KIRKLAND **ALERT**

26 October 2018

English Court of Appeal Upholds *Unwired Planet v. Huawei*

On 23 October 2018, the English Court of Appeal (comprising Lord Kitchin, Lord Justice Floyd and Lady Justice Asplin) rejected Huawei's appeal in its long-awaited judgment in the *Unwired Planet v. Huawei* litigation. In doing so, the Court of Appeal (CoA) has thrown its full weight behind Justice Birss' attempt to make the English courts the "go-to" forum for standard-essential patent (SEP) holders looking to obtain a global FRAND licence determination for their SEP portfolios.

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The U.K. is now arguably the most attractive forum globally for SEP holders looking for assistance in settling long-running licensing negotiations with implementers, not least because the rates determined by the English court in this case were higher than has been seen in other jurisdictions (e.g. the U.S. in the *TCL v. Ericsson* case).

This was an appeal by Huawei from the English High Court decision of Justice Birss (handed down on 5 April 2017). Huawei sought to challenge that decision on the three grounds set out below, in respect of which we set out some key points in the court's reasoning:

Ground 1 - Imposition of a global licence on the terms set by a national court is not FRAND, is wrong in principle and leads to results that are manifestly unjust.

- The CoA stood firmly behind Justice Birss in holding that a global licence can be FRAND, stating that "it is very hard to see how a contrary view could be justified" and relying frequently on Justice Birss' finding that country-by-country licensing would be "madness" and something that "no rational business would do if it could be avoided."

- In rejecting the country-by-country approach in this case, the CoA stated its wish not to "condemn SEP owners to...impossibly expensive litigation in every territory in respect of which they seek to recover a royalty." In essence, the court has flipped the burden from the SEP owner to prove infringement in every country in which it seeks to licence, to the implementer, who must challenge the validity and/or essentiality of the SEP portfolio in any country where it feels it should not be paying a licence royalty.

- The above indicates the CoA's acceptance that the English courts have jurisdiction to determine worldwide license terms in cases such as this. However, whether the English court will necessarily be the correct forum is another question. The CoA noted that Huawei's submissions contained a suggestion that the U.K. was not the appropriate or natural forum in which to litigate this dispute (Huawei

having submitted, for example, that the bulk of its business is conducted in China, and the Chinese courts were and remain the natural and proper forum for determining the FRAND rate in respect of its activities there). However, the CoA did not decide on the substantive issue on the basis that Huawei was "far too late" in taking the point.

The Court of Appeal upheld Justice Birss' finding that while Unwired Planet was in a dominant position, it had not engaged in any abusive behaviour.

- The CoA stated that Justice Birss was wrong to find that there is only one set of FRAND terms and one FRAND rate for any given set of circumstances. The CoA held that multiple rates and sets of terms may all be fair and reasonable in a given set of circumstances. Although he erred on this, the error did not have an impact on the final result and the appeal on this ground was rejected.

- The CoA noted that there was no challenge to the (comparatively high) global royalty rates determined for Unwired Planet's SEP portfolio at first instance, which stand without challenge.

Ground 2 - Unwired Planet failed to satisfy the non-discrimination limb of its FRAND obligation.

- The CoA was not persuaded by this argument, which rested on the fact that another implementer had been offered a significantly lower royalty rate by Unwired Planet than that offered to Huawei for the same SEP portfolio;

- The CoA's view was that, while the non-discrimination limb was engaged in this case, that limb does not prevent a SEP holder from charging lower rates to another implementer if it chooses to do so, provided that this does not constitute a breach of competition law. The non-discrimination limb of FRAND is there to prevent hold-out by the charging of excessive royalty rates.

- The non-discrimination obligation is general, rather than hard-edged. If it were hard-edged then it would amount to inserting a "most favoured licensee" clause into the European Telecommunications Standards Institute FRAND undertaking.

Ground 3 - Unwired Planet was in a dominant position and failed to satisfy the conditions set out in *Huawei v ZTE*. Huawei should therefore have a defence to Unwired Planet's claim for infringement.

- Subject to the point below, the CoA found that the conditions set out by the Court of Justice of the European Union in *Huawei v. ZTE* are not mandatory, but rather provide a safe harbour by ensuring that, if satisfied, the commencement of proceedings does not amount to an abuse of a dominant position under Article 102 of the Treaty on the Functioning of the European Union.

- That said, the CoA did hold that it is mandatory for the SEP holder to provide notice and/or consult with the implementer before bringing an action for an injunction. If it fails to do so, its conduct will necessarily be abusive. Precisely what notice is required, or the extent of any consultations needed, will have to be decided on a case-by-case basis.

- The CoA upheld Justice Birss' finding that while Unwired Planet was in a dominant position (which is required for *Huawei v. ZTE* to apply and was challenged by Unwired Planet), it had not engaged in any abusive behaviour.
- The CoA held that there was no other general basis on which an injunction should be refused (e.g. because it was disproportionate or in some other way inequitable).

As a final note, Unwired Planet was also awarded 90% of its costs — a high recovery rate for the English courts, possibly suggestive of the CoA's view of the merits of the appeal. Huawei was also refused permission to appeal to the Supreme Court.

If you have any questions about the matters addressed in this *Kirkland Alert*, please contact the following Kirkland author or your regular Kirkland contact.

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