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Unwired Planet vs Huawei: the Appeal

Judgment of the London Court of Appeal (Civil Division) of 23rd of October 2018

TAG: SEPs, Huawei, FRAND, Unwired Planet, ZTE, Birss, Essential Patents, Abuse of Dominance, Patents, IPRs, Non Discrimination

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Yesterday, October 23, 2018, the Court of Appeal of London (Civil Division) published its [judgement on appeal](#) against the decision of Justice Birss in the Unwired Planet vs. Huawei case.

A brief summary of the facts and the evolution of the case

Unwired Planet sued Huawei for the infringement of various essential patents (SEPs) needed to implement the 2G, 3G and 4G technologies on the defendant's devices. These patents had mostly been acquired by Unwired Planet from Ericsson. Other defendants, such as Samsung or Google reached agreements with UP along the proceedings.

Although both parties agreed to sign a license agreement, there were discrepancies concerning its terms, and its conformity or not with FRAND conditions.

The disagreements were mostly referred to the object of the license and to its geographic scope: on the one hand, Huawei did not want to pay royalties for Unwired Planet's entire portfolio, but only for certain patents, and in particular, it wanted to exclude all patents covering 2G technology, since its devices did not implement it. Huawei argued that Unwired Planet's insistence on a license on portfolio basis was a breach of its commitment to license it in FRAND terms.

On the other hand, Huawei insisted on limiting the scope of the negotiations to the UK, while Unwired Planet understood that the license at stake was a global one, otherwise, Unwired Planet would have been forced to sue Huawei on a jurisdiction-by-jurisdiction basis.

Given the complexity of the case, Justice Birss divided the case into a series of "judgments" of a technical (A-E) and non-technical nature. Regarding the technical part, the litigation was focused on six patents, of which two were considered valid and essential (A and C) and two others were not (in B) - the parties suspended the technical judgments related to the rest (D and E). The first of the technical trials was confirmed on appeal - as the Kats reported [here](#).

Finally, on April 5, 2017, Birss J ruled on the "non-technical" part along 166 pages [here](#) – comments [here](#) and [here](#) – where he not only drew the principles that delimit the framework of the negotiation and eventual litigation under FRAND conditions, but also determined which were the royalties that he considered FRAND in the case at hand:

- For each specific case there is only a set of terms that can be considered FRAND, in this specific case, being Huawei the potential licensee and Unwired Planet the licensor, the FRAND license must be global. Such position has been strongly criticized, for example by [Prof. Patterson](#) and [Prof. Contreras](#).

- Nothing in FRAND prevents the patent holder from requesting royalties on portfolio basis.
- The royalties must be calculated based on a "benchmark rate" based on: the value of the standard for the final product in which the standard is implemented (top down approach), considering the value of the applicant's portfolio for said standard and adjusted to the circumstances of the case. Birss J proposed a royalty rate to be paid for each of the technologies (2G, 3G and 4G), making a distinction depending of the type of implementation (handsets and telecommunications infrastructure) and differentiating between main markets, on the one hand, and China and other markets, on the other.
- The plaintiff has the right to request an injunction if the potential licensee refuses to agree to a license in FRAND terms (such as those proposed by Justice Birss).
- In the case at hand, Unwired Planet did not abused its dominant position by requesting an injunction (even though it did not comply with the steps established by the Court of Justice in case [C-170/13 Huawei vs ZTE](#)).

In June of 2017, the Honorable Justice Birss granted the injunction to Unwired Planet [here](#) given Huawei's refusal to accept the license in the terms established in the preceding decision. It is remarkable that the judge himself "authorized" Huawei to appeal on three grounds: the global scope of the license, the non-discrimination and the abuse of a dominant position derived from Huawei vs ZTE "code of conduct".

