

# Kluwer Patent Blog

## UK FRAND Update

Robert Lundie Smith (EIP) · Tuesday, July 30th, 2013

*And Carissa Kendall-Palmer*

This piece follows from two previous postings to this blog by Robert Lundie Smith on the Nokia/HTC/IPCom FRAND litigation before the High Court of England and Wales ([here](#) and [here](#)). This latest update, for which Robert is joined by colleague Carissa Kendall-Palmer, explains how the joint trial of FRAND issues in the aforementioned actions has been kicked into the long grass, potentially never to be found again; and how a further opportunity for the High Court to consider such issues, in an action between Vringo Infrastructure Inc. (“Vringo”) and ZTE (UK) Limited & ZTE Corporation (together “ZTE”), has also been delayed until after the court has had the opportunity to determine the underlying issues of validity and infringement. Practitioners will now have to wait for another opportunity to see how courts in this jurisdiction are to tackle the issue of determining FRAND licensing rates.

### **Nokia/HTC/IPCom FRAND litigation**

As was noted in the earlier blog postings, the patent-in-suit in the Nokia/HTC/IPCom UK FRAND action (EP 1,841,268) had been found by the High Court and Court of Appeal of England and Wales to be valid and to have been infringed by Nokia, and a trial of FRAND issues, where the High Court looked to determine the method by which a FRAND royalty rate is to be calculated, was to proceed on this basis.

However, as was also noted in the earlier postings, the EPO Opposition Division had found the patent invalid, and an appeal was pending before the TBA. This uncertainty in the status of the patent-in-suit was one of the reasons why, in the HTC/IPCom action, the trial of technical issues (validity and infringement) was stayed and a joint trial of FRAND issues ordered with the Nokia/IPCom action.

Judgment in this case would likely have provided an important reference point for UK practitioners when addressing calculation of FRAND rates, however, on 7 March, matters were turned on their head when the decision of the TBA was announced.

A summary of the outcome is described in paragraphs 12 & 13 of Mann J’s subsequent case management ruling in May of this year (Nokia OYJ v IPCom GmbH & Co Kg [2013] EWHC 1158 (Ch))

*“On 7th March 2013 the TBA orally pronounced its decision on the appeal in the EPO*

*proceedings. It indicated that it would not follow the full scope of the revocation ordered by the Opposition Division and rejected the added matter as an irremovable blot on the validity of the Patent. However, it did indicate that the patent could survive only in an amended form. There is a dispute as to what precisely then happened at that hearing. It is said that IPCom proposed various amendments to the claim in the patent in order to address certain adverse views of the TBA and after some of them were apparently rejected the TBA received and accepted one last amendment to the claim and remitted consideration of the validity of the patent thus amended to the Opposition Division so that it could consider other attacks on the patent (which had not hitherto been dealt with). The written determination of the TBA is still awaited.*

As a result of this it is now apparent that the patent will not survive in the form ruled on by Floyd J. It cannot be ruled out that, when the matter goes back to the Opposition Division, it will emerge in a yet different form (if at all)..."

Nokia and HTC applied to adjourn the hearing of the FRAND trial. The application came before Mr Justice Mann (as cited above). Unsurprisingly, given the uncertainties that now surround the claims of the patent in suit, this application was successful.

### **Vringo Infrastructure, Inc V ZTE (UK) Ltd & Anor [2013] EWHC 1591 (Pat).**

For those keen to observe the High Court's approach to FRAND licensing methodology, a glimmer of hope arose in an application made by Vringo in its standards essential patent dispute with ZTE (HC 12 DO3895 and HC 12 B04711). To avoid too much excitement, it will be clear by the end of the next few paragraphs that this small flame of hope was quickly extinguished.

### **Background**

Vringo had issued two sets of proceedings against ZTE in the High Court for infringement of six patents all of which related to mobile phones and telecommunication systems. These patents had earlier been acquired by Vringo from Nokia who had previously declared them as being standards essential patents ("SEPs"). Notably, they formed part of a much larger portfolio of over 500 patents.

As these were SEPs, and as Vringo was prepared to honour Nokia's earlier commitments in this regard, Vringo was prepared to licence these patents to ZTE. Against this background Vringo offered ZTE a global portfolio licence to the whole of its global SEP portfolio, which it contended complied with any and all contractual and/or competition obligations it has to offer FRAND licences. Whether this was or was not the case was a live issue.

Vringo contended that the court should hear the FRAND issues first and validity & infringement later (if necessary); ZTE wanted the court to take the opposite approach. Both parties agreed that ultimately, if all issues were to be litigated, three trials would be required, two patent trials and one FRAND trial.

### **Vringo's arguments**

Vringo's main argument was that the UK action was part of a wider global patent dispute between the parties, which would ultimately end with ZTE taking a global licence from Vringo of some sorts. On this basis, Vringo argued that by having the FRAND trial first, a lot of time and money would be saved. The patent trials could be scheduled afterwards, but realistically these would

probably fall away as the parties would (probably) settle.

