

Neutral Citation Number: [2006] EWCA Civ 1618
IN THE SUPREME COURT OF JUDICATURE
COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE
CHANCERY DIVISION (PATENTS COURT)
The Hon Mr Justice Pumfrey
HC 05 C02026

Royal Courts of Justice
Strand, London, WC2A 2LL

Tuesday 05th December 2006

Before :

THE RT HON LORD JUSTICE WALLER
THE RT HON LORD JUSTICE CARNWATH
and
THE RT HON LORD JUSTICE JACOB

Between :

Nokia Corporation (a company incorporated under the laws of Finland)	<u>Claimant/</u> <u>Respondent</u>
- and -	
InterDigital Technology Corporation (a company incorporated under the laws of the State of Delaware, USA)	<u>Defendant/</u> <u>Appellant</u>

(Transcript of the Handed Down Judgment of
WordWave International Ltd
A Merrill Communications Company
190 Fleet Street, London EC4A 2AG
Tel No: 020 7421 4040 Fax No: 020 7831 8838
Official Shorthand Writers to the Court)

Roger Henderson QC and James Abrahams (instructed by Messrs Bird & Bird) for the
Claimant/Respondent
Antony Watson QC and Colin Birss (instructed by Messrs Wragge & Co) for the
Defendant/Appellant

Judgment
As Approved by the Court

Lord Justice Jacob:

1. This is an appeal from a decision of Pumfrey J of 12th April 2006, [2006] EWHC 802 (PAT). At the end of the oral hearing we indicated that the appeal would be dismissed. These are my reasons for so doing.
2. The defendant, “InterDigital”, applied to set aside the proceedings on the ground that the court has no jurisdiction, alternatively for summary judgment pursuant to CPR Part 24. Pumfrey J refused the application.
3. The claimant, “Nokia”, seeks declarations to the effect that thirty or so of InterDigital’s patents do not cover that which it is essential to use for complying with the internationally agreed 3G standard for mobile telephones. Since April 2006 Nokia have not had a licence from InterDigital. If the patents are truly essential for the 3G standard then Nokia need one and at present are “technically infringing” as Mr Antony Watson QC for InterDigital put it.
4. Globally there are a number of standard setting organisations for mobile phone technology. The relevant authority so far as these proceedings are concerned is ETSI (the European Telecommunications Standards Institute). This is an industry association whose function includes the agreement and setting of appropriate standards. It was invited to comment on the present dispute, but for understandable reasons explained in a letter to us, declined to do so.
5. It is self-evidently important that, if a standard is set, no one manufacturer should have a patent monopoly preventing its use by others. On the other hand, it is equally self-evident that if one party has a patent monopoly whose use is essential that he should have a fair reward for the use of his invention by others. Pumfrey J conveniently set forth the relevant passages concerning ETSI’s policy to achieve this:

“3..... ETSI has a policy of requiring its members to reveal the existence of such intellectual property rights or IPRs. Paragraph 1 of the November 2004 edition of the ETSI Guide on Intellectual Property Rights explains the purpose of the policy as follows:

‘The purpose of the ETSI IPR Policy is to facilitate the standards making process within ETSI. In complying with the Policy the Technical Bodies should not become involved in legal discussion on IPR matters. The main characteristics of the Policy can be simplified [summarised?] as follows:

- Members are fully entitled to hold and benefit from any IPRs which they may own, including the right to refuse the granting of licences.
- Standards and Technical Specifications shall be based on solutions which best meet the technical objectives of

ETSI.

- In achieving this objective, the ETSI IPR Policy seeks a balance between the needs of standardisation for public use in the field of telecommunications and the rights of the owners of IPRs.
- The IPR Policy seeks to reduce the risk that investment and the preparation, adoption and application of standards could be wasted as a result of an Essential IPR for a standard or technical specification being unavailable.
- Therefore, the knowledge of the existence of Essential IPRs is required as early as possible within the standards making process, especially in the case where licences are not available under fair, reasonable and non-discriminatory (FRAND) terms and conditions.’

The Policy is stated to be intended to ensure that IPRs are identified in sufficient time to avoid wasting effort on the elaboration of a Deliverable [i.e. a portion of a technical specification] which could subsequently be blocked by Essential IPR.

