



Technology licensing after Unwired Planet – Jurisdictional overreach by the UK Supreme Court or the future of global licensing disputes?

There has long been a tension in technology licensing between the global commercial agreements that companies regularly enter into in order to licence their technologies on a worldwide basis and the requirement that they enforce the intellectual property rights in those technologies (i.e. patents) nationally on a territory-by-territory basis. However, a decision from the UK Supreme Court in 2020 may have taken the first step in changing that status quo.

The judgment in the joined appeals of *Unwired Planet v Huawei* and *Conversant v ZTE*, is a decision with potentially far reaching consequences for any company for which global licensing arrangements are an integral part of its business. The *Unwired* dispute may have taken place in the context of FRAND licensing of patents in the telecommunications industry, but the UK court's broad exercise of its powers may have a broader impact on the future of multi-jurisdictional licensing disputes.

This article summarises the position following the *Unwired* decision and considers its potential impact and future developments in this area.



FRAND

For those in the telecoms industry, FRAND will probably need no introduction but for many it will not be a common concept. Standardisation is the establishment of a common set of characteristics for goods or services. Standards play a significant role in industries where interoperability (the ability of computer systems or software to exchange and make use of information) is critical. For example, by 2017 over 23,000 patents had been declared essential to Mobile Communication and 3G standards. Each of these patents would likely be infringed by companies implementing the necessary standards.

A patent that claims a monopoly over any aspect of standardised technology, and is therefore necessarily infringed by implementation of a standard, is a standard essential patent ("SEP"). SEPs are those that are infringed, as a matter of technical inevitability, by implementation of the standard – they cannot be designed around.

Injunctions are generally granted as a matter of course if a patent is found to be valid and infringed. SEP holders can therefore block the implementation of a standard. To avoid this, SEP holders are encouraged to commit to licensing SEPs on fair, reasonable and non-discriminatory ("FRAND") terms. Of course, what is fair, reasonable and non-discriminatory in one case may not be in another.



The Unwired Decision

The purpose of this article is not to give a detailed analysis of the Unwired decision ([that can be found here](#)). In summary, the Court was asked to determine how to address the competing interests of a patentee's right to prevent infringement of its inventions versus the need for manufacturers of mobile phones (implementors) to access technology incorporated into an international standard at a reasonable cost. The cases on appeal concerned a number of SEPs to European Telecommunications Standards Institute (ETSI) standards, each of which was subject to an undertaking to licence the patent on FRAND terms.

Most importantly for the purposes of this article, the Court also considered whether the UK Courts have jurisdiction to require an implementor to take a licence of a worldwide SEP portfolio if it is established that a single patent in the UK has been found to be valid and infringed, or be subject to an injunction in the UK, which would effectively shut the implementor out of the relevant (standardised) part of the UK market.

On this issue, the Supreme Court held that the English courts not only have the power to require that parties enter into a global licence, but also to determine what the terms of that licence should be irrespective of the country of origin of the underlying patents.



The Impact on Future Disputes

All eyes have been on this case since 2017 when the High Court first raised the prospect of the UK courts being entitled to determine the terms of global patent licences. The Supreme Court's judgement seeks to address the commercial uncertainty caused by the requirements of standardised global mobile communications and the national nature of patent enforcement. There are clear policy reasons underpinning the Supreme Court's decision.

Primarily, the Supreme Court's decision is rooted in real life considerations:

- First, the court's decision cuts through hypothetical and abstract questions of patent law (which often arise in FRAND disputes) and focuses instead on typical licensing practices.
- Second, the court's willingness to set the terms of a global licence was based on the fact that, in practice, telecom industry participants regularly enter into global agreements rather than incur the separate costs of licence negotiations in multiple territories.
- Finally, similar practical considerations lay behind the court's finding that injunctions must be available to strike a balance between the risk of implementer hold-out on the one hand and patentee hold-up on the other.

The argument raised against this approach was that it would set up the English courts as a "de facto" tribunal to determine FRAND licences. This is because, in contrast to the UK Supreme Court's position, courts in other jurisdictions have so far declined to exercise jurisdiction over foreign aspects of a SEP holder's FRAND claim without the parties' explicit consent to do so. Instead, other national courts require the SEP-holder to sue alleged infringers separately in each jurisdiction in which the owner holds an SEP. However, as the Supreme Court commented, the courts in the USA, Germany and China have all held that, in principle, their national courts could adjudicate on the terms of FRAND licences. The Court also pointed out the national courts are the only forum which can provide a binding determination on the terms of a FRAND licence, there is no international tribunal or forum with that power. So, in a world where global FRAND licences are clearly envisioned, it must fall to national courts to determine the terms of such licences.



