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Case No: HP-2022-000011

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
Fetter Lane
London EC4A 1NL

Date: Thursday, 2nd February 2023

Before:

RECORDER DOUGLAS CAMPBELL KC
(Sitting as a Judge of the Patents Court)
Hybrid via Microsoft Teams

Between:

KIGEN (UK) LIMITED

Claimant

- and -

(1) THALES DIS FRANCE SA
(a company incorporated under the laws of France)
(2) THALES DIS FRANCE SAS
(a company incorporated under the laws of France)

Defendants

MS. KATHRYN PICKARD and MR. MATTHEW SMITH (instructed by **Reed Smith LLP**) for the **Claimant**

MR. THOMAS JONES (instructed by **Kirkland & Ellis International LLP**) for the **Defendants**

Approved Judgment

Transcript of the Stenograph Notes of Marten Walsh Cherer Ltd.,
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RECORDER DOUGLAS CAMPBELL KC:

1. This case relates to what are called eSIMs and iSIMs, a growing field of technology. There is a standards setting body in this field called GSMA, which is similar to the role played by ETSI in mobile telecommunications. One difference is that GSMA operates on the basis of English law, not French law.
2. There were initial discussions between the parties between 29th March 2021 and the issue of the claim form on 24th May 2022. In very brief summary, the defendant, Thales, wrote to the claimants, Kigen, indicating that it considered four European patents to be essential to two of the GSMA standards and that Kigen required a licence. Negotiations seemed to progress relatively slowly, partly because of confidentiality concerns about various licences upon which Thales relied. An important development was the EPO decision to revoke one of the four European patents, referred to as '767, on 15th November 2021. This prompted Thales to reduce its proposed royalty per unit by 25% on 12th January 2022.
3. It appears to be common ground, or it is at least not seriously disputed, that Thales is willing to grant licences to companies other than Kigen and that it has done so to most of its other competitors. However, these negotiations did not succeed and Kigen issued the claim form on 24th May 2022.
4. The relief sought in this claim form falls into two categories. One set of issues relates to technical issues, in particular validity of two European patents (UK), namely EP (UK) 2 649 829 and EP (UK) 2 764 461. These technical issues will be determined at a technical trial. There is no counterclaim for infringement at present, although Thales has not ruled out the possibility of doing so in future: for instance, as soon as tomorrow. The main pleadings have closed and the next step is for further statements of case, which have not yet been done.
5. The other set of issues relates to commercial issues, in particular the terms of a FRAND licence under what is called the defendants' essential IPR, and these issues will be determined at a FRAND trial. There is relatively little progress on this aspect of the case thus far.
6. The first issue I have to consider is essentially which set of issues gets tried first. Kigen says the technical issues should be tried first and Thales says the FRAND issues should be tried first.
7. I need to say a little bit more about the background to this application. The case came before Fancourt J on 8th November 2022. There were various applications before the court on that day, including in particular the defendants' application for an order pursuant to CPR Part 11 that the court had no jurisdiction to determine the FRAND declarations claim or, alternatively, for a stay of the FRAND declarations claim pursuant to CPR Part 3.
8. On that application, it was ordered that the defendants' application for an order that the court had no jurisdiction was dismissed. It appears, and I was told, that this aspect was only lightly pressed. It is certainly not dealt with in detail in the judgment given that day.

9. However, the FRAND declarations claim was stayed. Such stay would cease to have an effect on either the claimant undertaking to the court that it would enter into a licence for all the defendants' relevant essential IPR in the term determined to be FRAND by this court, or the claimant amending its particulars of claim to make clear it was claiming a FRAND licence only to the extent the patents were held to be valid and essential.
10. The reasons for that order are set out in Fancourt J's judgment reported at [2022] EWHC 2846 (Pat). They can be summarised as follows. Fancourt J had no problem finding that the court had jurisdiction, but he was not prepared to allow Kigen's claim for a FRAND declaration to proceed for the reasons explained at paragraphs 21-27 of his judgment. It was therefore stayed on the terms I have just set out.
11. Fancourt J also said at paragraph 32 that how the patent and FRAND claims would proceed would be determined with the benefit of fully pleaded cases, costs budgets and likely litigation timetables; and that the judge hearing the CMC could consider future directions, including which issues were to be tried first.
12. As things have turned out, I am being asked to do this with pleadings which are reasonably but not entirely complete as regards the technical issues, but have not really begun so far as FRAND is concerned.
13. This lack of clarity as to the nature of the FRAND case means there is considerable uncertainty as to how long the FRAND trial is likely to be. As recently as December 2022, Thales appeared to be of the view it would take five days. However, their more recently served costs budget suggests a total of 11 days. Counsel for Thales submitted that five days was more realistic, whereas the costs budget was based on Kigen's estimate which was, I believe, ten days.
14. Since that hearing before Fancourt J, the claimant gave an undertaking to the court on 21st November 2022, signed by the claimant's General Counsel. That states as follows:

