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## UK Supreme Court Case Tracker: *Unwired Planet v Huawei; Conversant v Huawei and ZTE* — Day 2 of 4

23 October 2019

During the second day of the landmark UK Supreme Court *Unwired Planet/Conversant* appeals, the Deputy President of the Court, Lord Reed, notably remarked upon the international commercial and diplomatic significance of the issues that are at stake in the case. As outlined below, the day began with Huawei continuing its opening submissions, focusing on what it contends was inappropriate relief granted by the English Court, as well as its inappropriate construction of the non-discrimination element of the FRAND requirement. ZTE then commenced its opening submissions (which differed in a number of respects from those of Huawei), focusing on a number of jurisdictional and institutional arguments as to why, in the circumstances, a global licence should not be ordered by the English Court against the threat of a UK-wide injunction.

The day concluded with *Unwired Planet* and *Conversant*'s opening submissions, which focused on the international nature of ETSI undertakings and standards, and then on the difficulties and disadvantages that would result for SEP-holders if SEPs must be licensed on a jurisdiction-by-jurisdiction basis, and indeed only once their validity and essentiality has been established in each such jurisdiction. The respondents' opening submissions will continue into Day 3.

### Opening Submissions

#### **Huawei**

Huawei continued its opening submissions on the morning of Day 2, focusing on the operation of ETSI and the effect of a FRAND undertaking. It contended that the ETSI

framework was intended to make standards widely available, and it is unlikely to have been designed to exclude implementers from national markets unless they agree to pay rates set in one jurisdiction in respect of foreign patents, given that patents are territorial rights and there is no such thing as a 'portfolio right'. In this regard, Huawei emphasised that ETSI does not grant rights to intellectual property rights, but rather acts as a constraint on the relief that the SEP-holder can obtain. The decision on appeal was said to turn a SEP into a supranational patent, allowing the SEP-holder to obtain an injunction unless the implementer pays for a global licence, irrespective of how trivial the relevant patent is, and whether or not the validity of the licensed patents has been tested. It was also noted that a global licence would have the effect of rendering challenges to foreign patents irrelevant, since royalties would potentially remain payable on relevant foreign sales irrespective of any foreign actions, and notwithstanding that courts in different jurisdictions adopt differing approaches for the assessment reasonable royalties, so as to lead to a lack of institutional comity. It also put forward the proposition that in light of recent UK Supreme Court authority, royalties for future relief should not be awarded on a different basis to what is available for past damages, which in the present case is limited to UK-based damages.

Huawei characterised the respondents' contention that each patent family relative would need to be litigated in each jurisdiction as an overstatement, stating that in practice these would at most be litigated in a few countries, and that in any event, upholding the lower court decisions would cause the English Court to be inundated with such cases, at a time when it is facing a shortage of patents judges. On the question of jurisdiction, Huawei contended that once it raised a question as to the validity of the foreign patents in respect of which a licence in the UK is sought, this rendered these patents non-justiciable in the UK, such that royalties on these patents could not be ordered in the UK. As to the suggestion that the global rate set by the English Court can be adjusted in light of foreign decisions, Huawei commented that this would result in a lack of finality whereby a decision of the English Court would not be dispositive. In response to judicial queries as to whether courts in China can determine foreign FRAND rates, Huawei contended that whether or not they can do so (indeed it was suggested that they can), this does not mean that the English Court should in the circumstances determine royalty rates in respect of China, where the vast majority of relevant sales are made. Huawei further contested the lower courts' construction of the non-discrimination element of the FRAND obligation, contending as a matter of construction, law and policy that similarly situated implementers should be treated on a similar basis in the context of comparable transactions, unless there exists an objective justification for differential treatment (i.e. that the ND limb creates a hard-edged requirement). Accordingly, and contrary to the *Unwired Planet* decision on

appeal, Huawei contended that it should have been entitled to the significantly lower rate at which the patents-in-suit were previously licensed to another party.

## **ZTE**

ZTE, the second appellant in the *Conversant* appeal, then presented its case, which complemented but in some respects differed from that of Huawei, centering on broader jurisdictional and institutional issues. ZTE first contended that where the English Court requires a global licence, it is fixing the price to be paid for licensing patents in foreign jurisdictions under the laws of the UK, in a manner that may affect the cost of operating in other jurisdictions and may be of concern to those jurisdictions whose socioeconomic policies may well be impacted. ZTE emphasised that in setting foreign royalties, due regard must be had to the antitrust/competition laws in each relevant jurisdiction, a point which it said was expressly rejected by *Conversant*. The English Court's requirement that an implementer take a global licence upon threat of a UK-wide injunction was characterised as coercive, particularly so where the rate set by the English Court for a given jurisdiction may be higher than the rate set in that jurisdiction, having regard to its particular socioeconomic policies and objectives. Accordingly, ZTE contended that the English Court should not make market access to the territory conditional upon to its licensing terms, highlighting the trade-based dimensions of such a requirement.

