

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

Royal Courts of Justice
The Rolls Building
7 Rolls Buildings
Fetter Lane, London
EC4A 1NL

Date: Tuesday, 8th May 2018

Before:

MR. JUSTICE HENRY CARR

Between:

CONVERSANT WIRELESS LICENSING S À R.L.
(A COMPANY INCORPORATED UNDER THE LAWS
OF LUXEMBOURG)

Claimant

- and -

(1) HUAWEI TECHNOLOGIES CO. LTD
(a company incorporated under the laws of the People's
Republic of China)
(2) HUAWEI TECHNOLOGIES (UK) CO. LTD
(3) ZTE CORPORATION
(A COMPANY INCORPORATED UNDER THE LAWS
OF THE PEOPLE'S REPUBLIC OF CHINA)
(4) ZTE (UK) LIMITED

Defendants

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MR ADRIAN SPECK QC, MR COLIN WEST AND MR THOMAS JONES (instructed by
EIP Legal) for the **Claimant**

MR ALEXANDER LAYTON QC and MR DANIEL ALEXANDER QC (instructed by
Allen & Overy LLP) for the **Huawei Defendants**

MR MICHAEL BLOCH QC (instructed by **Bristows LLP**) for the **ZTE Defendants**

Judgment Approved

MR. JUSTICE HENRY CARR:

Introduction

1. This judgment concerns two issues: first, whether Huawei and ZTE should be granted permission to appeal; and secondly, if so, whether further progress in these claims should be stayed pending the resolution of any appeal. In relation to permission to appeal, there are three broad issues: first, justiciability; secondly, *forum conveniens*; and thirdly, in the case of Huawei, permission to appeal is sought against my decision to permit amendment of the Particulars of Claim.

Permission to appeal

2. Turning first to the question of justiciability, Huawei and ZTE point out that the Court of Appeal will very shortly be considering in *Unwired Planet* the issue of whether the English court ought not to determine FRAND terms including rates for territories other than the UK. The question of whether a global FRAND licence should be granted by way of relief in an action for infringement of UK patents has already been held to be suitable for consideration by the Court of Appeal. It is said that the point in the present case is no less apt for consideration by the Court of Appeal. The difference is that the issue of principle arises in circumstances where the court's personal as well as subject-matter jurisdiction is disputed. Furthermore, it is pointed out that, in my judgment, I placed reliance on the judgment of Birss J in *Unwired Planet* and the key paragraphs on which I relied are themselves in issue on the forthcoming appeal. Therefore, it is said that in relation to justiciability, this is a clear case where permission should be granted.
3. In answer, it is alleged on behalf of Conversant that the *Unwired Planet* appeal will in fact resolve the issue presented by any appeal in the present case. It is said that following judgment in *Unwired Planet*, either Conversant's claim for a global licence will be hopeless, on the basis that the Court of Appeal will have indicated that global licences should not be granted; or, alternatively, the appeal in this case would itself be hopeless on the basis that the Court of Appeal will have indicated the reverse.
4. Mr Speck QC, on behalf of Conversant, drew to my attention passages in Huawei's skeleton argument in the *Unwired Planet* case, filed for the purposes of the appeal, which contain essentially the same submissions that were advanced before me and which I rejected. However, I cannot assume that the Court of Appeal will actually decide those issues. First, the *Unwired Planet* case might settle; secondly, even if it does not, the Court of Appeal might not consider it necessary to decide the particular issue and the particular paragraphs on which I have relied in the *Unwired Planet* judgment; or thirdly, Huawei might not press those particular points on that appeal. The fact that this question is already before the Court of Appeal means, in my judgment, that it is suitable for me to grant permission to appeal in the case before me on justiciability and I do grant that permission.
5. As to *forum conveniens*, this is, of course, an exercise of discretion. It is a discretion which I exercised for several reasons, all of which would have led to the same conclusion. Lord Templeman in the *Spiliada* case emphasised that appeals on *forum conveniens* should be rare. However, since justiciability is to be considered by the Court of Appeal in any event, it may be helpful for the court to have all of the

arguments before it. Also, I bear in mind that in this case, the exercise of discretion was an unusual one. So, although I reached a firm conclusion, the Court of Appeal might consider that I did not apply the correct principles. In my judgment, both issues have a real prospect of success (as that expression is understood in the context of permissions to appeal) and, for these reasons, I grant permission to appeal.