4. Turning to the formal statement of the ETSI IPR Policy, which is Annex A to the Guide, the obligation of disclosure is stated in paragraph 4 as follows:

‘Each MEMBER shall use its reasonable endeavours to timely inform ETSI of Essential IPRs it becomes aware of. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER’S IPR which might be essential if that proposal is adopted.

5. Paragraph 6 of the Policy requires that:

‘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 undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR . . .’

6. The nature of an essential right is clearly defined. By the sixth definition of paragraph 15 of the Policy:

‘ESSENTIAL’ as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art

generally available at the time of standardisation, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringement of IPRs, all such IPRs shall be considered ESSENTIAL.”

6. Mr Watson explained to us how the ETSI machinery works. Whilst a standard is being developed its members are to notify patents which they consider “essential” for use in the proposed standard. At that stage the notifications may cover what are only proposals for the standard, particularly proposals of the manufacturer himself. It is also the case that at the notification stage the detailed claims of the patents may not yet be finalised for the patent may still be in the course of prosecution.
7. In due course the standard will become agreed. The position then is that the various manufacturers will each have notified a number of patents: they may add to the number of notifications after the standard is agreed.
8. Nokia say that the number of patents notified as essential for compliance with the standard is an important matter commercially, both generally and to Nokia in particular. There will be a variety of complex negotiations for licences under the notified patents. Broadly the more a party has notified the more it can extract from others. Thus, although each party is obliged pursuant to ETSI rules to licence its patents on fair, reasonable and non-discriminatory (“FRAND”) terms, the more patents a licensee has to use, the more the licensor will get or at least ask for. This is of importance not only as between two negotiating parties, but also as regards the general position of a manufacturer. He will need licences from a variety of patent holders. So, the more he has to pay one of these, the less he has available to pay the others. An over declarer would thus gain a significant advantage. This is said to be particularly so in the case of InterDigital because, as a non-manufacturer itself (it is essentially a research organisation), it needs no cross-licences.
9. Nokia’s claim, that none of InterDigital’s patents are “essential” for compliance with the finally agreed 3G standard is in principle sufficiently well-defined as to be justiciable. Mr Watson so accepted, agreeing that it is possible to consider the question patent by patent, comparing in each case the main claim or claims of the patent with the 3G standard. Nonetheless, he submitted the court should not allow the claim for a declaration to proceed.
10. He accepted also that this was not a case of the court having no jurisdiction as a matter of law. The parties are properly before it. CPR 40.20 therefore applies. It says:

“40.20 The court may make binding declarations whether or not any other remedy is claimed.”

This clearly confers a discretionary power provided the court has jurisdiction over the parties, as it does here.

11. Mr Watson's case was that the court should decline jurisdiction as a matter of discretion, and moreover was in a position to do so now, at the summary judgment stage. This, he accepted, meant he had to show that there was no realistic prospect of the court exercising its discretion to grant the declarations sought. Moreover he also had to overcome the burden of showing, since this was an appeal, that insofar as the Judge had exercised his discretion to allow the action to proceed, that the Judge had acted on wrong principles.
12. Mr Watson also had the further difficulty that this Court had considered a very similar problem between the same parties in litigation by Nokia for a declaration that InterDigital's patents declared to be essential for the 2G standard were not essential, *Nokia v InterDigital* [2005] EWCA Civ 614.
13. Mr Watson submitted that:
 - i) The Judge had failed to apply the decision of this Court in *Unilever v Procter & Gamble* [2000] FSR 344 which had not been cited in the previous *Nokia* case.
 - ii) The appropriate remedy for Nokia was via s.71 of the Patents Act 1977 and not via the general jurisdiction to grant a declaration.
 - iii) That there was no, or no sufficient, claim of right to give rise to the declaratory jurisdiction.
 - iv) There was no adequate evidence that the declaration sought would serve any real purpose.
14. I turn therefore to the first point, the *Unilever* case. The main point there was whether a threat issued in without prejudice negotiations could be relied upon to found jurisdiction for a declaration of non-infringement of a patent. It was held that public policy excluded the admission of any such evidence and that pleading it was an abuse of process. A subsidiary issue was whether a claim for a declaration of non-infringement could be made nonetheless. At the time the relevant rule was O.15 r.16 of the RSC as incorporated into the CPR. This provided:

“No claim or other proceeding shall be open to objection on the ground that a merely declaratory judgment or order is sought thereby, and the court may make binding declarations of right whether or not any consequential relief is or could be claimed.”
15. These words are perhaps more restrictive than the present rule which no longer refers to a declaration of right. However, I do not think that anything turns on the distinction, if

any. Normally before the Court will exercise its discretion to grant a declaration, there must be some real reason for doing so. Normally it will decline to grant a declaration in favour of a party against whom no claim has been formulated for the obvious reason that there is no real point in doing so. However, there is a real point in doing so here - see below.

