

Patent licensing and FRAND: a new approach

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Two recent decisions in *Unwired Planet v Huawei* clarify and supplement recent European case law on the meaning of FRAND and provide guidance on how to conclude a FRAND (fair reasonable and non-discriminatory) licence and calculate FRAND royalties. They also signal the dawn of the “FRAND defence” which may result in a diminishing role for competition law in future FRAND cases.

Overview

This briefing considers the significance and wider implications of the judgments arising from the so called non-technical trial in *Unwired Planet v Huawei* ([2017] EWHC 711 (Pat) and [2017] EWHC 1304 (Pat)). An analysis of the remedies available if FRAND negotiations fail and the relevance of the case to patent licensing can be found in our second briefing [here](#). The second briefing also explains the methods used by the court to calculate FRAND royalty rates.

First English FRAND determination

This is the first time that an English court has made a FRAND determination and set a FRAND royalty rate. The court also ruled that a set of licence terms under discussion between the parties did represent FRAND terms. These are attached to the judgment. The terms provide an insight into what types of clauses are to be regarded as FRAND and, more widely, what type of clauses are likely to be acceptable in worldwide licences of a significant patent portfolio.

So far only the US, Chinese and Japanese courts have agreed to determine FRAND terms and have set or approved global FRAND rates. In confirming that the English courts are able and willing to do both these things and in a pragmatic manner, and clarifying that worldwide portfolio licences can be FRAND, Birss J paves the way for English courts to hear more global patent licensing disputes in the future.

FRAND explained

Only one set of true FRAND terms

Birss J recognises that agreed terms are borne from detailed negotiations and are likely to result from compromise on both sides:

“[FRAND terms] are the terms which a truly willing licensor and truly willing licensee would agree upon in the relevant negotiation in the relevant circumstances absent irrelevant factors such as hold up and hold out.” (paragraph 156)

His related conclusion that “for a given situation there is only one set of true FRAND terms” promotes legal certainty and allows courts to hold parties to their obligations arising from the FRAND undertaking. This is likely to lead the English courts to produce further detailed FRAND determinations which will no doubt be instructive for those negotiating and advising on FRAND licences.

However, at least in the short term while the case law about the boundaries of FRAND is developing, there is a risk that this interpretation will fuel more FRAND disputes (and Huawei have permission to appeal on the issue of whether there is one set of FRAND terms). The challenge will be for parties to reach a common understanding of what the appropriate

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FRAND rate is, and what represents the true set of FRAND terms in particular circumstances. The judgment does, however, provide detailed guidance on both points (see [here](#) for more detail).

FRAND is a contractual commitment

Birss J confirms that FRAND is a contractual commitment between a patent holder and the relevant standard setting organisation which is justiciable in court by third parties. Significantly he concludes that FRAND implies a commitment on both sides to enter into licences – not simply to make FRAND offers.

These findings are important as they lead Birss J to reject the Court of Justice's conclusion in *Huawei v ZTE* that implementers have a legitimate expectation of receiving a FRAND licence. He goes further than this – instead finding that implementers have a *legal right* to receive a FRAND licence. This is not an unqualified right, however, and in making this point Birss J expands on the principle in *Huawei v ZTE* that FRAND imposes rights and obligations on licensees *as well as* licensors:

“The logic of the FRAND undertaking means that an implementer must negotiate fairly if it wishes to take advantage of the constraint which the patentee's FRAND undertaking places on the patentee's rights.” (paragraph 160)

While the judgment imposes more concrete obligations on both sides than was suggested in *Huawei v ZTE*, this is unlikely to alter the balance in licensing negotiations as, on this point, the practical effect of both rulings is arguably the same.

How to conduct FRAND negotiations

The “FRAND approach” describes both the licensing framework set out in the judgment as well as the conduct expected during negotiations. The court does not adopt the prescriptive requirements set by the German Courts for particular offers and counter offers but rather a general principle of fair negotiation.

The relevant standard for determining FRAND terms is what a willing licensor and willing licensee would have agreed upon as a matter of fact in all of the circumstances absent factors such as hold up (where a licensor refuses to grant a licence on fair terms) and hold out (where a licensee refuses to take a licence on fair terms). A licensor can seek to bundle non-essential patents in a licence offer without that being an abuse, though ultimately cannot insist on a licence covering both essential and non-essential patents.