6. I also observe, in so far as it is relevant to the Court of Appeal, that this, at least in my view, is a case that would be suitable for expedition. For reasons explained later in this judgment, I am going to fix trial dates in these proceedings. It is important that the existence of this appeal should not prejudice those trial dates. If the trial dates are lost, that would significantly prejudice Conversant, whose claims would be unacceptably delayed.
7. I then turn to the question of permission to appeal from the grant of permission to amend the Particulars of Claim. This application is out of time. More significantly, it raises no issue of law or principle and has no real prospects of success. The tendency to seek to appeal every decision which is adverse to one of the parties ought to be resisted and on the question of permission to amend, I refuse permission to appeal.

Stay pending appeal

8. I turn to the question of what directions, if any, to make pending the appeal. Huawei and ZTE contend that having given permission to appeal, I should make no directions in the technical trials and not set a trial date for any FRAND hearing. It is said that in spite of an undertaking from Conversant that any steps ordered by the court will not be contended to be a submission to the jurisdiction, this will nonetheless be the consequence, rendering an appeal nugatory. Therefore, I am asked to stay the proceedings until the appeal on jurisdiction is finally concluded.
9. As a starting point, at least chronologically, Huawei and ZTE relied upon the decision of the Court of Appeal in *Toshiba Carrier UK Ltd v KME Yorkshire Ltd* [2012] EWCA Civ 169. In that case, having granted permission to appeal in relation to, amongst other things, the jurisdiction of the English court, Kitchin LJ considered the concerns of the appellants that further steps in the action would constitute a submission to the jurisdiction. He said, at paragraphs 39 to 41:

"39. The claimants seek to meet this concern by offering an undertaking that they will not contend that, by filing fresh acknowledgements of service and defences, the non-domiciled defendants have submitted to the jurisdiction. They have also offered, and remain willing, to consent to an order that such further steps by the non-domiciled defendants are subject to and without prejudice to their appeal.

40. The non-domiciled defendants respond that, whatever may have been the position before CPR Part 11, the position now is clear. Both under the Brussels Convention and CPR Part 11, once a challenge to jurisdiction has been considered and rejected by the court, the original acknowledgement of service lapses and the defendant has a further period in which to choose whether to file a fresh one. If he does so then, under

CPR 11(8), he is to be treated as having accepted that the court has jurisdiction to try the claim. That is the end of the matter and the claimants' proposed undertaking is therefore worthless.

41. I am satisfied that there is, at the least, a very real risk that the concerns of the non-domiciled defendants are well founded. In my judgment they have established solid grounds for a stay in the form of irreparable harm if a stay is not granted. Moreover, I am satisfied that a stay would not cause any material prejudice to the claimants. I recognise that they are concerned that the litigation should be progressed as expeditiously as possible. However, I must also have regard to the fact that they waited almost six years from the date of the Commission decision before issuing proceedings."

10. Whether to stay proceedings pending an appeal is of course fact-sensitive. In the *Toshiba* case, the risk that steps in the action would render the appeal nugatory and the fact that no prejudice would be suffered by the respondents meant that further steps in the action ought to be stayed. The case emphasises, as indeed is obvious, that I should not make any order in the present case which will render the appeal pointless and thereby cause irreparable harm to Huawei and ZTE.
11. Next, the Defendants relied upon the decision of the Court of Appeal in the case of *Deutsche Bank v Petromena* [2015] EWCA Civ 226. That was an appeal by the first defendant, Petromena, against an order whereby the court at first instance had refused a declaration that the English court had no jurisdiction over a claim brought by Deutsche Bank A.G. Deutsche Bank contended, by its Respondent's Notice, that whatever the position in relation to Petromena's grounds of appeal, the court now had jurisdiction as a result of events which occurred subsequent to the hearing at first instance. The critical event was that Petromena had filed a second acknowledgment of service. Deutsche Bank submitted that under CPR rule 11(8), the filing of this second acknowledgment of service amounted to a submission to the jurisdiction of the English court. Floyd LJ, at paragraphs 15 and 16 of his judgment, set out the provisions of Article 24 of the Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, (2007) OJ 2007, L339, page 3, and CPR Part 11. Article 24 provides as follows:

