



## FRAND licensing - a troll's charter?

Many kinds of innovative businesses rely on standardised communications and data exchange technology. Mobile phones require seamless connectivity using increasingly sophisticated standardised technology platforms. But there are many new and growing applications requiring access to the same or related underlying technologies.

The growth of the Internet of Things, for example, relies on multi-layered protocols and standards across security, data management, data transport and processing. Connected vehicles and cities, robotics, drones, e-health: all of these will need the support of standardised communications systems.

These systems are built up through a collaborative process, with contributions of patented technology, often from many different sources. Contributors of technology to the development of the standard declare groups of patents as essential to the standard, and at the same time undertake to make these standard essential patents (SEPs) available to users. Businesses entering these markets and wishing to access standardised systems have no alternative but to take licences of the underlying patents.

Owners of SEPs are clearly in a strong position. However, they are not permitted to ask for any licence terms they like. Instead, as part of their involvement in the standards development they are required by the rules of international standards setting organisations to offer licences of any SEPs on terms that are fair, reasonable and non-discriminatory, or FRAND. Exactly what that means has been fought over in courts around the world in recent years. The latest ruling of the UK Court of Appeal (*Unwired Planet v Huawei Technologies*) tips the balance in favour of the patent-owners and, we think, amounts to a troll's charter.

We will look at the main points in this latest court decision, and explain why.

The dispute involved SEPs owned by Unwired Planet relating to the 2G-GSM, 3G-UMTS and 4G-LTE standards. Unwired Planet sued mobile phone makers Huawei, Samsung and Google for infringement of five SEPs in 2014. That led to a detailed analysis of what FRAND licensing means and how to approach negotiations, discussed [here](#).

Now the Court of Appeal has reviewed three key areas of the dispute and given a ruling that will be more welcome to SEP owners than to implementers.

Should the UK courts be ruling on the terms of global licences, and is a global licence the right result?

The SEP portfolio held by Unwired Planet in this dispute included patents giving rise to a potential 64 per cent of the licensing revenue attributable to the Chinese portfolio – while, in the proceedings, only two UK patents within the portfolio were held to be valid and essential. Was it therefore appropriate for the UK courts to be dealing with global licensing terms?

The Court of Appeal supported the concept, at least in the context of this dispute, that FRAND licences should be global and include all of the licensor's relevant patents around the world. Why? Usual industry practice would be to agree worldwide portfolio licences, possibly with regional rates to reflect the size and importance of the patents there. This was much more efficient than settling terms on a country-by-country basis, or expecting patent owners to sue for infringement in each country where they held patent rights. Standard setting organisations like ETSI operate on an international basis and it is unrealistic to expect licenses to be granted nationally.

Although the UK has no role in assessing the validity or infringement of SEPs granted in other countries, the Court of Appeal held that it was open to the UK courts to decide what kind of licensing negotiations and terms were appropriate globally and, indeed that this was the correct and preferred option.

The UK courts seem to be consciously taking a lead in this area. Rulings from other jurisdictions were considered highlighting some differences in approach.

“It may be true that the approaches of courts around the world to the assessment of royalties under a worldwide licence are not at present wholly aligned but this is not surprising given the developing nature of this jurisdiction.”

The Court of Appeal also supported the judge's overall approach to setting the licence terms, analysed [here](#). They took a different view in one area – whether there can be only one set of FRAND licence terms. The judges recognised that there was scope for some variation taking account of the circumstances of a particular licensor and licensee.

Should Unwired Planet offer the same terms to every licensee?

Huawei argued that it should have been offered the same licence terms as another manufacturer, Samsung. Parallel litigation between Unwired Planet and Samsung was settled in summer 2016, with Samsung taking a licence soon afterwards. By this time Unwired Planet was struggling financially with the result that Samsung had obtained a licence on favourable terms.

The Court of Appeal accepted that the Samsung licence did offer a relevant comparison, but did not agree with Huawei that it should receive the same terms. The Samsung licence was agreed in unusual circumstances and did not represent a fair market value comparator.

The idea of requiring all licensees to be offered the same terms in order to avoid discrimination was not right. Differential pricing was not always objectionable and could sometimes be beneficial to consumers. Once a fair and reasonable rate is assessed the SEP owner is free to charge less to some licensees.

## What kind of negotiations were appropriate in this context?

Huawei argued that Unwired Planet had acted abusively in the way it had negotiated for a licence, and by starting patent infringement proceedings while the negotiations were ongoing.