"The Claimant undertakes to the Court that it will enter into a licence for all the Defendant's relevant Essential IPR in the terms determined to be FRAND by this Court ..."

and thereafter making provision for appeal, which I need not read out.
15. From this it follows there is no longer any question as to whether Kigen will take such a licence. Prior to that undertaking, Kigen had not committed itself. As I have already said, as of today, there is no allegation of infringement of any patent by Thales. Kigen's claim for a FRAND declaration is therefore a free-standing one rather than arising out of a defence to any infringement action.
16. I now come to the central issue I have to decide. So far as the law is concerned, both sides approach the question by reference to the overriding objective, rather than to any particular case law. According to the overriding objective, the court is required to deal with cases justly and at proportionate cost. This includes dealing with cases in ways which are proportionate to the amount of money involved, the importance of the case, the complexity of the issues and the financial position of each party. The court must also deal with cases expeditiously and fairly and allow a case an appropriate share of the court's resources while taking into account the need to allot resources to other cases.

Kigen also referred to the need to enforce compliance with rules, Practice Directions and orders.

17. Counsel to Kigen took me to two additional authorities, the first being the Court of Appeal's decision from 2005 in *Nokia v InterDigital* [2005] EWCA Civ 614 and the second being a judgment of Nugee J, (as he then was), more recently in *Conversant v Huawei* [2019] EWHC 3471 (Pat). In so far as these authorities establish relevant legal propositions, such propositions were not in dispute before me today. Of course, validity determinations can be important to parties agreeing a FRAND royalty. Neither party took me to any decision where any court has had to make a decision similar to that which I have to make today.
18. It is historically true that in similar situations the technical trials were heard first. Counsel for Thales took me to a number of recent cases which he submitted suggest the tide is turning, even for cases where it is necessary to establish validity and infringement before the FRAND trial comes into play. He used the word "choreography" to describe the sequence of events which normally happens. He also referred to the Court of Appeal's recent decision in *Optis v Apple* [2022] EWCA Civ 1411.
19. However he also stressed, correctly in my view, that the present situation is different. Kigen, the implementer, brought the proceedings itself seeking a FRAND licence as well as technical relief, and by its undertaking it has now committed itself to taking that licence, regardless of whether any particular patents are held to be valid and essential in the UK.
20. As against that, counsel for Kigen submitted the mere fact that the FRAND trial was not tied to any allegation of infringement did not of itself mean that the FRAND trial must be heard first. She also pointed out different facts in these recent cases.
21. It seems to me I have to apply the overriding objective to the facts of this case and that *Optis v Apple*, for instance, does not give any direct guidance so far as these particular facts are concerned.
22. First, I will set out the main arguments on both sides. Kigen wants the technical trial first. The main reason is that, in its view, the effect of a judgment on validity in the UK court will have a substantial effect on what figure or figures the court determines to be FRAND at the FRAND trial. Kigen draws attention to the fact that following the EPO revocation of one particular patent, Thales reduced its financial demand by 25%.
23. Kigen relies not only on the direct effect of a UK judgment on the patents-in-suit, but also relies on the spin-off effect of a reasoned UK judgment. However, Kigen was not able to assist me on what effect, if any, a reasoned UK judgment would be expected to have on the US, Chinese and Japanese courts. This is important, since a number of the patents in Thales's portfolio cover these important markets.
24. Kigen also considers the four patent families in detail. It points out that this is a relatively small portfolio by the normal standards of essentiality cases, and I accept that. It also points out that most of the first family of patents are due to expire, but Kigen accepts there is an important exception to this, namely a US patent which will be in force for some years yet. Kigen also points out that although there are other

patents in the same family as the one revoked by the EPO, these cannot, in its view, be particularly important given the 25% reduction I have referred to above. This, Kigen, says, only leaves two families and the patents-in-suit each represent one member of each such family.

