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The end of the road for Tesla's claim against InterDigital and Avanci

Naomi Hazenberg, Rachael Cartwright (Bristows) · Friday, July 26th, 2024

On 15 July 2024, the High Court of England and Wales handed down its decision ([2024] EWHC 1815 (Ch)) in the jurisdiction challenge in Tesla's case against InterDigital and Avanci which considers a request for declaratory relief in relation to the FRAND terms for a patent pool licence that includes SEPs owned by multiple proprietors. Tesla's claim sought to develop and extend the current case law in the UK, first established by *Unwired Planet*, that the Court would set the terms of a global FRAND licence to a portfolio including UK patents. The pool in question was Avanci's 5G Platform that includes approximately 170,000 declared SEPs relating to 2G, 3G, 4G and 5G that belong to approximately 65 proprietors. The claim was brought by Tesla against one of the patent proprietors, InterDigital, as well as Avanci, as pool administrator. Tesla sought to bind the rest of the patent proprietors in the pool by bringing the claim against InterDigital as a representative, under the procedure prescribed in CPR 19.8, as well as in an individual context.

The Court did not ultimately accept jurisdiction of the claim for licensing declaratory relief as it did not consider that there were serious issues to be tried against either Avanci or InterDigital. In doing so, the Court analysed the current case law relating to free-standing claims for declaratory relief relating to a FRAND licence and discussed a number of important and interesting points.

Background

As it already had a licence to the 2G, 3G and 4G SEPs in the Avanci pool, Tesla sought a licence of the 5G SEPs on Avanci's 5G Platform ("the Avanci 5G Pool") to enable it to introduce 5G capabilities into its cars in the future. Only an estimated 7% of the SEPs in the Avanci 5G Pool are domestic UK or UK-designated patents. Additionally, it appeared that some of the patentees in the pool (who were not parties to the claim) were non-UK companies who did not own any UK or UK-designated patents.

Avanci has been authorised by all of the patentees to grant a worldwide licence to the Avanci 5G Pool for a non-negotiable rate of US\$32 per vehicle ("the Avanci Licence"). This value was set by Avanci as a result of discussions and agreements with the patentees and the overarching master agreement ("MLMA") made with them all. The patentees do not know the terms of the agreements between each patentee and Avanci, but they do know the terms of the MLMA and the standard terms of the Avanci Licence.

The Court of Appeal was clear, in the earlier case of *Vestel v Access Advance* [2021] EWCA Civ

440, that it is impermissible under English law to bring a free-standing claim for declaratory relief in relation to a FRAND licence. In *Vestel*, Birss LJ suggested that if there was an enforceable right against a patentee or the licensing agent that entitled an implementer to be offered a FRAND licence under the UK patents in a pool, then it might be possible to establish jurisdiction to hear such a claim. Here, Tesla tried to mirror the approach approved in *Kigen v Thales* [2022] EWHC 2846 (Pat) by bringing an action for declarations of invalidity, revocation and non-essentiality of three of InterDigital's UK designated patents in the Avanci 5G Pool ("the patent claims"). In the alternative, Tesla sought a declaration that the terms of the Avanci Licence are not FRAND and a determination of the FRAND licence terms for the three InterDigital UK patents in question (the "licensing claim"). Tesla's position was that the FRAND licence covering the three SEPs in suit is a worldwide licence between Tesla and Avanci to each and every patent in the Avanci 5G Pool. Tesla undertook to enter into the licence with Avanci on the FRAND terms determined by the Court.

Tesla's jurisdiction claim

Tesla took a stepwise approach to its arguments on the Court's jurisdiction over this action. The patent claim related to three UK SEPs. The Second Defendant ("IDPH") was the registered owner of the patents and Tesla served the claim on IDPH as of right under CPR 63.14(2). The Third Defendant ("IDH") does not own the UK SEPs, but was the InterDigital group licensing company so has a commercial interest in the outcome of the claim and had given an undertaking to ETSI in relation to the patents in suit and other 5G SEPs. Permission to serve out on IDH was therefore sought under CPR Practice Direction 6 gateway (3), as a proper or necessary party given that it licenses the patents in suit, or (11), as the subject matter of the claim is UK property.