The Court of Appeal agreed with the judge in concluding that Unwired Planet did hold a dominant position in the market for licences of the SEPs. However, they also agreed that its behaviour was not abusive under competition law principles. A procedure for FRAND negotiations had been spelled out by the European Court in 2015, which was aimed at ensuring that a SEP owner did not abuse its position. That procedure had not been strictly followed, but the negotiations between Huawei and Unwired Planet were nevertheless deemed adequate. There had been discussion of the SEP portfolio between them - although Huawei had not received a written offer of a licence before being sued.

## Why is the direction FRAND is taking unfair to implementers?

- Underlying the ruling is a desire to balance the dissemination of interoperable and safe technologies through the use of standards with the objective of ensuring:

“that innovators are adequately rewarded for the investment that they have made and that they are encouraged to continue to invest in research and development and standardisation activities”.

Many SEP portfolios have been bought up by patent assertion entities. Unwired Planet acquired most of its portfolio from Ericsson, and has itself since been acquired by patent licensing business PanOptis. Many are sceptical that revenue flow to organisations like these will in fact be reinvested in research and development activity. Further there is little constraint on non-practising SEP owners (sometimes characterised as “patent trolls”, whose business is essentially to maximise revenue from their patent portfolios rather than to be involved in the ongoing co-operative development of standards with others, to offer only terms which are fair and reasonable – especially to parties who, perhaps unlike Huawei, are in no position to assess the essentiality or validity of large portfolios of patents or what would be a fair and reasonable licence. Indeed the judge’s position, which was not otherwise addressed by the Court of Appeal, was that there is no requirement on them to do so – only that the process of negotiation they engaged in should be one which was fair and reasonable; and apparently suing Huawei was still part of a fair and reasonable process. One hopes the Court would not take the same view with a less substantial entity than China’s largest telecoms company.

- Owners of SEP portfolios have an incentive to “over-declare”, identifying many more patents as essential to the standard in order to achieve a higher licence fee through the commonly used patent counting approach. The ruling recognises this, but sees it as an accepted feature of licensing practice in this area, and it should be taken into account in assessing a fair and reasonable royalty attributable to a particular patent portfolio and not a reason to depart from industry norms or require country-by-country litigation. Again, we see this in practice as an encouragement to aggressive use of the standards system by patent enforcement entities, with SEP owners able to argue for enhanced royalty rates due to the numbers of patents held. Without a transparent view being available to implementers of the relative valid contribution made by an SEP owner’s portfolio, they are seriously disadvantaged in assessing how they should respond to any offer made by SEP owners or consider whether any such offer is FRAND, or participate in any negotiation on FRAND terms.
- Several times, the Court of Appeal highlighted the dangers of allowing litigation to proliferate, with the danger that separate proceedings in each country will lead to unmanageable costs and administrative burden, as well as potentially conflicting decisions. But developing a single, global licensing structure on the

terms set out in this ruling leaves implementers with very little scope to take on aggressive owners of SEP portfolios. True, those with deep pockets and substantial resources can seek to invalidate specific patents one by one, so taking these out of the licence count for subsequent years, but this does not sit well with a broad-brush approach to global licensing available to SEP owners and is not an approach open to smaller, entrepreneurial businesses.

Overall, we consider the approach to favour owners of SEP portfolios. In a world where these patents were held by the developers of the technology, and the profits ploughed back into future developments this might make sense. But licensing activity seems now to be an industry of its own, leaving implementers with little power to influence the terms of licences that they are bound to take in order to develop innovative products and services.

As the law stands, we do not believe that the Court of Appeal erred on any particular point of law on reaching this decision (though we struggle with the concept that different royalty rates between licensees does not distort competition between them). Rather, we think, the approach to SEPs needs rethinking. We would suggest that it is the standard setting organisations who should take a lead in ensuring that the balance between the reward for innovation and the ability to access standards becomes fairer for implementers (and particularly those who are not telecoms or internet giants).

The European Commission's November 2017 [Communication](#) on SEPs called on both standard setting organisations and SEP owners to develop improved solutions for fair, transparent and predictable licensing. A positive step one might think. However, the Commission's [expert group](#) set up to help with this work has already drawn [criticism](#) asserting bias in favour of SEP owners. If innovation is to flourish, FRAND licensing will need to develop in a way that is seen as fair by both sides of the debate.



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