25. Kigen also points out that the technical trial should occupy less court time than a FRAND trial, according to the parties' estimates, although as I have said the likely length of the FRAND trial is not entirely clear.
26. As regards the value of the claim, Kigen draw my attention to estimates given in paragraph 33 of the confidential second witness statement given by its solicitor, Mr. Radcliffe dated 23 January 2023. The number there is confidential, but substantial.
27. As regards the relative costs of both actions, Kigen pointed out that according to costs budgets, a FRAND trial would be more expensive. Thales's counsel produced a useful table, as follows.

	Kigen	Thales	Total
Technical Trial	£1.8m	£2.3m	£4.1m (c. €4.7m)
FRAND Trial	£2.6m	£2.7m	£5.3m (c. €6m)
Total	£4.4m (c. €5m)	£5m (c. €5.7m)	£9.4m (c. €10.7m)

28. It is immediately clear that the sums of both trials are substantial and this is particularly so when compared to the figure sought by Thales and rejected by Kigen as being too high for the value of the licence up to end 2025. I will say more about that below. The FRAND trial is also likely to cost more than the technical trial, even though there is substantial guesswork involved as to how much more.
29. Kigen also accuses Thales of delay thus far in several respects, not least due to the jurisdiction application I have mentioned.
30. Thales wants the FRAND trial heard first. The main reason is that in Thales's view, the dispute is primarily a commercial one. Thales accepts that the FRAND trial will not resolve all matters between the parties, but it submits as follows. First, there are some issues which can only be determined at the FRAND trial; and, secondly, the royalty can be structured so that if the technical trials result in revocation then the royalty rate can be reduced accordingly, with potential provisions for claw-back of overpaid royalty.
31. Conversely, Thales says that a technical trial would only resolve the questions of validity and essentiality for a very limited number of the patents which would be covered by a FRAND licence. Thales also points out, as already said, the FRAND trial does not arise out of any infringement action by the patentee, but is a standalone claim made by Kigen itself and supported by an unqualified undertaking. This, says Thales, reinforces its argument that the FRAND trial needs to happen anyway.
32. So far as the effect of judgments on validity are concerned, Thales pointed out that these concern, as they put it, two out of either 38 or 39 patents. Thales accepts that all

but one of the members in the first family are due to expire shortly, but they raise the question of back-compensation for those which are due to expire, plus they pointed out that the remaining patent in that family was a US patent with some years still to go. Thales said that the proposed 25% reduction was put forward as an attempt to avoid the present dispute, and no more can be read into it than that.

33. Thales did not accept Mr. Radcliffe's figures for the potential value of a licence. As they pointed out, a number of assumptions went into Mr. Radcliffe's figures and the headline figure used an estimate for a total market size in the year 2030.
34. So far as the claim up to 2025 is concerned, they reminded me of a point noticed by Fancourt J and to which I have already alluded, namely that Kigen had rejected an open offer for a licence to the end of 2025 for €4 million. As they say, and as was not disputed by Kigen, this could only be on the basis Kigen considered €4 million to be too high for a royalty to cover that period.
35. These are the submissions. I now come to my conclusion. In my judgment, the FRAND trial should be heard first, essentially for the reasons given by Thales. I find Thales's argument that the FRAND trial is always likely to be necessary to be a persuasive one. The FRAND trial will, for instance, resolve what appears to be a substantial issue about how the valuation should approach different types of units. That will not be considered in the technical trials at all. The FRAND trial will also consider how to go about setting a FRAND royalty, for instance whether to use comparables or a top-down approach.
36. I was also struck by the fact that I have mentioned more than once, it was Kigen which came to court seeking a FRAND determination and which is undertaking to submit to the result of that in any event. Hence, all I am doing is giving Kigen what it wants with the opportunity to have a subsequent technical trial on two out of the 28 or 29 patents later if it sees fit. In my judgment, there is nothing unfair about that approach, despite Kigen's attempt to suggest it was. On the contrary, if Kigen is so dissatisfied with the result of the FRAND trial that it wants to spend another £2 million or so of money on expensive and time-consuming technical litigation in the belief this will make a significant difference to the FRAND royalty, it can still do that after the FRAND trial and, if it does so, the royalty rate can be adjusted if necessary.
37. Of course, as counsel for Thales pointed out, the adjustment could be either up or down, depending on the result of the technical trial. The important point is Kigen will have that option.
38. There may be cash flow issues associated with over-payment of royalty if the technical trials take place and invalidate the 2 patents, but I expect that these can be dealt with as matters of detail at the FRAND trial.
39. In general terms, therefore, it seems to me this approach is the best way of dealing with this litigation expeditiously and fairly and allotting to it an appropriate share of the court's resources. It also appears to me that considerations of proportionality point in the same direction. For instance, so far as the value of litigation is concerned, it seems common ground the market is most likely to take off after 2026, which is some way into the future. It should be possible to have both trials by then, if considered necessary.