A one-stop shop vs country-by-country determination

Sympathy can be had with both sides of this debate. Having a one-stop shop to resolve FRAND licence disputes is clearly an attractive prospect, particularly for SEP holders. Negating the requirement for costly and lengthy litigation in every jurisdiction to decide FRAND terms on a country-by-country basis is a laudable goal. This system no doubt encouraged some implementers to hold out during negotiations for a FRAND licence meaning a SEP holder receives nothing without incurring significant legal costs and facing the considerable delay associated with multiple proceedings (this litigation alone took six years from proceedings being issued in March 2014 to the Supreme Court decision).

However, many implementers will take issue with the idea that they should be subject to proceedings in the UK simply because it is more convenient for SEP holders. The result could lead to a less than ideal “race to sue”. On the one hand, patent holders may make less rigorous efforts to confer with implementers before initiating proceedings in the UK (which was somewhat compounded by the Supreme Court’s finding that it is not necessary to offer a licence on the specific terms which are later determined to be FRAND by the court). On the other hand, implementers may opt to commence declaratory proceedings in their preferred jurisdiction as soon as licence negotiations break down in order to prevent the English court being seized by the patent holder. This is particularly likely in relation to multinational companies (such as Huawei and ZTE) for whom the UK market is comparatively small. For example, in this case, Huawei claimed that the UK accounted for just 1% of its relevant sales whereas the Chinese market accounted for 56%. The difference was even more stark for ZTE for whom 0.07% of its turnover came from the UK and 60% from China (and raises the question as to whether implementers with such a small presence might even be driven out of the UK market altogether by the consequences of this decision).



Jurisdictional overreach or the future of global licensing disputes?

The Supreme Court’s position has inevitably also drawn criticism from other jurisdictions where determination of global FRAND licences is not currently available. They see the UK courts seeking to decide issues which relate to foreign patent rights as impermissible jurisdictional overreach, with some commentators going as far as to describe it as neo-colonialism. However, in some ways, the scope of the Supreme Court’s decision is not as broad as first appears:

- First, an implementer is not obliged to accept the licence terms set by the UK courts. They can choose instead to accept the UK injunction with the consequence that their activities in the UK must cease (although where significant sales have already been made, implementers will need to be wary of damages for past infringement – limitation periods in the UK permit recovery of damages for up to 6 years before the date of the claim form).
- Further, an implementer can still seek to remove vulnerable patents from the licence through invalidity proceedings in other jurisdictions, thereby reducing the overall licence fees payable.
- Also, the Supreme Court’s judgment did not consider many of the arguments on appropriate forum, leaving these open to be fought over in future cases. It’s finding on forum non conveniens was narrow, focusing on the fact that Chinese courts do not currently have jurisdiction to determine the terms of global FRAND licences (in the absence of all parties’ consent). It specifically stated that a number of additional issues could have arisen if China was an available alternative forum. It is therefore not certain that the UK courts will, in future, accept the UK as the appropriate forum. There may well be persuasive arguments to stay UK proceedings where there are foreign FRAND proceedings already in progress.
- Finally, the UK courts’ reputation for detailed examination of weak patents makes it a potentially dangerous forum for an SEP holder to look for a global FRAND licence determination. If its UK patents do not survive the UK courts’ scrutiny then the FRAND licence issues will not be determined in the UK.

The *Unwired* decision unquestionably changes the legal landscape in some ways, but it also leaves many issues up for grabs. What is likely, in the wake of this decision, is that the courts of other nations, such as the USA, China and Germany, will also now explicitly decide that they too have the ability to set the terms of global FRAND licences. Contractual solutions could be employed to try to pre-empt jurisdictional disputes. For example, standard setting organisations may start requiring patentee participants to bring cases in particular jurisdictions. However, in the absence of such contractual solutions, the race to sue may now be on.

Contacts



Ben Trust

Partner

T +44 20 7524 6234

E ben.trust@cms-cmno.com



Daniel Keating

Senior Associate

T +44 161 393 4796

E daniel.keating@cms-cmno.com



Oscar Webb

Senior Associate

T +44 20 7524 6455

E oscar.webb@cms-cmno.com