Unwired Planet v Huawei:

Lessons for FRAND compliance

5 April 2017, the UK High Court handed down the much-anticipated judgement in the Unwired Planet v Huawei FRAND trial.

The case involved patents claimed to be technically essential to standardised technologies for mobile communications: 2G (GSM), 3G (UMTS/WCDMA) and 4G (LTE).

The full text of the public judgment can be found: https://www.judiciary.gov.uk/judgments/unwired-planet-international-v-huawei-technologies-and-ors/.

The judgement, coming in at 166 pages, contains vital points for organisations involved in SEP disputes and FRAND licensing. While the document is a long read, Mr Justice Birss provides 13 summary points in Paragraph 806 of the judgement – these are reproduced below.

806. In summary, my conclusions on the law are:

1. As a matter of French law **the FRAND undertaking to ETSI is a legally enforceable obligation** which any implementer can rely on against the patentee. FRAND is justiciable in an English court and enforceable in that court.
2. It is not necessary to rely on competition law to enforce the FRAND undertaking.
3. The boundaries of FRAND and competition law are not the same. A rate may be above the FRAND rate but not contrary to competition law.
4. There is **only one set of licence terms which are FRAND in a given set of circumstances.** The problem identified in *Vringo v ZTE* does not exist because there cannot be two sets of terms which are both FRAND in a given set of circumstances. That way the FRAND undertaking can be enforced.
5. The legal effect of the FRAND undertaking relating to a SEP is not that the implementer is already licensed. Its effect is that an implementer who makes an unqualified commitment to take a licence on FRAND terms (settled in an appropriate way) cannot be the subject of a final injunction to restrain patent infringement. Whereas **an implementer who refuses to take a licence on terms found by the court to be FRAND has chosen to have no licence, and so if they have been found to infringe a valid patent an injunction can be granted against them.**
6. FRAND characterises the terms of a licence but also refers to the process by which a licence is negotiated. Although an implementer does not owe a FRAND obligation to ETSI**, an implementer who wishes to take advantage of the patentee's FRAND obligation, must themselves negotiate in a FRAND manner.**
7. Offers in negotiation which involves rates higher or lower than the FRAND rate but do not disrupt or prejudice the negotiation are legitimate.

8. **An appropriate way to determine a FRAND royalty is to determine a benchmark rate which is governed by the value of the patentee's portfolio.** That will be fair, reasonable and generally non-discriminatory. **The rate does not vary depending on the size of the licensee.** It will eliminate hold-up and hold-out. Small new entrants are entitled to pay a royalty based on the same benchmark as established large entities.
9. The non-discrimination limb of FRAND does not consist of a further "hard edged" component which would justify a licensee demanding a lower rate than the benchmark rate because that lower rate had in fact been given to a different but similarly situated licensee. If FRAND does include such a component, then that obligation would only apply if the difference would distort competition between the two licensees.
10. **A FRAND rate can be determined by using comparable licences if they are available.** Freely negotiated licences are relevant evidence of what may be FRAND. A top down approach can also be used in which the rate is set by determining the patentee's share of Relevant SEPs and applying that to the total aggregate royalty for a standard but this may be more useful as a cross-check.
11. In assessing a FRAND rate **counting patents is inevitable**.
12. In assessing the dominant position of a SEP holder, the practical effect of the FRAND undertaking and the potential for hold out by an implementer are relevant factors and may lead to the conclusion that a SEP holder is not in a dominant position.
13. The principles to be derived from the decision of the CJEU in *Huawei v ZTE* are summarised at paragraph 744.

Key insights

From the above, and the full judgement we believe there are a number of useful insights to be considered, taking the discussion of FRAND forward:

- Injunctions will be granted against implementers found to infringe valid SEPs, but refusing to take a licence.
- There is only one set of FRAND licence terms for a given circumstance, and the FRAND rate does not vary depending on the size of the licensee.
- Patent counting is inevitable - a necessary step in determining a FRAND rate – and that the FRAND rate is governed by the patentee's portfolio – the share of the total relevant SEPs applied to a total aggregate royalty for the standard.
- A top down approach to determine a total aggregate royalty is a useful check.
- FRAND is also concerned with the process, not just the agreed terms; and that expectations are placed on both the patentee and licensee.

When dealing with matters of standards essential patents, as a patentee or licensee, it is therefore important to establish an understanding of the total size of the SEP landscape and a justifiable total aggregate royalty expectation.

Beyond patent counting: recognition of value

We are pleased to see the Court recognises the importance of assessing patent portfolios not in isolation, but in relation to the entire applicable SEP landscape. While differences are apparent in the methodologies set out by Unwired Planet and Huawei, this at least seems to be an agreed principle.

Where we as an industry need to go next, is the recognition that not all SEPs are created equal. Mr Justice Birss suggests that "treating all patents in a given category as of equal value" is the accepted approach, and to do anything more would be too onerous – "evaluat[ing] the importance of individual inventions becomes disproportionate very quickly" - although he recognises the existence of so-called portfolio strength metrics.

In our experience supporting patent transactions, licensing and portfolio management, patent strength metrics are useful tools to filter and prioritise portfolios to identify those assets that are potentially more valuable for transactions; present a higher risk of assertion; or require deeper investigation for infringement analysis.

Strength metrics are not golden bullets, but add additional insight into patent value and contribution, building on the fundamentals of patent counting and proportionality. Basic strength metric analysis demonstrates that not all patent portfolios are created equal, and this should be factored into FRAND rate determination.

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