"Apart from jurisdiction derived from other provisions of this Convention, a court of a state bound by this Convention before which a defendant enters an appearance shall have jurisdiction. This rule shall not apply where appearance was entered to contest the jurisdiction, or where another court has exclusive jurisdiction by virtue of article 22."

CPR Part 11 provides as follows:

"(1) A defendant who wishes to (a) dispute the court's jurisdiction to try the claim; or (b) argue that the court should not exercise its jurisdiction may apply to the court for an order declaring that it has no such jurisdiction or should not exercise any jurisdiction which it may have.

(2) A defendant who wishes to make such an application must first file an acknowledgment of service in accordance with Part 10.

(3) A defendant who files an acknowledgment of service does not, by doing so, lose any right that he may have to dispute the court's jurisdiction.

(4) An application under this rule must (a) be made within 14 days after filing an acknowledgment of service; and (b) be supported by evidence.

(5) If the defendant (a) files an acknowledgment of service; and (b) does not make such an application within the period specified in paragraph (4), he is to be treated as having accepted that the court has jurisdiction to try the claim.

(6) An order containing a declaration that the court has no jurisdiction or will not exercise its jurisdiction may also make further provision including (a) setting aside the claim form; (b) setting aside service of the claim form; (c) discharging any order made before the claim was commenced or before the claim form was served; and (d) staying the proceedings.

(7) If on an application under this rule the court does not make a declaration (a) the acknowledgment of service shall cease to have effect; (b) the defendant may file a further acknowledgment of service within 14 days or such other period as the court may direct; and (c) the court shall give directions as to the filing and service of the defence in a claim under Part 7 or the filing of evidence in a claim under Part 8 in the event that a further acknowledgment of service is filed.

(8) If the defendant files a further acknowledgment of service in accordance with paragraph (7)(b) he shall be treated as having accepted that the court has jurisdiction to try the claim."

12. Having cited certain jurisprudence of the Court of Justice on the interpretation of Article 24 of the Lugano Convention, including the *Elefanten Schuh GmbH v Jacqmain* case and the *Cartier Parfums-Lunettes SAS* case, Floyd LJ considered a passage from the well-known textbook by Professor Briggs and Mr Rees QC in *Civil Jurisdiction and Judgments*, 5th Ed (2009) at paragraph 21 of his judgment. He concluded at paragraph 22:

"It is therefore to national procedural rules that one must look, in the first instance, to determine whether an appearance has been entered. Once one has determined that question as a matter of national procedural law, it is necessary to ask whether the result is consistent with the effective operation of the Convention."

13. Floyd LJ then referred to two cases of importance in relation to the interpretation of CPR Part 11 and its predecessor, RSC, Order 12, rule 8. Those were the combined cases of *Sage v Double A Hydraulics Ltd* and *Chambers v Starkings*, *The Times*, 2 April 1992; [1992] CA Transcript No 311 (26 March 1992) and *Hoddinott v Persimmon Homes (Wessex) Ltd* [2008] 1 WLR 806.
14. Those cases were apparently in conflict with each other for the following reasons. In the *Sage/Chambers* case, Farquharson LJ delivered the judgment of the court, which also included Lord Donaldson MR and Stocker LJ. In a passage dealing with the law applicable to both appeals, he said:

