Neutral Citation Number: [2019] EWHC 3471 (Pat)

Claim No. HP-2017-000048

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INTELLECTUAL PROPERTY LIST (ChD)
PATENTS COURT

The Rolls Building
7 Rolls Buildings
London, EC4A 1NL

Date: Thursday, 12th December 2019

Before:

MR. JUSTICE NUGEE

- -

Between:

CONVERSANT WIRELESS LICENSING S.à.r.L. **(a company incorporated under the laws of Luxembourg)** **- and -** **(1) HUAWEI TECHNOLOGIES CO., LTD.** **(a company incorporated under the laws of the People's Republic of China)** **(2) HUAWEI TECHNOLOGIES (UK) CO., LIMITED** **(3) ZTE CORPORATION** **(a company incorporated under the laws of the People's Republic of China)** **(4) ZTE (UK) LIMITED**	**Claimant** **Defendants**

- -

MR. THOMAS RAPHAEL QC and **MR. THOMAS HINCHLIFFE QC** (instructed by **EIP Legal**) appeared for the **Claimant**

MR. MICHAEL TAPPIN QC, MR. HENRY WARD and **MR. JAMES SEGAN** (instructed by **Allen & Overy LLP**) appeared for the **Huawei Defendants**

MR. DANIEL PICCININ (instructed by **Bristows LLP**) appeared for the **ZTE Defendants**

- -

Approved Judgment

Digital Transcription by Marten Walsh Cherer Ltd.,
2nd Floor, Quality House, 6-9 Quality Court, Chancery Lane, London WC2A 1HP.
Telephone No: 020 7067 2900. Fax No: 020 7831 6864 DX 410 LDE
Email: info@martenwalshcherer.com
Web: www.martenwalshcherer.com

MR JUSTICE NUGEE :

1. I will preface this by saying this is only a very brief judgment. It is not appropriate in the circumstances for me to write a lengthy judgment and I thought it more important the parties should get an answer with brief reasons than have to wait.

2. Overall, I do not accept either party's position in its entirety. On the one hand, I agree with Mr. Tappin that I do not think that there is any reason in principle why the court hearing the FRAND trial (which I will call the "FRAND judge") cannot take account of validity issues as well as essentiality issues.

3. It is common ground that the exercise the court is engaged on in the FRAND trial is one of fixing the terms of the FRAND licence including, in particular, the royalty rates that are applicable. It is common ground that there are a number of possible ways in which that can arguably be done but, in essence, what the court is trying to do is arrive at the terms that a willing licensor and willing licensee would agree in a hypothetical negotiation; see the decision of the Court of Appeal in *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344 at [28]:

> "The task of the tribunal is to identify terms which would be fair, reasonable and non-discriminatory. The judge directed himself, correctly in our view, that relevant matters will include what a willing licensor and a willing licensee in the relevant circumstances acting without holding out or holding up would agree upon, general practice in the industry, and any relevant comparables."

4. As explained by the Court of Appeal in that judgment, there is no jurisdictional objection to the court doing that. The court is not presuming to declare on the validity of a patent in any other jurisdiction (see the Court of Appeal's judgment at [75] to [90]). But I do not read those passages, or what Henry Carr J said in this action in his judgment on jurisdiction [2018] EWHC 808 (Pat) at [18] to [19], as meaning that the FRAND judge can never take account of validity points. That is not, in my judgment, an infringement of the rule in *Moçambique*, (*The British South Africa Co v Cia de Moçambique* [1893] AC 602) as the court is not being asked to rule on the validity of foreign patents; it is being asked to place, as Mr. Hinchliffe said, a value on a portfolio of patents. But it may be that placing a value on that portfolio will include or involve forming some assessment of the likely validity of patents.

5. Let me give an analogy. The paradigm application of the rule in *Moçambique* is that the English court will not determine title to foreign land. If therefore an action were brought in England for a declaration as to the title to land in China, the court would not hear it. But suppose the issue before the English court was the valuation of shares in an English company one of whose principal assets was a block of land in China? The English court would be entitled to hear argument on the value of that land and its effect on the value of the company, and that would feed through to the value of the shares. If the title to that block of land were disputed, the English court would be entitled to hear argument and evidence as to whether the dispute over title did or did not affect the value of the land. It might even conclude that the title was so doubtful that no, or very little, value would be ascribed to it by someone contemplating purchasing the company or acquiring shares in it. But in doing that it would not be

purporting to determine the title to foreign land in breach of the jurisdictional rule in *Moçambique*, it would be determining the value of shares in an English company.

