

Optis v Apple [2021] EWHC 2564 (Pat): Apple found to be an “unwilling licensee”

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The “unwilling licensee” issue has been a vexed one, with uncertainty as to whether such a concept exists, its relevance, and what an implementer must do to avoid becoming one. As for the concept of FRAND itself, there is no clear guidance in the ETSI IPR Policy and only limited guidance from the CJEU in *Huawei v ZTE*.

Given this uncertainty, Optis’ strategy in its UK litigation with Apple has been to seek to persuade the English High Court that Apple should be disentitled from relying on Optis’ FRAND commitments to ETSI (derived from clause 6.1 of the ETSI IPR Policy) (Optis’ **ETSI Undertaking**), on the basis that Apple is an “unwilling licensee”.

Optis argued that, by refusing to unconditionally commit to take a licence on FRAND terms (where the FRAND terms were to be determined by the UK Court at a future FRAND trial), Apple was seeking to take the benefit of Optis’ ETSI Undertaking, without accepting the corresponding burden. As such, Optis argued, Apple was not a “beneficiary” of Optis’ ETSI Undertaking, should not be entitled to rely on it as a defence, and instead should instead be the subject of an unqualified and permanent injunction. In other words, Optis argued that Apple had irreversibly missed its chance to invoke its right to a FRAND licence.

On 27 September 2021, Mr Justice Meade provided an answer in relation to these important issues, handing down a judgment that is relevant to all implementers and SEP holders involved in UK patent litigation, particularly when a technical trial has already taken place finding at least one UK SEP valid, essential and infringed.

Optis' approach was partially successful, in that the Court agreed that, where a technical trial has taken place and a UK SEP has been found to be valid, essential and infringed, the infringing implementer must, in the period before the FRAND trial takes place, give a binding commitment to accept the FRAND terms that are to be determined by the Court. Further, the Court agreed with Optis that failure to provide such a commitment should result in an injunction being granted ahead of the FRAND trial. However, the Court stopped short of agreeing that an implementer should be permanently enjoined and hence entirely lose the right to a FRAND licence.

The case turned on the interpretation of clause 6.1 of the ETSI IPR Policy as a matter of its governing French law, in particular whether, to be a "beneficiary" of the clause, Apple had to commit to take a licence on FRAND terms set by a Court in default of agreement. Clause 6.1 of the ETSI IPR Policy provides as follows:

"When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions under such IPR to at least the following extent:

- MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
- sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
- repair, use, or operate EQUIPMENT; and
- use METHODS.

The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate."

Meade J followed the UK Supreme Court in *Unwired Planet / Conversant*¹ and interpreted clause 6.1 as being motivated by the need to strike a "balance" between the interests of SEP holders and the interests of implementers (i.e. by avoiding both "hold up" and "hold out").

It was in seeking this fair balance that Meade J ultimately found against Apple. Meade J held that clause 6.1 creates what is referred to in French law as a *stipulation pour autrui*: a type of contract where the promisor (Optis) is required by another party (ETSI) to carry out an act of performance for the benefit of a third party (here, Apple).

Meade J held that it is not every third party which can take the benefit of clause 6.1. Rather, the class of beneficiaries of clause 6.1 is limited to "*any undertaking which wants a licence to work a relevant standard by any commercial activities, and which intends to work the standard under a licence from the SEP owner*", a definition which he considered met the balance envisaged by the ETSI IPR Policy. Significantly, Meade J held that this was not fact sensitive in any case where an implementer declines to commit to a licence on FRAND terms but wants to work the technology of a patent that it has been found to infringe. In other words, an implementer can expect to be enjoined in those circumstances, irrespective of the other facts of the case.

Meade J further held that, had it been necessary to decide whether a commitment to take a licence at some later point could and should be implied into clause 6.1 under French law, the Court would have done so (ie the Court would have decided that such an implied term was present).