"The danger inherent in the defendant doing anything further after [the defendant] has issued a summons to set aside, lies in the risk that he may be taken to have waived his right to challenge the writ or the court's jurisdiction. It is necessary in each case to determine whether any step taken, looked at objectively, falls into this category. A useful test is whether a disinterested bystander with knowledge of the case, would regard the acts of the defendant (or his solicitor) as inconsistent with the making and maintaining of a challenge to the validity of the writ or to the jurisdiction."
15. Applying this "*disinterested bystander*" test to the facts of the *Sage* case, the court regarded the issue of a summons seeking an extension of time in the period when there was no extant challenge to the jurisdiction as an act inconsistent with the maintenance of such challenge. By contrast, in the *Hoddinott* case, the disinterested bystander test was not referred to and nor was the *Sage/Chambers* case.
16. In *Hoddinott*, Dyson LJ, who gave the judgment of the Court of Appeal, which also included Sir Anthony Clarke MR and Jacob LJ, held that the meaning of CPR rule 11(1)-(5) was clear. If a defendant filed an acknowledgment of service and failed to make an application under rule 11(1) within the specified period, he was, as stated in rule 11(5), to be treated as having accepted that the court has jurisdiction to try the claim. This was so despite the existence of the defendant's application to set aside the order granting the extension of time, which no doubt carried with it the implication that the defendant did not accept that the court had jurisdiction. The court held that the application was, by virtue of rule 11(5), treated as abandoned.
17. Floyd LJ resolved the apparent conflict between those cases at paragraphs 35-36 by preferring the construction that the court gave to CPR Part 11 in the *Hoddinott* case:

"35. I cannot accept these submissions. The language of CPR r 11(8) is clear, and it is unlikely in the extreme that the draftsman intended the words in paragraphs (5) and (8) to have different meanings. The correct course for a defendant who has failed in a jurisdiction challenge and who wishes to appeal is to ask for an extension of time for filing the acknowledgement of service sufficient to enable his application for permission to appeal, or his appeal, to be determined. It is quite unrealistic to suppose that a sensible claimant, or if not the court, would refuse such an extension when the effect of such a refusal

would be to render the appeal nugatory. It is unnecessary therefore to read qualifying words into rule 11(8).

"36. In my judgment, the words he shall be treated as having accepted that the court has jurisdiction to try the claim in paragraphs (5) and (8) of CPR Pt 11 are to be given the same construction, namely that preferred by this court in the *Hoddinott* case. The disinterested bystander test has no application to what I have called statutory submission to the jurisdiction. Thus, where the conditions of those paragraphs are met, the defendant is to be treated as having submitted to the jurisdiction. The rigour of such a construction is mitigated by the fact that it remains possible to withdraw an acknowledgement of service with the permission of the court: see paragraph 5.4 of the Practice Direction supplementing CPR Pt 10. The effect of the withdrawal, if permitted, would no doubt be that there is no longer a submission to the jurisdiction. No such application was made at first instance in the present case, although, as I shall explain, one is informally launched in Mr Choo-Choy's skeleton before us."

18. At paragraph 52, Longmore LJ, in agreement with Floyd LJ, said as follows:

"52. The course to be followed by a defendant, who wishes to appeal from a judge's decision that the English court has jurisdiction to try a claim and does not wish a judgment in default to be entered while it is appealing, is to ask the judge to extend the time for acknowledgement of service pending an appeal or (if she refuses permission to appeal) pending an application for permission to this court and thereafter, if permission is given, the appeal."

19. It is clear from this decision that I ought not to make any order which requires the Defendants to serve a second acknowledgment of service pending resolution of their appeals on jurisdiction. However, service of a defence does not require that an acknowledgment of service has been served nor do subsequent steps in the action. The question is whether I should order any such steps to be taken pending resolution of the appeals.
20. A similar problem was faced by Blair J in the case of *Goldman Sachs v Novo Banco SA* [2016] EWHC 346 (Comm). That was also a challenge to the jurisdiction of the English court where permission to appeal had been granted. Paragraph 7 records that Longmore LJ, whilst the appeal was pending, ordered that there be remitted to the Commercial Court for determination the following issues:

"(a) where a party to an application to dispute jurisdiction has permission to appeal against a decision dismissing its jurisdictional challenge, whether the English Court has jurisdiction to make case management directions to take effect pending such appeal; (b) if so, whether that power should be exercised in this case and in what way."