6. In the same way it seems to me that there is no principle of law that precludes the court settling the terms of a FRAND licence from hearing an argument that the particular patents in the portfolio were of such doubtful validity that the hypothetical willing licensor and licensee would attribute little or no value to them. Whether they would do that is not a question of law at all but a question of fact. I am certainly not going to decide what the answer to that factual question is, or is likely to be. It must depend on the evidence adduced before the FRAND judge as to how negotiations for licences are carried out in practice. Mr. Hinchliffe may be right that, in practice, no one pays much attention to validity in such a negotiation, and he can point to the fact that Birss J appears to have accepted that in *Unwired Planet*: see his judgment on FRAND at [2017] EWHC 2988, at [201].

7. However, as I have said, that is a question of fact, and on questions of fact one court is not bound by what another court has said in a different action between different parties heard on different evidence. Indeed, such factual findings are, I think, not even strictly admissible. That is the effect of the rule in *Hollington v. Hewthorn* [1943] KB 857 as explained by the Court of Appeal in *Rogers v. Hoyle* [2014] EWCA Civ 257.

8. So, I accept Mr. Tappin's submission that I should not, on this application, conclude, on the basis of what Birss J said in *Unwired Planet* and what Mr. Moss said in evidence, that in the real world negotiators never pay any attention to issues of validity. What negotiators do in the real world will be the subject of evidence before the FRAND judge. I can certainly see that it is possible that negotiators will be very interested in the question of whether a Chinese patent in the same family, and based on the same priority document, had been held to be invalid by a court of competent jurisdiction in China, or whether a US patent could be simply and convincingly demonstrated to have been lifted wholesale from a prior document. Whether these matters would in fact be given significant weight, or little weight, or no weight at all is a matter for trial and not something on which I can form even a tentative view.

9. Nor can I conclude now that the only proper way to take account of invalidity decisions is through a mechanism in the licence as in *Unwired Planet*: see the description of the mechanism in the Court of Appeal's judgment at [89]. That mechanism, as I understand it, was designed to deal with subsequent findings of invalidity. It does not follow or, at any rate, it is not obvious to me that it necessarily follows, that a similar mechanism is the most apposite way to deal with findings of invalidity that have already taken place before the terms of the licence are settled.

10. In principle, therefore, I agree with Mr. Tappin that it is possible that arguments as to likely validity will be relevant, or may be relevant, to the FRAND determination, and that I should not shut him out from advancing them if he wants to.

11. One further objection, which is not so much an objection in principle but one of procedure, taken by Mr. Hinchliffe is that this is too late because HHJ Hacon at the CMC had given directions and they did not include any provision for expert evidence as to validity. Had he been asked to decide that validity questions should form no part of the trial, and had he so decided, I agree that it would be necessary for Mr. Tappin

to make out a case for revisiting that decision, no doubt in line with the principles set out by the Court of Appeal in *Tibbles v. SIG Plc* [2012] EWCA Civ 518. However, as I understand it, it is not suggested that the question was ever canvassed before HHJ Hacon. In those circumstances I cannot, I think, read his order as a direction that the defendants could not adduce evidence as to validity, given that no one asked him to consider the question. All that I can do is read his order as not making provision for it. That too I do not regard as providing a complete answer to the application, especially as he included an express provision for liberty to apply.

12. On the other hand, I am not at all attracted by the suggestion that the FRAND trial should only concern itself with Part A of Mr. Tappin's categorisation. Some of his written submissions suggested that it could be concluded now that Parts B and C would not contribute to the assessment of FRAND royalties but, in oral submissions, as I understood it, Mr. Tappin did not go that far.

13. This, too, raises questions as to what negotiators in the real world would do. It is possible that Mr. Tappin is right and, in the real world, negotiators would ascribe no, or very little, value to a US patent where the Chinese equivalent had been held to be invalid. It is possible, however, that Mr. Hinchliffe is right, that in the real world no one would take much account of that. Similarly with Part C. It is possible that in the real world negotiators would simply ignore expired patents. However, Mr. Hinchliffe may well be right that, in practice, willing licensors and willing licensees would recognise that if an implementer was to take a licence on FRAND terms that should include at least back payments for expired licences. These are all questions of fact which I cannot resolve at this stage.

14. However, as that illustrates, there is in the end only one question to be dealt with by the FRAND judge; what terms are fair, reasonable and non-discriminatory? I accept Mr. Hinchliffe's submission that to carve out Parts B and C from the FRAND trial is very unsatisfactory. It would mean the court would not have all the material which it might need to resolve the issue before it. Whether or not one describes that technically as a preliminary issue, it seems to me to suffer from exactly the same vice. A party should bring forward its whole case on a particular issue and not just part of its case, so I find the suggestion that the FRAND judge should only consider Part A and not Parts B and C a very unattractive one, and not one that I propose to direct.