Vringo sought to rely upon the decision of Judge Robart of the US District Court for the Western District of Washington, in *Microsoft v Motorola* where the judge heard a full trial and settled (F)RAND terms in respect of a portfolio licence of Motorola's US patents in just a matter of days. Hence, Vringo what it was asking the Patents Court to do, had already been done in another jurisdiction and that this approach (to resolving large portfolio of SEPs and questions of FRAND licences) was an emerging trend.

Vringo also sought to rely upon an argument that ZTE, in an action against InterDigital in the US had proposed that the court take the same course of action that Vringo was proposing.

Vringo considered that they were entitled under competition law to refuse to accept per patent licences and to offer a global deal only.

### **ZTE's arguments**

ZTE contended that the 6 patents in suit were not infringed and/or were invalid, however if a patent should be found valid and infringed by the court, then ZTE would be willing to accept a FRAND licence.

Contrary to Vringo's offer to licence on a global basis, one strand to ZTE's case is that they should be entitled to say, on a per patent basis, "Your patents are invalid, but if a given patent turns out to be valid and infringed, then we are willing to take a FRAND licence on that patent." Thus a decision on the FRAND rate for a global licence would not be appropriate if licensing issues were to be tackled on a per patent basis.

ZTE described Vringo's portfolio as "weak" as no other company had taken a licence under it, thus its strength should be tested. It would be a massive undertaking to structure the proceedings as Vringo suggested, as a large portfolio would require mountains of evidence to determine its strength plus there was a very likely complication of a validity/infringement trial within the FRAND trial. It was also likely that a number of references would have to be made to the Court of Justice on competition issues.

### **Judgment**

The fundamental dispute, according to Birss J, was whether the portfolio had any value at all.

Mr Justice Birss saw two types of situation where an SEP based portfolio was being asserted and FRAND issues were being considered. In the first situation, which Birss J described as:

*"When a patentee asserts its patents, where a defendant may say it is invalid and/or not infringed and may say that even if it is valid and infringed its only worth a modest sum \$X"*

The judge considered that a court would be able to determine X before deciding whether the patents are truly valid and infringed. In this regard, the judge considered that:

*"In cases like this the preliminary issue being decided is on a tangible basis. If the claimant wins, the damages or royalty will be X. It is clear what conditions are required to be satisfied for the determination of the preliminary issue to apply. Once the preliminary issue has been decided and*

*the rate has been found to be X, the parties are not compelled to stop fighting about the merits of the patent. A settlement may ensue but, if it does not and at the later trial the patent is invalid, nothing will be due at all. The preliminary issue is binding but it is not a finding that the defendant must pay the sum found. On the other hand, if the patent is held valid and infringed, then of course the finding on the preliminary issue will take effect.”*

Mr Justice Birss described the second scenario as:

*“Cases where a court could determine the rate and terms which would be arrived at as the outcome of a notional negotiation between a willing licensor and licensee to negotiate without (and before) fighting a trial on the merits about the underlying rights.”*

Vringo’s proposed FRAND trial fell into this second class.

Whereas Mr Justice Birss considered that a FRAND trial in the former circumstances could be heard first, the relevance of any decision in this second scenario would depend upon the attitude of the willing licensee, and indeed what was a willing licensee.

ZTE argued that they were a willing licensee, but that they were only willing to take a licence in respect of patents which are valid and infringed. On this basis, ZTE would not be bound by any finding at the FRAND trial proposed by Vringo. While the judge agreed that a determination on this basis may well assist with settlement negotiations, this was not his main consideration.

The FRAND trial proposed by Vringo would commit the parties to substantial costs and time. If both parties were willing to be bound by the outcome, then there is no reason why the Patents Court could not determine the issue. However, as ZTE did not agree to be bound and as “the court cannot and should not compel or coerce a defendant” to reverse their position, the issues proposed by Vringo were “a major distraction” and “potentially misleading”. Therefore, the judge refused to schedule a FRAND trial before invalidity & infringement had been determined.

The claimant’s application was refused.

## **Comment**

While another opportunity to see the methodology that will be applied to FRAND licensing in England and Wales has passed (at least in the short term) there is little to question in the logic of either judgment. It is clear that there are situations where a Court should and would order a trial of FRAND issues before a hearing of validity and infringement, the HTC/IPCom action being an example. However, where the alleged infringer is seeking to challenge the foundations upon which a patent portfolio is built, or where circumstances change and the nature of the patent (or portfolio) becomes uncertain, the court is unlikely to want to spend litigants’ time and money on determining issues that are unlikely to have a bearing on the outcome of the overall matter.

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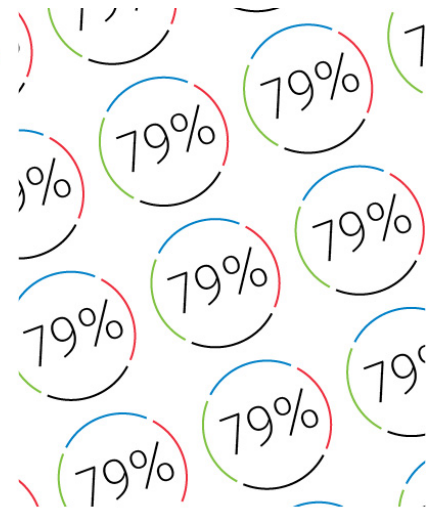
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