16. In *Unilever* there was an additional factor, namely the availability of the remedy under s.71 of the Patents Act 1977. This provides that:

“71. (1) Without prejudice to the court’s jurisdiction to make a declaration or declarator apart from this section, a declaration or declarator that an act does not, or a proposed act would not, constitute an infringement of a patent may be made by the court or the comptroller in proceedings between the person doing or proposing to do the act and the proprietor of the patent, notwithstanding that no assertion to the contrary has been made by the proprietor, if it is shown:

(a) that that person has applied in writing to the proprietor for a written acknowledgement to the effect of the declaration or declarator claimed, and has furnished him with full particulars in writing of the act in question; and

(b) that the proprietor has refused or failed to give any such acknowledgement.”

17. S.71 requires no claim of right nor even any intention by the applicant for a declaration to make or do the acts, the subject matter of the declaration he seeks. Normally, of course, the applicant will at least have in mind the possibility of doing those acts but whether he does or not is irrelevant. The only question is whether the patent covers what is described in the full particulars called for by s.71(1)(a). In *Unilever* that jurisdiction could have been, but was not, invoked. So there was no reason for permitting the general jurisdiction to apply. This case is quite different for the following reason.

18. What Nokia would have to do to invoke s.71 would be to provide a written description of a telephone in detail. Then if there was no answer or a refusal, sue for the declaration. The declarations could only be sought telephone by telephone. What is sought here is something very different – declarations that none of the patents are essential to comply with the standard. s.71 would not be appropriate for this so the existence of s.71 is no reason, as it was in *Unilever*, for excluding the general jurisdiction.

19. I further think the “no claim of right point” is commercially unrealistic. Nokia have a manifest and real commercial interest in a decision of the kind sought. They are “technically infringing” if they are wrong. True it is that any decision will be a decision only for this jurisdiction (though with likely commercial repercussions beyond it, particularly in Europe where the principles of determination of the scope of a patent, which are supposed to be the same, are in practice increasingly converging). Mr

Watson asked forensically why should this Court be the forum for deciding what is a world wide question? The answer is that it is not. No Court could do that but that is not a reason for a Court deciding matters within its jurisdiction and that is all that is sought here.

20. I do not say that anyone could apply for declarations of the kind sought by Nokia. There would have to be a real commercial reason for the person seeking the declaration to have standing to do so. An interest in making 3G telephones which must therefore comply with the standard is clearly sufficient.
21. Mr Watson raised a “floodgates” argument. He submitted that if the Court took jurisdiction in a case such as this there would be a flood of similar applications, not only in relation to the 3G or other ETSI standard, but also in relation to similar standards, e.g. for MP3 and a host of other standards which are agreed for various technologies. He also said that even in this case if Nokia were allowed to proceed, InterDigital would counterclaim for similar declarations in relation to patents declared by Nokia to be “essential”. Moreover he said that his clients would invoke some sort of remedy under European competition law.
22. I am moved by none of this. Since the decision in the first *Nokia* case in December 2004 (Pumfrey J) and April 2005 (this Court) there has not been a flood of applications, though we were told there was one in relation to MP3. Moreover, if cases involving too many patents at one time were brought the Court has ample machinery for cutting the cases down to size or splitting them into manageable portions. And if in the end the whole thing became unmanageable that might be a reason to decline jurisdiction, I do not decide either way. That is not said to be the case here.
23. Nor can I see the threat of competition law proceedings being a reason for declining jurisdiction. If anything it is the other way round. A man who over-declares his patents and maintains that over-declaration unjustifiably might be in trouble for an abuse of monopoly under Art.82 of the Rome Treaty. Again I do not decide.
24. Perhaps Mr Watson’s principal point was as to the nature of a declaration to ETSI of essentiality. As I have indicated, the declarations are sometimes made before the standard is set and so in principle, even if properly made at the time, could be inapplicable to the final standard. Yet people in practice do not withdraw declarations as to essentiality once made. In short Mr Watson is suggesting that “essential” does not mean what it says.
25. That is not presently pleaded as it would have to be (Mr Watson said an application would be made to plead an estoppel by convention). Moreover as at present advised I see no reason why a declaration of essentiality is not a continuing representation as to essentiality. If a notified patent would have been essential for a proposal that was not in the end adopted, it does not seem right for the patentee to maintain the notification, particularly when he gets a commercial advantage from so doing.