Tesla argued that the licensing claim stemmed from the patent claims and that it was entitled to enforce the FRAND undertaking given by IDH to ETSI in respect of a licence of the three UK SEPs. It argued that the licensing claim related to UK property as the declaratory relief and determination of FRAND licence terms would cover UK SEPs, therefore satisfying gateway (11). It also argued that, given Avanci's status as pool administrator, it was a necessary and proper party to the licensing claim. In fact, Avanci had accepted that if the Court had jurisdiction to hear the licensing claim against InterDigital, it wished to be a party to the action. As a result, the focus was primarily on whether there was a proper basis to hear the licensing claim against InterDigital. As Tesla had given an undertaking to accept the court determined FRAND licence from Avanci, it argued that the licensing claim could be determined before the patent claim, following the approach in *Kigen*.

As Tesla was seeking a global licence of all of the SEPs in the Avanci 5G Pool, it sought to sue IDH in a representative capacity, on behalf of all of the other patentees on the basis that they all have the same interest in establishing the FRAND licence terms for the Avanci 5G Pool. Although it had been previously established that the declaratory relief relating to setting of licence terms the Court could grant was not constrained by the territorial nature of the patent in suit, Tesla sought to extend this further. Here it asked Court to decide the terms of a licence from patentees who were not parties and who did not have UK or UK-designated patents.

Alternatively, Tesla contended that it has a claim against Avanci independently, through gateway (11). Tesla contended it has a legally enforceable entitlement to a FRAND licence from InterDigital and the other patentees as a result of their FRAND commitment to ETSI. It argued that the relevant FRAND licence was one to the Avanci 5G Pool and therefore this right was

enforceable against Avanci as the patentees' appointed agent because, under French law, it is jointly liable for any failure by the patentees to perform their FRAND obligations in good faith.

The Jurisdiction Challenge

The defendants' jurisdiction challenge raised a plethora of issues both in relation to the patent claims and the licensing claim.

The patent claims

The defendants argued that the patent claims were not real claims as they were being used solely as a jurisdictional hook to enable Telsa to pursue the licensing claims that were the real substance of the claim. It was argued that this was an abuse of process and as such the patent claims should be struck out against IDPH and permission to serve out on IDH should be set aside.

Fancourt J considered that the issue of whether a patent is invalid and, consequently, whether a licence to that patent is needed is a real issue that the Court will entertain. Bringing a patent claim in order to seek a licence declaration as an alternative is, following Kigen, a conventional and established approach for an implementer to take and is not abusive. The Judge also accepted that there may be circumstances in which Tesla would need to pursue the patent claim, for example in if Avanci did not offer the licence the Court determined to be FRAND.

The Judge said that it was indisputable that IDH was a proper party to the patent claim. As the company that made the declaration of essentiality in relation to the patents in suit and had given the ETSI undertaking to grant FRAND licences, it had a commercial interest in the outcome of patent claim and would likely have relevant documents to disclose. The Judge therefore concluded that permission had correctly been given to serve the patent claims on IDH out of the jurisdiction.

Avanci and the licensing claim

Fancourt J turned next to consider whether there was a serious issue to be tried against Avanci for the declaratory relief sought in the licensing claim. In considering this question, the Judge ignored InterDigital's status as a co-defendant so that the stand alone claim against Avanci could be examined.

Avanci itself was not under any obligation to offer FRAND terms to implementers since it had not given any undertakings to ETSI. Rather, Tesla argued that Avanci was responsible for the failures by the patentees to comply with their FRAND commitments in good faith. The Judge described that as a "contingent claim" and held that it was too remote to form the proper basis for the suing Avanci for the declaratory relief sought. Although Avanci was commercially interested in the issues raised by the licensing claim, there was no real and present dispute between Tesla and Avanci about a legal right. In the absence of an independent legal right that could be asserted against Avanci, Telsa's claim was simply a free standing claim for a FRAND determination and as such was not permitted following the reasoning in *Vestel*.