21. The judgment does not record (and counsel who appeared before me did not know) precisely what issue (a), the jurisdictional issue, was. However, the case management powers contained in CPR rule 3(1) apply except where the rules provide otherwise. It seems likely that Longmore LJ referred the question to the lower court of whether the effect of CPR Part 11 was such as to disapply the case management powers that would otherwise be exercisable while a jurisdictional appeal was pending. Whatever the precise nature of the jurisdictional issue referred, the appellant did not consider that it was worth arguing. At paragraph 9 of Blair J's judgment, it is recorded that when the matter came before him, Novo Banco, the appellant, accepted (rightly in the view of Blair J) that there was jurisdiction to make a case management order. However, Novo Banco submitted that, as a matter of principle, it was wrong to do so where there was a pending appeal as to jurisdiction and was wrong to do so in that case.
22. Blair J was undoubtedly aware of the judgment of the Court of Appeal in *Deutsche Bank v Petromena* because he cited the key paragraphs at paragraph 15 of his judgment and expressly referred to paragraph 35 of the judgment of Floyd LJ and paragraph 52 of the judgment of Longmore LJ. At paragraph 16, he recorded that an appropriate order was made in the case before him by Hamblen J, extending Novo Banco's time for filing an acknowledgment of service ultimately until after the resolution of the appeal.
23. At paragraph 17, Blair J said:

"Often, perhaps usually, there will be no question of requiring the parties to do anything in the proceedings until the permission question or the jurisdiction appeal itself is disposed of. It may be a waste of time and money. But the appeal stage inevitably takes time, and there will be some commercial cases where it makes sense that the action does not (to use the phrase used by the claimants) 'go into stasis'".
24. He decided that the case before him was one where the action should not “*go into stasis*”. That was because it raised an issue that was important to the parties, to the Portuguese public and to the wider European banking community. Therefore, he decided that the proceedings should move forward promptly if the appeal was dismissed and that the best way of ensuring that was at least to see that the pleadings were completed before then. At paragraph 20, he recorded that the transcript showed that this was the view of Longmore LJ, at the hearing on 11 December 2015, provided the court had jurisdiction to make such an order, which it was common ground that it did. Therefore, in spite of the fact that the time for acknowledgment of service had been extended, Blair J nonetheless ordered that a draft defence should be served.
25. However, he noted a number of important caveats, including that nothing should prejudice the defendant's position if the appeal was successful. In that regard, he considered whether taking steps in the proceedings would potentially prejudice the appeal. He decided that it would not:

"22. As to the first, any such prejudice seems unlikely. As it was put in *Deutsche Bahn v Morgan Advanced Materials* [2013] EWCA 1484 at [28]:

'That leaves only the question whether it is arguable that by taking steps in the proceedings, so far as concerns the claims of the UK Claimants alone, at the express direction of the Tribunal, the non-UK Defendants will be found to have 'entered an appearance' thereby investing the Tribunal with jurisdiction pursuant to Article 24 of the Regulation so far as concerns the claims against them by the non-UK Claimants. The Tribunal thought this risk fanciful in the light of the decision of the ECJ in Case 150/80, *Elefanten Schuh GmbH v Jaqumain* [1981] ECR 1671 and of this court in *Harada Limited v Turner* [2003] EWCA Civ 1695. So do I. As the Tribunal observed at paragraph 66(3) of its Ruling it is permissible in terms of Article 24 of the Regulation to contest jurisdiction whilst at the same time contesting the merits, provided that the intention to contest jurisdiction is evinced at the outset. The non-UK Defendants are being required to deal with the merits of the claim of the UK Claimants. I do not regard it as seriously arguable that by so doing they will be submitting to the jurisdiction of the Tribunal in respect of claims by the non-UK Claimants, a fortiori where the jurisdiction of the Tribunal to entertain those claims is sought to be established on a different basis and where the non-UK Defendants have maintained a clear and consistent challenge to that jurisdiction from the outset. I would refuse permission to appeal on this ground also.' (Tomlinson LJ)"