40. For these reasons, therefore, I accept Thales's application that the FRAND issue should be the trial first. I will now hear counsel as to the detailed directions I should make to give effect to that ruling.

(For continuation of proceedings: please see separate transcript)

41. I now have to consider a point of principle as regards order of pleadings on both the technical case (by which I refer to the statements of case on essentiality) and the FRAND pleadings which are at a less advanced step. The same issue arises on both cases: which side should go first?
42. Taking the statement of case on essentiality for the technical case first, I am satisfied the patentee should go first, setting out its statement of case on essentiality. It does seem to me that asking the defendant to plead non-essentiality on the basis of huge documents is a difficult task and since the patentee can be expected to be familiar both with its patents and with the relevant standards, the appropriate party to start would be the patentee, which in this case is the second defendant.
43. So far as the FRAND issues are concerned, I do not regard this as clear-cut, because a case can be made for both sides going first. I doubt, however, much turns on which side goes first, because both sides are, I infer, likely to put forward the position they have put forward in negotiation to this stage as being their primary position.
44. I also agree with a further point made by Mr. Jones, for Thales, that doing it simultaneously is likely to add to even more work. Therefore, it will be sequential and I am satisfied that in this case, too, the patentee should go first with its FRAND position, followed by the claimant.

(For continuation of proceedings: please see separate transcript)

45. The next issue I have to resolve is a dispute on the confidentiality regime. The issue is whether recipients of highly confidential material should have to give an undertaking as follows in order to be permitted access to highly confidential materials, by which I mean material so designated. The undertaking is as follows:

"I confirm that I am not presently involved in negotiating SEP licensing (excluding ancillary legal support) and undertake not to become so involved whilst I have access to the Highly Confidential Materials (or any part of them) in accordance with the Order or for two years after the date that I cease to have access."

This has been referred to in the argument as the licensing bar.

46. So far as legal principles I should apply, my attention was drawn in the skeleton arguments to a number of leading authorities: *Sisvel v Oppo* [2021] FSR 13; *IP Bridge v Huawei* [2021] EWHC 2826 (Pat) and also *IDC v Lenovo* [2021] EWHC 3192 (Pat). These cases show that a licensing bar has been ordered in other cases of a similar nature.
47. I will state my conclusions briefly. In my judgment, Thales's evidence on this point is too weak to justify a specific order and a specific need for this undertaking in this case.

It relies on hypothetical documents and hypothetical events. By contrast, Kigen's evidence is clear and to my mind compelling. It has a small team of essentially two people who would need to see the relevant documentation and the so-called practical solution of only showing it to one such person is likely to be impractical.

48. Kigen also pointed out the undertaking sought was of a particularly broad nature. It refers to any SEP licensing, and is not restricted to anything involving Thales or to any form of technology. It is an entirely general in these respects.
49. It is impossible for me to assess the extent to which Thales's fears, which I have concluded are hypothetical, are any more than that. It seems to me that it is just too early in the litigation to make the licensing bar order sought.
50. I have also borne in mind what counsel for Kigen called Thales's heavy-handed attitude to previous designations of confidentiality. Not all of the examples she gave were equally compelling, but I am satisfied there is enough force in some of them that this provides a further reason why I should not make that order at this stage.
51. I should make it clear, however, there will be a liberty for Thales to apply for an order in relation to any specific documents as and when it considers that such a need arises, but I make no such order today.