The Judge did accept that, if the licensing claim proceeded, there was a compelling case to join Avanci to the claim against InterDigital but noted that this was not the relevant question at this time.

The licensing claim against IDH

The first aspect of this issue that Fancourt J considered was whether there was a legal right in issue that underpinned the claim against IDH for declaratory relief. Here the “obvious answer” was yes – Tesla was seeking to establish that it was a beneficiary of IDH’s ETSI undertaking. Therefore, unlike in *Vestel*, it could not be said that the declarations were being sought without any appropriate standard to measure the claim against.

Next the Judge considered whether there was a useful purpose served by the declaratory relief sought. This was closely linked to the question of whether the Court would grant the declarations about the Avanci Licence without the other patentees or Avanci being part of the claim.

InterDigital argued that the declarations would not serve a useful purpose since IDH was not able to grant a licence to the Avanci 5G Pool or influence Avanci in modifying the terms. Although InterDigital argued that neither Avanci nor the patentees would be bound by a determination of the FRAND terms, it did recognise that there were likely to be practical consequences to the determination even if they were not legally binding upon the other patentees and Avanci, e.g. InterDigital submitted that the patentees would likely approve the grant by Avanci of such a licence in the event of a determination. The Court concluded that the declarations sought were not pointless.

The more troubling question for Fancourt J was whether it would be fair and just for the Court to make such a declaration. The Judge’s concerns were two fold. Firstly, whether it was right for the declarations to be made without the other patentees having the opportunity to advance their own case as to whether a FRAND licence to the InterDigital SEPs in issue was a worldwide licence to the Avanci 5G Pool and what the appropriate FRAND terms were. Secondly, whether InterDigital alone would be able to properly defend the claim. It would not be able to provide the Court with access to licence agreements made by other patentees or information on the other patentee’s revenue streams. The Judge conceded that this exercise might be possible if Avanci was a party to the action as it would have all of the information, but there was no claim of right against Avanci and Avanci could not be added as a necessary and proper party unless there was a serious issue to be tried against InterDigital. Consequently, the Judge held that since the licensing claim could not be properly tried against IDH alone (or indeed IDPH for the same reasons), there was no serious issue to be tried.

The licensing claim against IDH as the patentees’ representative

Finally, Fancourt J turned to the question of whether there was a serious issue to be tried against IDH as a representative of the Patentees. The representative party rule is a broad and flexible tool of convenience to ensure the all of those interested in the outcome of an action were bound by the outcome. The key criterion for bring a claim for declaratory relief against a representative defendant was whether there was community of interest between the chosen representative and all of the represented parties. The representative had to be able to fairly and honestly try the matters in issue on behalf of the other represented parties.

The Judge noted that the use of this procedure did not remove the practical difficulties of conducting a FRAND trial without the relevant parties all participating. Any useful purpose of the declarations sought had to be qualified with the risk that the trial could not be conducted effectively and that enforcement outside the UK, where the substantial majority of the patentees are resident and conduct business, would be problematic or even impossible.

Whilst the Judge noted that at first blush InterDigital and the other patentees had the same interests, InterDigital raised several potential conflicts such as some patentees being manufacturers rather than pure licensors or some patentees being licensees of InterDigital or some patentees choosing to leave the Avanci pool. The Judge concluded that although this evidence was a bit thin, it was not possible to say now that there would no conflicts.

Therefore, if the representative proceedings were allowed to continue each of the patentees would have to be given the option to become a self-represented defendant. Some patentees would potentially have to make the choice between not being adequately represented in the case or having to submit to the jurisdiction of the Court which they would not otherwise have been subject to. The Judge noted that using the representative proceedings to bind a party that could not otherwise have been sued in the courts of this country seemed like “jurisdictional overreach”.

Bearing all of this in mind, Fancourt J held that there was no serious issue to be tried against IDH as a representative for the other Patentees.

In light of these decisions Fancourt J did not need to consider whether the declarations would have passed though CPR Practice Direction 6 gateway (11) or the *forum conveniens* arguments. However, he did explain the conclusions he would have reached on these issues.