26. At paragraph 23, he recorded that it would be entirely reasonable for a party challenging jurisdiction to insist on the inclusion of a term in the order to the effect that the steps in question are not to be taken as a submission to the jurisdiction, together with an undertaking by the claimants not to take any such point, including, if desired, a reference to successors and assignees. In my view, such a recital and an undertaking, which has in fact been offered by Conversant, should be recorded in the order which I intend to make.
27. Mr Layton, on behalf of the Huawei Defendants, pointed out, correctly, that the jurisdiction issue was not argued in *Goldman Sachs*. However, as I have noted, Blair J was well aware of the *Petromena* decision and expressly addressed the question of whether service of a defence would prejudice the appellants by rendering the appeal nugatory. He did not think this was likely. Furthermore, Mr Speck, on behalf of Conversant, referred me to another case, *Chugai v UCB* [2017] EWHC 444, where Rose J fixed a trial date where a jurisdiction challenge was pending because otherwise the jurisdiction challenge, if unsuccessful, would have delayed the trial to an unacceptable extent. Whilst the ability to exercise that power was clearly desirable in *Chugai*, Mr Layton pointed out, correctly, that since his argument was not put forward in the *Chugai* case, it is not an authority that it should be rejected.
28. The Defendants submitted that in both of those cases, the High Court should not have given directions to allow the proceedings to progress while the jurisdiction challenge was pending. It was submitted that the purpose of CPR rule 11(8) was to prevent any steps in the proceedings from being taken whilst a jurisdiction challenge was pending,

the acknowledgment of service being the precursor to any such steps. I do not accept that submission for the following reasons. First, CPR rule 11(8) must be read in conjunction with the rest of Part 11. Rule 11(2) provides that a defendant who wishes to challenge jurisdiction under rule 11(1) must first file an acknowledgment of service. Rule 11(3) provides that a defendant who has filed an acknowledgment of service does not, by doing so, lose any rights he may have to dispute the jurisdiction of the court. Rule 11(7) provides that if the court declines to make a declaration pursuant to rule 11(6), then the acknowledgment of service should cease to have effect and the defendant may file a further acknowledgment of service. Rule 11(8) provides that if the defendant files a further acknowledgment of service then he should be treated as having accepted that the court has jurisdiction to try the claim.

29. In my view, the structure of the rules is that the first acknowledgment of service does not constitute a submission to the jurisdiction, but once the court has rejected a jurisdictional challenge and the defendant chooses to file a second acknowledgment of service, that second acknowledgment of service does constitute a submission to the jurisdiction. The purpose of rule 11(8) is to give the second acknowledgment of service its normal effect in the absence of a jurisdictional challenge. It is not necessary to imply that the rule is intended to have the consequence that all other steps in the proceedings must be stayed.
30. Secondly, if Huawei's and ZTE's arguments were correct, then once permission to appeal was granted, there would be no choice but to grant a stay, even if that would lead to injustice. For example, in a case where the respondent would be irreparably prejudiced by a grant of a stay and the balance of justice would indicate that a stay should be refused, nonetheless the mere existence of an appeal on jurisdiction would mean the claim would have to be frozen. I would be reluctant to reach that conclusion, and I do not accept that I am required to do so.
31. Thirdly, Blair J addressed a very similar question to that argued before me. He was, of course, a very experienced judge of the Commercial Court. He expressly addressed his mind to the question of whether the appeal in the case before him would be rendered nugatory, if further steps in the action (in the absence of an acknowledgment of service) were ordered, and decided this would not be the case. I agree.
32. In the present case, I do not consider that the Defendants will be irreparably harmed if the stay is refused, provided that the time to file a second acknowledgment of service is extended until after resolution of the appeal. As in the *Goldman Sachs* case, the order should record that subsequent steps in the action do not constitute a submission to the jurisdiction and Conversant's undertaking in this regard should also be recorded.
33. On the other hand, in my judgment, Conversant would be prejudiced if a stay is granted. The relevant facts are set out in the first witness statement of Gary Moss, the solicitor for Conversant. At paragraphs 4-5, Mr Moss explained the nature of Conversant's business:

"4. At its root, Conversant's business model is the licensing of its patents to implementers. Conversant is bound by a FRAND obligation to ETSI, that is, to offer licences to the technology

covered by its patents of Fair, Reasonable and Non-Discriminatory terms. As a matter of generality, patentees cannot obtain injunctions for the infringement of their SEPs unless a FRAND licence has been offered for the implementer to take as an alternative and that offer has been declined.