(For continuation of proceedings: please see separate transcript)

52. The final point I have to consider today is a rather heated dispute about costs budgeting.
53. In my view, it arises essentially out of the debate between the parties upon which I gave a judgment earlier today, about whether the FRAND or technical trial should go first. For the reasons I gave earlier today, I decided the FRAND trial should be tried first and the technical trial stayed.
54. This gave rise to a practical issue in that because the FRAND case was not pleaded, Thales thought it difficult to produce a costs budget for that. What Thales therefore did is, on the last day permitted under the rules for serving a costs budget, was to make an application effectively under 3.13(4) permitting them to produce a budget which was limited to part of the proceedings. This was referred to in argument as “split” costs budgets, meaning there would be distinct cost budgets for technical and FRAND issues. If that permission was given, then producing a cost budget which was restricted to the technical issues of the case (and excluding the FRAND issues) would have been within the scope of that permission.
55. This was the subject of correspondence and I was taken through this correspondence in some detail. This included, for instance, a letter from Kirkland & Ellis dated 6th January 2023, which says as follows:

"By your letter of 5 January 2023, you seek to suggest that budgeting according to the scheme we have proposed is contrary to CPR Rule 3.13(1), Practice Direction 3D and *Page v. RGC Restaurants* [2018] EWHC 2688 (QB). We disagree. The kind of order we have proposed is contemplated by CPR 3.13(4) and has been the approach previously in multi-dimensional cases of

this kind. For example, in the *Sisvel* litigation, costs budgeting was split into various stages."

56. It was therefore at all times perfectly clear to Kigen both what Thales was doing and why it was doing it, as well as the rules upon which Thales intended to rely to reach this objective.
57. As I have said, the application was made in time, albeit on the last day, for an order permitting limited costs budgets. It was suggested by Mr. Smith, who argued this for Kigen, there was no application for extension of time. In reply Mr. Jones took me to the application notice and submitted that the order sought implicitly, albeit not expressly, sought an extension of time.
58. By making an application without actually preparing a costs budget for the FRAND issues, the defendants may well have been brave, but I accept the essential submission made by the defendants, that it is not a case in which they breached a court order and thereby require any relief from sanctions. It seems to me that the *Hallam* case, therefore, does not apply and Mr. Smith in answer did not attempt to suggest it did.
59. Had this been a case for relief from sanctions, I am not saying I would have granted that application. Today there is no such application and there is no evidence in support, but because I accept the submission that this is not a relief from sanctions case, there is no need for me to consider these matters.
60. I have already mentioned the case of *Page v RGC Restaurants*. I was not taken to the facts of the case in detail. It appears that both sides approached the case on the basis that costs budgets should be limited to part of the proceedings, but most importantly no application was made to the court for permission to do so under the predecessor to CPR 3.13(4). The parties just unilaterally decided to do it. I agree that is a significant difference with the present case. I do not regard the reasoning in *Page* as applying to me here.
61. A number of other points were made which I shall address briefly, although to my mind they are of rather less significance. There does seem to be force in Kigen's complaint that the defendants' approach to serving its costs budget, such as it was, was somewhat belated. I was told that first drafts were served unsigned, and then only served yesterday in a signed version, and they have still not been filed at court.
62. However, I do accept it is difficult to identify any particular prejudice to Kigen for this because I was given the figures as to the costs overall for the FRAND trial and the technical trial. I was therefore able to reach my conclusion on that main issue upon the basis of the figures supplied by both sides as to costs, even if the costs budgets themselves perhaps might have left something to be desired.
63. In the end, I am asked by Mr. Smith for Kigen to make a declaration (either interim or final) that the automatic provisions of costs budgeting come into play with the consequence that there will be an immediate and automatic limit on the costs recoverable. I am not prepared to make that declaration, either on an interim or final basis. Standing back it seems to me that the defendants did make an in-time application for split costs budgets and given the reality of where we are and the circumstances of

the case, I do accept that costs budgets are better prepared on the basis of detailed FRAND pleadings.

64. I do not accept Mr. Smith's submission that there is any breach of any order made by Fancourt J. It does not seem to me that the present issue was discussed in any great detail between Fancourt J on the previous occasion.
65. I therefore reject the claimant's application, such as it is, for a declaration. I grant the defendants' application for limited costs budgets as requested. I also grant the extension of time until today. I do not grant relief from sanctions on the basis that this does not arise.
66. That raises the question of what to do next. It does seem to me there is some force in the idea that if costs budgeting is to apply, there should be a costs budget even for the stages between the current stage and the next cost and case management conference, which will be done on the basis of rather fuller FRAND pleadings. I am prepared to entertain such an application, but not today. It seems to me that any such application for further costs budgeting for this next stage of the proceedings would have to be done in writing if the parties cannot agree their respective costs budgets for those stages.

(For continuation of proceedings: please see separate transcript)