In relation to gateway (11), whether the claim related to property within the jurisdiction, the Judge would have had no hesitation in following Briss LJ’s reasoning in *Vestel* because, as the claim against IDH includes a claim to a licence for UK 5G SEPs, it relates to UK property even though the licence sought was more extensive. However, the claim against Avanci did not pass the hurdle as it did not relate to a legal claim relating to UK property. Rather it related to Avanci’s alleged duties as the agent of the patentees.

Looking at *forum conveniens*, Fancourt J considered that the claim as a whole should be characterised as a licensing claim about the FRAND terms of a global licence to 5G SEPs despite there being a patent claim included. Once an implementer undertakes to take the licence and relegates the patent aspects of the claim, they cannot expect the dispute to be characterised as one about UK patents unless it was issued in response to a threat of an injunction. The Judge held that even had he considered that the Court did have jurisdiction over the licensing claim, it was not the appropriate forum in this particular case. The claim had a closer connection with the US than England and Wales because the majority of the parties were incorporated in the state of Delaware, the majority of the SEPs in the Avanci 5G Pool are US patents, the Avanci Licence is administered and regulated in the US, and the proper law of the MLMA is New York law. The Judge did not accept that there was a risk that Telsa could not obtain justice in the Delaware Court of Chancery as it was agreed that this Court would decide whether the Avanci Licence rate of \$32 per car was FRAND and it would be surprising if the that court did not go a step further to say what the FRAND rate was.

Full and Frank Disclosure

The final point covered in the judgment is a failure by Tesla to provide full and frank disclosure in its application without notice to serve out of the jurisdiction. Fancourt J commented that Tesla failed to make a fair presentation of the obvious facts and arguments that InterDigital would likely want to raise as arguments against the jurisdiction. Whilst Telsa did not have to anticipate and identify each point that was eventually relied upon, some of those omitted were so obvious that

they should have at least been identified as likely arguments. The Judge commented that far too much of the evidence was devoted to the merits of the claim rather than the jurisdictional arguments and that, whilst this was not deliberately misleading, it was not wholly innocent.

Concluding comments

Whilst it had given Fancourt J some concern that Telsa could not continue a claim that it “has a legitimate interest pursuing and which would in principle serve a proper purpose” and that “the rate set by Avanci may not be capable of effective challenge in a FRAND determination”, it did not change his analysis and conclusions. Telsa attempted to take advantage of the door left open by Birss LJ in *Vestel* but could not do so because it failed to identify a free standing legal right to underpin the licensing claim against Avanci. The Judge was also cognisant of the practical difficulties, or indeed impossibilities, of conducting a FRAND determination without all the documentation required to conduct a valuation analysis of all of the patents to be covered by the licence. There is an interesting contrast to the decision in *Mitsubishi v OnePlus* [2021] EWHC 1541 (Pat) where the pool administrator was allowed to continue as a claimant to the action despite not owning any of the patents because there was an arguable case that the pool licence would be held to be FRAND. After failed attempts from both *Vestel* and Telsa, it is yet to be seen whether an implementer can successfully bring an action for the determination of FRAND terms in respect of a patent pool. It is not known whether Tesla will seek permission to appeal this decision

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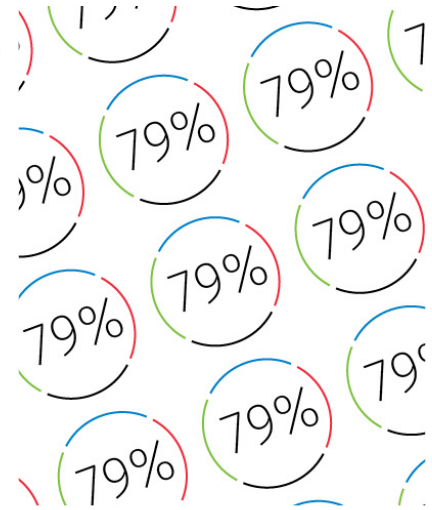
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