26. I turn to Mr Watson's last point, namely the suggested distinction between this case and the earlier *Nokia* case. Mr Watson submitted that in the earlier case pursuant to judicial pressure from Pumfrey J, InterDigital had been driven to assert that two patents in particular were essential for compliance with the 2G standard. Here such assertions as were made in the pleadings were made only under protest and only for the purposes of these proceedings. That seems to me to be a distinction without a difference. InterDigital have made an assertion to the industry as a whole that the patents in suit are essential. It makes no difference that they have made no particular assertions in these proceedings.
27. Mr Watson's other point of distinction was based on the "everybody over declares" point which I have already dealt with. Again it is no reason for distinguishing the earlier case.
28. Having indicated that this appeal would be dismissed, Mr Watson abandoned an associated appeal from a recent decision of Pumfrey J by which he allowed Nokia to reinforce their claim for a declaration so as to rely not only upon InterDigital's ETSI declaration but also what they had said in a public SEC filing and privately to Nokia and others.
29. **Lord Justice Carnwath:** I agree that the appeal should be dismissed for the reasons given by Jacob LJ. I would add one comment in relation to the reliance placed on the judgment of this court in *Unilever plc v Procter & Gamble Company* [2000] FSR 344. The principal issue was the application of the "without prejudice" rule to various categories of evidence. A subsidiary issue, dealt with much more shortly, concerned the appropriateness of a declaration of "non-infringement". Robert Walker LJ referred to *Re Clay* [1919] 1Ch 66 and *Barclays Bank PLC v Homan* [1993] BCLC 680, 693 for the proposition that a party against whom no claim has been formulated cannot sue for a declaration of non-liability. It had been argued that doubt had been cast on the authority of *Re Clay* by the decision of the Court of Appeal in *Re S* [1995] 3 All ER 290. Robert Walker LJ said that *Re S* had not changed the law in relation to a case concerning property rights only and added:
- "In patent cases the court should be particularly wary of granting declarations of non-infringement under the general jurisdiction, because of the existence of the special jurisdiction under section 71 of the 1977 Act and the detailed requirements which it imposes."
30. It is important to note that that judgment was given before the decision of this court in *Messier Dowty Ltd v Sabena SA* [2001] 1 All ER 275. In that case Lord Woolf, MR, with the agreement of the other members of the court (Hale LJ and Lord Mustill) lay the foundations for a new approach to the court's handling of applications for "negative declarations". He commented on development in the law since *Re Clay* was decided 80 years ago, and on the more flexible approach advocated in *Re S*. He concluded:
- "The development of the use of declaratory relief in relation to commercial disputes should not be constrained by artificial limits wrongly related to jurisdiction. It should instead be kept within proper bounds by the exercise of the courts of discretion"

(p285J)

He added that negative declarations should be regarded as “an unusual remedy”, and that this justified caution in extending the circumstances where such declarations are granted.

31. Although the authority of *Re Clay* itself has been weakened, the need for caution remains. In the present case, Pumfrey J was in a unique position to exercise such caution in view of his knowledge of the subject matter of the case and his ability to form an authoritative judgment as to the suitability of the case for such a claim. Furthermore, I do not read him as having arrived at a final view whether ultimately a negative declaration would be shown to be the appropriate remedy in this case. For example, he referred to the “lively factual dispute” as to the understanding in the trade of a declaration of essentiality made to ETSI, an issue which he did not feel able to resolve on the material before him at the summary stage.
32. His judgment, therefore, amounts to no more than a decision by a judge with direct knowledge of the issue, that it was not an appropriate case for striking out or summary judgment. No error of principle has been shown in his reasoning. On the contrary, it seems to me that he took into account all the material considerations, including those which have been advanced before us, and that he was in a much better position than this court to decide how the case should proceed.

Lord Justice Waller:

33. I agree with both judgments.