"5. As will be apparent, Conversant's business depends on achieving licence agreements with implementers. Conversant is not in the business of making mobile handsets, network equipment or operating networks that implement its patented technology itself, and so failure to achieve licence agreements is a failure to receive income. At the same time, maintaining a patent portfolio is not costless as I shall expand upon further below."

34. At paragraphs 7-9, he explained the general problem of hold-out in relation to standard essential patents, where it is in the interests of the implementer to delay the conclusion of a FRAND dispute for as long as possible:

"7. The problem commonly known as 'hold out' (or 'reverse hold up') arises in that it is inherently in the interest of implementers of the ETSI standards to withstand having to pay licence fees on the technology they use for as long as possible. This reduces the cost of their business in the manufacture and sale of handsets and infrastructure equipment, with relatively little down side – these companies anticipate that even if they do not take licences willingly at the end of the day they will only ever have to pay the FRAND royalties they should have been paying all along to avoid an injunction arising out of their infringement. In practice, in many instances a patentee will be commercially unable to enforce its right to FRAND royalties because of (a) the sheer costs of litigation and (b) the unwillingness of implementers to settle (which itself is driven by there being little downside for the implementer in continuing litigation to the bitter end, win lose or draw).

"8. As such, it is inherently in the interest of an implementer to delay the conclusion of a FRAND dispute for as long as possible. Following on from that, it is inherently in the interest of an implementer to delay the start of any litigation that is going to finally determine such a dispute for as long as possible, and then delay its progress for as long as possible to put off the date at which they will have to pay licensee fees or face an injunction. As such, there is little to no downside for an implementer in taking this course, but such course has the effect of depriving companies such as Conversant of their income stream. This makes hold out a substantial problem for patent owners – it can have serious deleterious effects on the viability of their business model.

"9. This means (and has historically meant) that large swathes of patents declared to be essential to ETSI standards are being used by implementers without licence, in other words, by way of infringement of those patents."

35. At paragraph 10, he explained that despite lengthy negotiations with Huawei China and ZTE China (which lasted for a number of years) concerning the alleged implementation of standard essential patents in Conversant's portfolio, Conversant considered that no meaningful progress had been made to the conclusion of any licence.
36. The consequences for Conversant of continuing delay were set out by Mr. Moss at paragraphs 12-16 of his witness statement:

"12. First, it has led Conversant to have to take tough commercial decisions regarding the maintenance of its portfolio. In short, maintaining a portfolio of patents is very expensive and increasingly so over time. I have been told by Mr Scott Burt (Chief Intellectual Property Officer, Senior Vice President and General Counsel for Conversant Intellectual Property Management, Inc., the parent company of Conversant) that the cost of prosecution and renewal fees associated with the Portfolio were \$1,528,607 in 2012, \$1,780,816 in 2013 and \$1,831,811 in 2014.

"13. As can be seen, the fees associated with maintaining the patents of a portfolio also increase over time. This because the renewal fees charged by patent offices around the globe generally (with very few exceptions) increase as the age of the patent (or patent application) increases.

"14. Mr Burt has informed me that because Conversant had been expecting to receive revenues from licensing the Portfolio, but those revenues have not materialised, over a period covering late 2014 and early 2015. As a consequence, the expenditure associated with maintaining the Portfolio had to be cut by around 50%. I am told that this process resulted in hundreds of patents and patent applications being abandoned. This is a direct result of Conversant being unable to secure licence agreements with implementers including Huawei and ZTE.

"15. It will also be apparent that the longer companies such as Huawei and ZTE hold out in paying license fees for patents they (and their subsidiaries and affiliates) are exploiting globally, the greater the negative financial consequences can be for the a patentee. Moreover, a patentee cannot re-instate an abandoned patent or patent application once a recalcitrant licensee has been put in a position of having to make a payment. Thus the longer an implementer can hold out, the

lower the future royalties they may face, creating a benefit to an implementer in holding out for as long as possible.