The Judgment on Appeal

And this takes us to October 23, 2018, the day on which Huawei's appeal has been entirely dismissed. Surprisingly (or not that much) the three grounds of the appeal were:

- Unfairness of the imposition of a global license, particularly considering that 64% of the money to be paid is related to patents in China, that there were pending lawsuits with regards some of the patents in China and Germany and that in several countries, Unwired Planet did not have patents.
- Breach of the Non-Discrimination prong of FRAND taking into account that the Judge himself acknowledged that Samsung and Huawei were comparable companies, but he established substantially different royalties.
- Abuse of dominant position: Unwired Planet breached the terms established by the CJEU in Huawei vs. ZTE, because it sued Huawei without informing which of its SEPs had been infringed, nor offering the possibility of concluding a license agreement.

1. Global licenses

As per the first ground, the Court of Appeal shares the reasoning of Birss J: given the characteristics of the licensee, licensor and the portfolio of patents, shall both be willing parties they would have had concluded a global agreement (p.58).

The CA defends that the court *a quo* has not ruled on the validity or infringement of patents outside the United Kingdom, but on the scope and content of the commitment that Unwired Planet had reached with ETSI with respect to its essential patents (p.79).

Regarding China and Germany pending cases (and past sales), the CA understands (p.88) that the definition of the FRAND terms by a court does not prevent the licensee from discussing the

validity or essentiality of all or part of the patents. It also does not find Birss J decision contrary to public policy (p.95-99).

For all these reasons, the CA does not share that Judge Birss erred in his reasoning and rejects Huawei's allegations regarding Judge Birss' ignorance of the legal and economic reality of the case (p.123).

Finally, as regards whether between two companies and under a given series of circumstances, there is only a set of terms that are FRAND: the CA admits that there is not a single "set" of conditions that can be considered FRAND (p.121). Moreover, the need to include "fairness" and "reasonableness" considerations do not fit such a rigid approach.

However, it understands that such problem remains in the purely theoretical sphere (p.125) and that the failure in the reasoning of the Judge has no material effect (p.129), dismissing the appeal on these grounds.

2. Non-discrimination

The second of the grounds of appeal, refers to the eventual discrimination that Huawei may have suffered with respect to the terms that Unwired Planet agreed with Samsung. Paragraphs 137 to 146 detail the details of the negotiations with Samsung and the reasons that made Justice Birss rule out that such conditions were representative of the market price of the Unwired Planet portfolio, in particular, its need for liquidity, its recent acquisition by Pan Optis, as well as other strategic considerations.

The CA understands that, to consider two transactions equivalent, the relevant commercial aspects of the transactions, and no other circumstances, must be considered (p.169). Hence, the No Discrimination limb should be analysed (p.176).

The discussion focuses, therefore, on whether Non-Discrimination is to be understood in a general way, as Judge Birss (and UP) do, or in a hard-edged fashion, as Huawei defends.

The Court of Appeal favours the first option, understanding that the function of FRAND is to prevent hold-up by the patent holder (i.e. the overpricing of the licenses): once established that a benchmark rate reflects the value of the portfolio, it can be offered to potential licensees without risking that the return offered to the investment is insufficient (p.196), noting also that, on certain occasions, a "differential" pricing policy can be positive in terms of welfare (page 197), and that such policy should not be precluded as far as it does not harm competition (p.200).

A "hard-edged" approach, however, would lead to a sort of "most favoured licensee clause" (p.199), which is hardly justifiable nor finds explicit support in the cases cited by Huawei's counsel (p. 205).

3. Huawei vs. ZTE and proportionality

The Court of Appeal confirms that Unwired Planet has a dominant position (p.229) and after doing a thorough review of what was said by the CJEU in Huawei vs. ZTE, it establishes that such conditions are not obligatory (p.269) and in particular that the CJEU states that a breach of such conditions the plaintiff may, in principle, constitute an abuse of a dominant position.

In the case at hand, the CA puts the emphasis, among others, on the willingness shown by the parties to licensing in and out (p.272), and the very nature and procedural development of the

injunctions which differ from one member state to another (p.274) and, finally, in the fact that the procedure began before the judgment of the CJEU (p.275).

With a view to all the above mentioned, the CA considers that the Judge *a quo* rightly found that there was no abusive behaviour from UP, and consequently dismissing, also, the third and last ground of appeal.

Now is the time to sit down and wait for the avalanche of comments, papers, books and events (the first one is already [here](#)) that will take place in relation to this judgement.