15. There should, in my judgment, be a single hearing at which the FRAND judge can hear all the evidence relevant to that single question; what terms are fair, reasonable and non-discriminatory?

16. What then is to be done? First, I am not going to make the order that Mr. Tappin seeks of splitting the patents up. The parties should prepare for the entirety of the FRAND trial in one go.

17. Secondly, the next question is whether Mr. Tappin should be able to raise questions of validity. For reasons I have already sought to give, in principle, in my judgment, he should. As I say, I do not think the order of HHJ Hacon, which contains an express liberty to apply, concludes this. I accept the submission that, to some extent -- not in every case -- essentiality and validity are bound up together in that the wider the interpretation that is put on a claim in order to make good a case on essentiality the more vulnerable that claim becomes to a validity attack. I also accept Mr. Tappin's

submission that until the claim charts were provided it was not really possible for the defendants to assess such questions. What Mr. Tappin wants is the ability to deploy arguments on validity as well as essentiality. That, I think, he should have.

18. Thirdly, however, that does raise a real issue as to whether it is possible to fit all this into the current trial estimate. There seems to me to be a large number of issues for the FRAND judge to consider as it is. However, it is important not to lose sight of the issue, namely, what terms would hypothetical willing parties negotiate. If Mr. Hinchliffe is right, the hypothetical willing parties would pay no attention to validity arguments at all, but even if Mr. Tappin is right, the hypothetical willing parties would not actually, in their negotiation, determine the validity of the patents. Nor should the FRAND judge. Only a court of competent jurisdiction can do that. What the hypothetical willing parties would at most do is take account of validity arguments in agreeing the rates, ascribing more or less weight to them as appropriate.

19. So, as I see it, should the FRAND judge. If persuaded on the evidence that it is a relevant consideration at all, he or she would, I think, do no more than try and replicate what the hypothetical negotiating parties would do, that is to take it into account as a factor. That does not require the FRAND judge to reach conclusions on the actual validity of the patents and conduct 21 mini trials of validity of foreign patents.

20. There may be particular cases where the position is so clear cut that the court can form a fairly clear view but, in most cases, one suspects it will be no more at best than an assessment as to the likelihood of a patent surviving a validity challenge.

21. In those circumstances, I propose to refuse Mr. Tappin's application that technical evidence be limited to Part A of his list. All the patents in Parts A, B and C will remain in issue at the FRAND trial, but I will permit Mr. Tappin to deal with the question of whether any of the claims would be regarded as invalid. I think that means that paragraphs 2 and 3 of the draft order should come out.

22. As to paragraph 4, which contains the directions, if Huawei and ZTE want to serve an extra pleading I am not going to stand in their way. So I will permit 4(a) to stand, but taking out the words "for each patent identified in paragraph 2 above".

23. In 4(a)(ii) I think that the preferable wording would be, "any case that the claim(s) relied upon would be regarded as invalid", taking out the words, "any case that the claim(s) relied upon are ... invalid" . It is better to avoid any suggestion that the court is being asked to decide an issue of validity, something which, as Henry Carr J said, would, on the face of it, appear to be non-justiciable, but what, as I have tried to explain, the court can be asked to decide upon is whether, for the purposes of setting the FRAND rate, any claims would be regarded as invalid.

24. As to (b), which is the responsive pleading by Conversant, Mr. Hinchliffe says it is unnecessary. I take the view that this is in the nature of a reply and replies are, on general principle, voluntary and not directed by the court. So I shall say that (b) will stand with the addition of the words "Conversant shall, if so advised, serve statements of case". That means that if they do not do so, there will, as in every other case of a reply, be an implied joinder of issue. The well-known consequence of that is that if someone simply joins issue they cannot advance a positive case which they have not

pleaded. If they want to advance a positive answer to anything that is being said then they should plead it, but I am not going to direct Conversant to serve a pleading if it does not want to do so.

25. As to the other directions, (c) should stand but without the words, "but shall not address any patent other than those specified in paragraph 2 above". I will allow the time for service as set out in paragraphs (d), (e), (f) and (g).

26. (h) I will allow in with the preface of the words, "if the parties agree". That allows the parties, once the expert reports have been exchanged, to come to a conclusion, which I am told is not uncommon in patent cases, that a meeting would not be very productive. However, unless all parties agree to that I think there should be provision for a meeting in the usual way. Because it is not provided for in this order, I will hear from counsel as to when that meeting should take place.

27. I believe that now covers all the points which I was asked to resolve.

(For Proceedings: Please see separate transcript)

- - - - - - - - - -