- **No excessive pricing / abuse of a dominant position**

Competition law only relevant at the margins?

- Non-discrimination: a licensee cannot demand a rate lower than the benchmark FRAND rate simply because another ‘similarly situated’ licensee received a better deal
- Unless the difference in rates would distort competition between the two licensees – only likely if the sums involved are very significant?
- Excessive pricing – would need to prove that rates distort competition – only if rates “so much higher than FRAND”. But consider if the FRAND obligation should imply a higher standard than a free market?

The future of competition law in FRAND?

- UP did not breach competition law despite seeking an injunction prematurely
- Contractual FRAND undertaking – can be relied upon by any implementer

BUT:

- Conduct of SEP holder could still be an abuse of dominance on other facts
- Offers that disrupt or prejudice negotiations might engage law on excessive pricing / *Huawei v. ZTE*
- Competition law can still be used to prevent refusal to engage with negotiations
- Article 101 competition law basis for FRAND not dealt with in the UP trial
- EU Commission has been known to take action itself on FRAND and intends to give guidance in the near future...

A new type of injunction

First judgment: Injunctions available; no uplift for damages

- Patentee is likely to be awarded an injunction if implementer:
 - (i) has been found to have infringed a valid patent; and
 - (ii) refuses to take a licence on terms found by the court to be FRAND(Judgment at [793])
- But in practice, this will happen only after proceedings and chance to take the licence
- An injunction is unlikely to be available to a patentee that refuses to accept terms determined by the court to be FRAND [744(vii)]
- Damages are payable at the FRAND rate – no uplift for the implementer’s delay in taking a licence [799, 802]
- Global FRAND licence means (in effect) Huawei has to pay global back royalties at UK damages rate [593]

Second judgment: The birth of the FRAND injunction (1)

- Settled licence expires before expiry of the patents in suit
- Huawei in “an impossible position” if the injunction remains in force once it has taken a licence: risk of immediate injunction upon expiry / other termination of the licence (7 June judgment at [19])
- Solution: the “FRAND injunction” – normal injunction, but ceases to have effect if Huawei enters into the licence settled by the Court [20-21]
- Liberty to apply (for either party) on expiry (etc) of the licence
- No sympathy on licence expiry for a party which has delayed in negotiating [22]

Second judgment: The birth of the FRAND injunction (2)

- Injunction stayed pending appeal on terms securing appropriate payments in the interim (7 June judgment at [23])
- The situation would have been different if Huawei had at the outset given an unqualified undertaking to enter into FRAND licence set by the Court [27]
- Damages similarly qualified (obligation ceases if Huawei becomes licensed) [33]

Some thoughts on practicalities for future FRAND litigation

The judgment does not answer all the questions...

- Much of the judgment is fact specific as between the particular parties
- No / limited discussion of issues such as:
 - *Ex ante* valuation / smallest saleable unit
 - Royalty stacking and other standards / technologies embodied in handset
 - How adjustments for changes in portfolio size are made, or how larger / smaller portfolios would be valued
 - Privateering / SEP transfers (the Court of Appeal *Samsung v. Ericsson* judgment still stands...)
 - What happens if no good comparables and/or no patent analyses prepared by the parties?
 - Relevance of pass-through licences
 - How this kind of analysis will work in 5G / IoT...

Future FRAND litigation in the UK (1)

- Confidentiality was a major issue (and a costly one for the parties, especially Unwired Planet)
- Role of third parties in the confidentiality process
- Risk of proliferating confidentiality regimes – could make trials unworkable
- Terms of the UP-Huawei licence were required to be public
- Judgment awaited on confidentiality of the judgment – will only “technical information” be protected? Impact on attractiveness of the forum...

Future FRAND litigation in the UK (2)

- Other process options:
 - Scope for a different forum in a future case – e.g. in the CAT? (to focus on competition law issues)
 - Scope for litigating FRAND first?
- How will FRAND look in the UPC?

Thank you

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