As both an implementer and the owner of a substantial patent portfolio, ZTE submitted that while an implementer cannot insist on a jurisdiction-by-jurisdiction licence in every case, it does not follow that it will not be appropriate in certain cases. Neither did ZTE consider that FRAND licences should necessarily be global. The decision under appeal was said to provide no satisfactory basis upon which the court would decline to exercise jurisdiction, no matter how slight the connection nor the impact on other countries. The English Court would therefore have little basis to complain if a court in another jurisdiction sought to determine UK royalty rates in the context of a global licence, potentially leading a battle of anti-suit injunctions. By way of contrast with the approach of the English Court, ZTE cited instances where US courts have declined to extend jurisdiction in matters concerning foreign FRAND and antitrust given differing laws between jurisdictions. Much argument also centred on choice of jurisdiction, and the relief that can and should be sought from courts in various jurisdictions, with ZTE putting forward a differing alternate contention to Huawei. That it is not necessarily unreasonable for *Conversant* to have refused its request for a global FRAND determination in China, but rather that that it was unreasonable for *Conversant* to have insisted on a global FRAND determination in a jurisdiction other than China, given the high proportion of relevant sales attributable to China. ZTE further contended that,

similar to the *Huawei v ZTE* (CJEU) decision setting out a framework for assessing whether a negotiation is FRAND, so too should courts have regard to whether the relief sought by the SEP-holder from the court is FRAND, having regard to whether the choice of jurisdiction is a reasonable one, and whether it has a sufficient connection with the real, underlying dispute.

### ***Conversant/Unwired Planet***

Later in the afternoon, the respondents (Unwired Planet and Conversant) commenced their opening submissions. They rejected what was described as a 'new' contention that declared SEPs remain unlicensed until the validity of each patent is established in each jurisdiction, and contended that the appellants' jurisdictional challenge was an attempt to avoid a carefully balanced ETSI contractual framework that is international in character, and that has at its heart a fair balancing between the interests of SEP-holders and implementers. They highlighted the international nature of the ETSI licensing scheme, the relevant technological standards and the markets supported by them, which not only renders jurisdiction-by-jurisdiction litigation inefficient, but actually gives rise to questions as to the legality of products licensed on such a basis, given the potential for parallel importation and global roaming. They contended that a patent-by-patent, jurisdiction-by-jurisdiction approach does not make sense in the context of portfolios containing potentially thousands of patents, and that the prospect of non-essentiality or invalidity is in fact priced into portfolio licences.

They further suggested that the applicants' proposed scheme would be disadvantageous to SEP-holders by incentivising hold-out, allowing implementers to delay payment of royalties while proceedings are underway, and only subsequently requiring payment on a jurisdiction-by-jurisdiction basis. On this point, they contended that the valuing of a licence does not involve the determination of whether any specific patent under that licence is valid and infringed. They also pushed back on what they suggest is the appellants' contention that there should be one scheme for consensual FRAND agreements, and a FRAND scheme arising in the context of legal proceedings whereby patents must be asserted and challenged in each jurisdiction before they can be licensed. Against the characterisation of a UK-wide injunction if an implementer refuses to take a global licence as imposing a coercive 'price' for access to the UK market, the respondents emphasised that such an injunction is only enforceable in the UK in respect of a UK-granted patent and can only be granted in respect of a SEP if a licence on FRAND terms is available. It was said to give effect to the ETSI undertaking by holding the patent-holder to its undertaking, by allowing the implementer to access the invention on FRAND terms, and by preventing them from seeking to participate in this international scheme without taking a licence.

# Comments from the Bench

**Lord Reed:** He commented on the international commercial and diplomatic significance of the issues raised in this case, suggesting that he might have expected to see interventions from the UK government, or even from foreign governments such as the Chinese government. He further showed a strong interest in construing the terms of the ETSI IPR policy. He also showed an interest in questions of jurisdictional comity, having regard to the sociopolitical aims embodied in the laws of different sovereign governments.

**Lord Hodge:** He queried whether a fair balance between the rights of an intellectual property right holder and implementer will be obtained if patent family relatives are considered separately and in the context of each individual jurisdiction. At one stage he appeared to indicate that he could understand Huawei's point about assessing the validity of foreign patents, but queried whether this necessarily extended to determining the value of licensing such patents.

**Lord Briggs:** He stated that his understanding of the lower court decision in *Conversant* was that there was no evidence that a court in China would order a global licence, which appeared to relate to whether China would be a more appropriate forum for this dispute than the UK.

## What's Due To Happen Next

On Day 3, the respondents will continue their opening submissions, and are expected to focus on the international nature of standards, undertakings to ETSI, declared patent families, and markets for products implementing said standards. They are also likely to make further submissions as to the inefficiency of litigating SEPs on a jurisdiction-by-jurisdiction basis, and that FRAND royalties can only be obtained in respect of patents that have been determined to be valid, essential and infringed.

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