FRAND rate discussion

Reaching rational, objective decisions appears to be the hallmark of the FRAND approach. In the FRAND rate discussion Birss J highlights that rates should be adjusted to reflect, among other things:

- the relative strength of the portfolio of essential patents as against the industry as a whole;
- the value the relevant patents add to the standard; and
- variations in royalties in different countries/regions, the number of patents the licensor owns there and whether the licensee has a significant manufacturing base in a location where the licensor's patents are weak.

Crucially, in deciding whether it is FRAND to require a licensee to take a worldwide licence to a large global portfolio of standard essential patents, Birss J concludes that it is – because “*a licensor and licensee acting reasonably and on a willing basis [...] would regard country by country licensing as madness.*” (paragraph 543)

The conclusion is striking given that the case covers infringement of UK patents. It also resolves a very common issue in large international licensing disputes (though Huawei have permission to appeal

this point, having consistently maintained that a FRAND licence would be a UK only licence).

A new FRAND injunction

Significantly, the court held that a licensor is entitled to obtain an injunction against an unwilling licensee, which will include a party who has refused a licence on terms which are FRAND. The court granted a new “FRAND injunction”, which differs from a normal injunction in that it will fall away if the defendant enters into the FRAND licence attached to the judgment.

Permission has been granted to appeal on this point. The appeal is due to be heard in May 2018.

Diminishing role of competition law in FRAND cases?

The finding that the FRAND undertaking is enforceable before the court irrespective of competition law, is highly significant. This gives patent holders and prospective licensees a basis on which to enforce their legal right to a FRAND licence which is distinct from competition law and can be argued to a lower legal standard.

As Birss J put it: “[a] royalty rate can be at least somewhat higher than the true FRAND rate and still not be contrary to competition law [...]” (paragraph 153) “Competition law must leave latitude to the parties to agree and cannot draw the line between acceptable and unacceptable contract terms in the same place as the line between whether a term is ETSI FRAND or not.” (paragraph 168)

However, where an offer is so far above FRAND as to corrupt or prejudice discussions that may be an abuse (i.e. may also attract competition law sanctions). For example, an offer may be so outrageous that convergence between the parties’ position in negotiations would not be expected.

The FRAND undertaking also offers a defence to an injunction, provided implementers are willing to enter into a FRAND licence set by a court or an arbitrator.

The judgment confirms that it is possible for a party to seek an injunction and press for particular conditions (such as worldwide licensing) without abusing a dominant position. Insistence on unreasonable provisions will still expose a licensor to a risk of abuse of dominance but parties now have a much better indication of where the boundaries are. The judgment seems likely to reframe the debate away from competition law (which will still be available in appropriate cases) and put the spotlight firmly on FRAND and contract law considerations.

The roadmap to patent harmony?

The judgment sets out a detailed guide to valuing patents and assessing FRAND royalties that should help to reduce the number of disputes (though there remains considerable scope for argument as to how to apply the principles to any given fact pattern). It also establishes the English courts as a pragmatic venue for resolving disputes and seeks to simplify disputes by anchoring them in patent licensing without the added complexity of competition law arguments. It remains to be seen whether Huawei’s appeal will alter the position.

It is also unclear whether and how the court’s conclusions will be reflected in documents flowing from the European Commission’s controversial Roadmap to “Standard Essential Patents for a European Digitalised Economy” published in April ([here](#)). The initiative stems from a desire to facilitate the smooth development of 5G and the rapid roll out of the Internet of Things. Among its stated objectives is to publish best practice guidance on the boundaries of FRAND and core valuation principles. Birss J’s findings arguably negate the need for this.

The judgment covers other areas which the Commission intended to clarify, e.g. the extent of mutual obligations conferred by the FRAND commitment, the availability of injunctive relief, portfolio licensing and the availability of alternative dispute resolution mechanisms to set FRAND terms.

The Juncker Commission has since made securing “an intellectual property system that promotes innovation and creativity” a political priority. On 18

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September the European Commission committed to publish before the end of 2017, “initiatives” on the enforcement of intellectual property rights and on a balanced, clear and predictable European licensing framework for Standard Essential Patents (see [here](#)). It is unclear whether these initiatives will replace and/or be less committal than the best practice guidelines that were promised in the Roadmap.

The Commission's decision to weigh-in on the FRAND licensing debate rather than leave highly contentious questions to the courts to determine has already sparked considerable industry debate. Hopefully the judgment in *Unwired Planet v Huawei* has helped the Commission to conclude that the courts are best left to navigate the path towards patent peace.



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