"16. A second issue is the general aging of the Portfolio. As time goes on, increasing numbers of patents in the Portfolio will be expiring. If enough time has passed through negotiations and delay imposed by implementers, by the time the patentee has been forced to resort to litigation the patents on which an injunction might be sought (where an implementer declines to take a FRAND licence) may have expired before the question of an injunction can be addressed. This is particularly apposite in this case where two of the patents now asserted against Huawei and ZTE (see further below) expire in 2018."

37. In answer, Ms. Dagg, on behalf of the Huawei Defendants, has pointed out, correctly, that Conversant is a large and very well-resourced company. This does not, however, meet the point, in my view. If the trial date for testing Conversant's claims of infringement continues to be delayed, then it is not possible for Conversant to obtain a return on its investment in this portfolio. This jurisdictional challenge has already caused ten months of delay in these proceedings, and a stay pending resolution of the appeal would cause a further and significant delay. Delay benefits the Defendants, as they are not paying any royalty in the meantime and have not offered to do so if a stay is granted.
38. I bear in mind that Huawei have provided, some time ago, a bank guarantee for a sum which, in the context of the sums at stake in these proceedings, appears to be for a very small amount. ZTE did not indicate they have provided anything by way of security. No royalty has been paid in spite of the fact that negotiations commenced several years ago. I have held that there is at least an arguable case that the Defendants have been practising hold-out by delaying any royalty payments whilst continuing to infringe standard essential patents in the portfolio.
39. I have also made it clear I am not in a position to decide that question at present and I do not do so. Birss J observed in the *Unwired Planet* case that hold-out is now a dangerous game to play. During the course of this hearing, I was referred to the German practice of granting an injunction in circumstances where a standard essential patent has been held to be infringed, where a patentee has made a FRAND offer and the defendant has not. That is different from the FRAND injunction granted by Birss J, where the worst outcome for the defendant is that it has to enter into the licence set by the court. The injunction granted by the German court in those circumstances is an injunction which simply shuts the defendant out from the relevant market.
40. In my view, the German approach is consistent with the decision of the Court of Justice in *Huawei v ZTE* and subsequent statements by the Commission. There is no reason why, in an appropriate case, such relief should not be granted in this jurisdiction as well, where there is a clear case of hold-out where a SEP is found to have been valid and infringed.

Directions for trial

41. I now turn to the question of what directions should be made on which I heard, in particular, from Mr. Alexander Q.C. for Huawei and Mr. Bloch Q.C. for ZTE. It seems to me that before any global FRAND hearing the two technical trials, which concern allegedly standard essential patents which have not yet expired, should be heard. If Conversant is unsuccessful in both of those trials, then it is very unlikely that a FRAND hearing will proceed. If they are successful in one or more of those trials, then it is very likely that a FRAND hearing will proceed.
42. I wish to give sufficient time between those trials for the legal teams to prepare and to take account of the result in the earlier trial. I also wish to give sufficient time after the second trial has been heard for the results of proceedings in China to be factored in.
43. I have concluded that the first technical trial should be fixed for March 2019, the second technical trial for June 2019 and a FRAND hearing should be fixed for November 2019. I will make appropriate directions for those trial, as to which there is very little between the parties. As to the FRAND hearing, I do not accept the parties' estimate of 21 days and I consider that 15 days is more appropriate. After the appeal in the *Unwired Planet* case and after pleadings have been served on the global FRAND issue in the present case, that estimate can be revised and possibly shortened.
44. I will extend time for the second acknowledgment of service in all of these proceedings until after resolution of the appeal on jurisdiction. In accordance with Mr. Bloch QC's submissions, I will give 35 days before defences are required to be served in these proceedings to enable the Defendants to apply to the Court of Appeal in the event that they wish to challenge my decision to refuse a stay. I should add that even if it is decided by the Court of Appeal that I was wrong to make directions for the progress of these trials pending any appeal on jurisdiction, I would still have fixed the trial dates. The fact that the court fixes a trial date cannot, in my view, amount to a submission to the jurisdiction by the Defendants, since the Defendants would not be required to do anything as a result of that order.

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