Accordingly, Apple was unsuccessful in arguing that it should be permitted to wait until after the Court's determination of the FRAND terms before deciding whether to take the licence (the "Informed Choice" approach), rather than committing to the licence blind (the "Sight Unseen" approach). This was because Meade

¹ [2020] UKSC 37

J considered that the Informed Choice approach would “*provide a tool*” which could be used by implementers to “hold out” and create “*a systematic risk of pushing rates in a downwards-only direction, even to a below-FRAND level.*” In contrast, with the “Sight Unseen” approach, Meade J saw no risk of a supra-FRAND rate being set, absent the possibility of an error made by the Court in determining the FRAND rate. The risks of the “Informed Choice” approach were therefore said to outweigh the risks of the “Sight Unseen” approach.

In coming to this decision, the Court considered that, as matters stood, Apple was infringing Optis’ valid and essential patent rights and therefore needed a licence immediately, if it was not to be acting unlawfully. In this regard, the Court noted that Apple intended, unless the Court prevented it from doing so, to work the infringed SEPs without a licence until the future FRAND trial (the FRAND trial being scheduled for around one year later). The Court also found it highly significant that Apple appeared before the Court without a licence to infringe UK patents, when Apple had the means of obtaining a licence (i.e. by undertaking to accept the licence terms to be determined by the Court).

It was therefore said that, by refusing to give the commitment, Apple was not seeking a licence but merely expressing a conditional interest in one (i.e. Apple was seeking a “*determination of what licence terms would be*”). It was also found that it would be unjust to make the patentee wait for a year or more for a licence, with the Court commenting that the interim period “*would be almost like a compulsory licence*”, resulting in “*a substantive loss of rights [...] in respect of an ageing property right.*”

Meade J also saw no real risk of Apple exiting the UK market (something which Apple had said was a possibility), although it is not entirely clear whether this finding made any difference to the outcome.

However, as already noted, the Court did not accept Optis’ case in full. In particular, Meade J rejected Optis’ argument that, if the implementer does not commit to take a FRAND licence when there is a finding of infringement and validity, it forever loses the right to do so. This was because this approach would, in the Court’s view, run counter to the policy and purpose of clause 6.1, which is to ensure wide access to the relevant standards for all implementers who want it, at FRAND rates. The Court therefore rejected Optis’ request for an unqualified and permanent injunction, and instead ordered a “FRAND injunction”, meaning that Apple will only be enjoined for as long as it refuses to commit to the FRAND licence to be determined by the Court.

Abuse of dominance

The judgment also considers whether it is appropriate to deny a SEP owner an injunction, if there has been an abuse of dominant position by that SEP owner (as is alleged to have been the case for Optis).

The issue of whether there had in fact been any abuse of dominance by Optis was reserved for a later trial, such that, for the purposes of the present judgment, Meade J’s decision was based on the *assumption* that (i) Optis had not made a FRAND offer, (ii) its offers were so high as to disrupt negotiations, and (iii) Apple had made an offer within the FRAND range.

On the basis of these assumptions, Optis argued that, as long as it had committed to accept the Court’s FRAND terms while Apple had not, there could be no finding of abuse by Optis. However, Meade J found against this, holding that there *could* potentially be an abuse, even where the SEP owner was willing to abide by the Court’s decision.

Meade J also held that, if there was an abuse of dominance, an injunction would be withheld unless the Court thought it disproportionate to do so. However, Meade J considered that it would only be appropriate to withhold an injunction to curtail ongoing abusive behaviour, not merely to punish past conduct.

On the facts, Meade J also found that there would be “*no continuing effect*” of Optis’ assumed abuses, either separately or in totality, since the Court would itself ultimately set a FRAND rate. As such, the possibility that

Optis may (at the future FRAND trial) be found to have abused a dominant position did not prevent the Court from imposing an injunction on Apple immediately, given the finding that one of Optis' SEPs was valid and infringed.

Conclusion

Meade J's approach will further change the UK EP litigation landscape, as implementers may no longer be able to wait until after a FRAND trial to choose between the Court's FRAND terms and market exit; such a decision will need to be made as soon as any UK SEP is upheld as valid and infringed. However, Apple has already obtained permission to appeal certain aspects of the judgment, meaning that this is unlikely to be the final word from the UK courts on these issues. Our technology patent litigation team will be happy to provide further information on request.