

Could the UK Supreme Court decision cause the demise of global Frand licensing?

By [Tim Ball](#)

23 Sep 2020

A recent decision by the UK Supreme Court on Frand licences may initially appear to favour owners of standards essential patents and stimulate global Frand licensing, but could in the longer term have the opposite effect.



Tim Ball

Technical standards (such as 4G, USB-C, WiMAX, etc.) allow interoperability of equipment produced by various manufacturers, and are important in the commercial implementation of many technologies. These standards are established by standards setting organisations (SSOs), and often include new technologies which are patented.

Patents which would necessarily be infringed by the implementation of a standard are referred to as "standards essential patents" (SEPs). There can be many SEPs on a standard - for example, it has been estimated that there are more than 90,000 patents relating to 5G technology, and 250,000 SEPs could be relevant to the production of a generic smartphone. For several reasons, as a precondition to incorporating a technology into a standard, SSOs invariably require SEP owners to offer licences on "fair, reasonable and non-discriminatory" (Frand) terms to any implementer of that standard.

Unwired Planet v Huawei

In the recent case of *Unwired Planet v Huawei*, the UK Supreme Court (UKSC) decided that, in some circumstances, a Frand licence may be necessarily global (put another way, that a UK-only licence would not be Frand), and that the UK courts have jurisdiction to determine the terms of that global Frand licence. A licence of this kind would not only bind the implementer in the UK, but also in all other territories. Despite this implication, the UKSC insisted it was not exercising jurisdiction beyond UK borders, but only over the terms of the licence available to the implementer, without which the implementer would be enjoined from infringing the relevant UK patents.

Following the reasoning of the UKSC, there seems no reason in principle why courts in other jurisdictions should not take a similar approach when considering the Frand licence terms available to implementers operating within their respective jurisdictions. The result must surely be a cat-and-mouse game of forum shopping between SEP owners and implementers, with each seeking to force the other into Frand licences on terms set by the court most favourable to their respective interests, and with each keeping an eye on the value and risk involved in participating in territorial markets around the world.

For example, an implementer could conceivably take the view that the Frand rate set by a UK court is excessive, and decide to forego participation in the UK market to avoid subjecting itself to the jurisdiction of the UK courts on Frand terms; restricting its operations to other markets, where it considered it had a better chance of persuading the courts that the Frand rate should be lower than that set by the UK court.

Furthermore, although the idea of global Frand licensing may initially appear to work in favour of SEP owners, the doctrine of patent exhaustion may result in the opposite being the case. In general terms, the doctrine of exhaustion holds that once a patented article is sold by the patentee or its licensee, the patent rights are exhausted, and the patentee has no infringement claim against downstream purchasers or users of that article. Although a detailed discussion of exhaustion is beyond the scope of this article, important issues include:

- whether exhaustion operates internationally, regionally, or nationally;
- whether sale of a component exhausts patent rights in relation to higher value finished goods (and in this regard, whether exhaustion operates on a per-claim basis, or a per-patent basis, and whether patent portfolios can be structured so that a licence to implement technology at component level will not exhaust patents at finished goods level);
- whether exhaustion can be excluded by contract (and, if so, whether competition law permits such restrictions); and
- whether exhaustion can be avoided by dividing patent families territorially and assigning patent family members to different proprietors for each territory.

These questions are likely to be answered differently in different jurisdictions - a fact which must complicate any attempt to address these issues by agreement in any Frand licence.

Arguably, there are incentives for both SEP owners and adopters to divide up and limit their operations to particular territories: on the implementer side, to remove operations in one territory from the influence of courts in other territories; and on the SEP owner side, to limit the effects of exhaustion.

Ultimately, only time will tell whether the decision in the Unwired Planet case will usher in a new golden age of global Frand licensing, or whether it will in fact cause its demise. Our initial view, however, is that the incentives created by the globalisation of Frand licensing may adversely affect competition in markets around the world, and appear to undermine the desired commercial convenience of global licensing underlying the UKSC decision in the Unwired Planet case.

NOTE: This article deals in generalised terms with legal principles that differ across jurisdictions. To ascertain the legal position in a particular jurisdiction, readers should consult suitably qualified advisors.

ABOUT THE AUTHOR

Tim Ball is a Consultant at Webber Wentzel.

For more, visit: <https://www.bizcommunity.com>