



Neutral Citation Number: [2018] EWHC 2549 (Ch)

Case No: HP-2017-000048

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

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

Date: 2<sup>nd</sup> October 2018

**Before :**

**MR JUSTICE HENRY CARR**

**Between :**

**CONVERSANT WIRELESS LICENSING S.A.R.L.**  
**(Incorporated under the laws of Luxemburg)**

**Claimant**

**- and -**

- (1) HUA WEI TECHNOLOGIES CO. LTD**
- (2) (a company incorporated under the laws of the People's Republic of China)**
- (3) ZTE CORPORATION**
- (a company incorporated under the laws of the People's Republic of China)**
- (4) ZTE (UK) LIMITED**

**Defendants**

**MR THOMAS RAPHAEL QC, MR MAXWELL KEAY and MR MICHAEL CONWAY**  
**(instructed by EIP legal) for the Claimant**  
**MR MICHAEL BLOCH QC (instructed by Bristows LLP) for the ZTE Defendants**

Hearing dates: 7 and 8 August 2018

**Approved Judgment**

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

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MR JUSTICE HENRY CARR

## Mr Justice Henry Carr:

### Introduction

- 1 This is an application by the Claimant (“Conversant”) for an anti-suit injunction in respect of litigation commenced in China by the Third Defendant (“ZTE China”). The substance of the application was compromised following the hearing but, nonetheless, I am asked to determine the costs, everything else having been agreed.
- 2 The application arises in the context of potential FRAND licences. A comprehensive account of the history and purpose of FRAND and the principles which apply to it is provided in the well-known judgment of Birss J in *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 at [83] – [97]. He explained that standards exist in mobile phones so that different manufacturers can produce equipment which is interoperable. In this way, manufacturers can compete with each other, and the public can be sure that a 4G phone (for example) will work with any 4G network. The public want up to date technological developments, and the standards will therefore incorporate patented inventions. Inventors must be entitled to a fair return for use of their inventions. However, for the standards to permit interoperability, inventors should not be able to prevent others from using patented inventions incorporated into the standards. A balance is achieved by requiring implementers who use such patented inventions to take an appropriate licence and pay a fair royalty. The appropriate licence is one which is fair, reasonable and non-discriminatory (“FRAND”).
- 3 Telecommunication standards worldwide are set by standard-setting organisations (“SSOs”). The relevant SSO in this case, through which the Claimant's FRAND obligations arise, is known as ETSI. ETSI requires that holders of standard essential patents (“SEPs”) give an undertaking to licence on FRAND terms if they wish to participate in standard setting.
- 4 Conversant is a Luxembourg company which owns a global portfolio of patents which, it claims, includes SEPs in over 40 countries. Conversant maintains that the Third and Fourth Defendants (“the ZTE Defendants”) are and have for several years been infringing its SEPs in many different jurisdictions.
- 5 Conversant has been in discussions, over several years, with ZTE China, which manufactures and sells mobile telephone devices worldwide. Conversant claims to have made a number of offers for a global licence to ZTE China that are FRAND. ZTE China denies that any of these offers were FRAND. Conversant alleges that no meaningful progress has been made with the ZTE Defendants, who continue to infringe, without taking a licence.
- 6 The ZTE Defendants dispute that Conversant has any valid SEP. They maintain that Conversant's patents are not essential or that they are invalid. Alternatively, as is almost invariably the case in actions of this nature, the ZTE Defendants’ position is that if they are wrong, and they are infringing one or more valid SEPs, then they will seek to rely upon Conversant's obligation to grant FRAND licences.
- 7 On 24 July 2017, Conversant commenced these proceedings, claiming that the ZTE Defendants were infringing the UK designations of four of its European patents. It

seeks, by way of relief, a determination of FRAND terms for its global SEP portfolio. Such a global licence was held to be FRAND by Birss J in *Unwired Planet*, following technical trials which determined that certain UK patents had been infringed. His decision is the subject of a 6-day appeal, which was heard in May 2018, and in respect of which judgment is pending.

### **The Jurisdiction Judgment**

- 8 The ZTE Defendants, in common with the First and Second Defendants, challenged the jurisdiction of the English Court on the ground that the claims made by Conversant were not justiciable because they were in substance claims for infringement of foreign patents, the validity of which was in dispute, or that the court should decline jurisdiction on the basis of *forum non-conveniens* because England was not the proper or appropriate forum. China was said to be the appropriate forum. By a judgment dated 16 April 2018: [2018] EWHC 808 (“the Jurisdiction Judgment”) this court rejected the Defendants' applications and held that England was clearly and distinctly the most appropriate forum in which to bring these claims. I granted permission to appeal, and the appeal from the Jurisdiction Judgment is pending (“the Jurisdiction Appeal”).
- 9 At paragraph 18 of the Jurisdiction Judgment I referred to proceedings brought by the First and Third Defendants in China. I stated that:

“There is nothing to prevent Huawei China and ZTE China from continuing in China with challenges to validity in respect of the Chinese patents. If all the Chinese patents are invalid or not infringed, then any FRAND licence will need to provide that no royalties should be payable in respect of them, either for the past or the future. If the Defendants are successful in respect of all such patents, then, on the figures provided to me, a large proportion of the royalties which would otherwise be payable will fall away. Furthermore, if the Chinese courts determine a FRAND royalty rate for the Chinese patents which are valid and infringed, the English court may well decide to include this rate for China in any global FRAND licence that it determines.”

### **The Shenzhen Proceedings**

- 10 ZTE China have brought proceedings in the Shenzhen Intermediate People's Court (the “Shenzhen Proceedings”) that ask the Shenzhen court to determine the FRAND royalty rate for the Chinese SEPs in Conversant's portfolio. Although Conversant has been aware of the Shenzhen Proceedings since January 2018, the Shenzhen court did not serve them on Conversant until 11 July 2018.
- 11 Conversant alleged that ZTE's pleading in the Shenzhen Proceedings included objectionable aspects (“the Targeted Claims”) which directly attacked, and sought relief in respect of, the proceedings before the English court and Conversant's conduct in pursuing them; and sought to block and frustrate the English Proceedings. It contended that the Targeted Claims were vexatious, oppressive and unconscionable and were calculated to interfere with, and risked interfering with, this court's jurisdiction, processes, and judgments. It argued that it was in the interests of justice for this court to grant an anti-suit injunction restraining ZTE from pursuing the

Targeted Claims or similar claims, and requiring ZTE either to discontinue the Shenzhen Proceedings or alternatively to amend them to remove the Targeted Claims.

- 12 The most significant aspects of the Targeted Claims in the Shenzhen Proceedings were as follows. ZTE China:
- i) sought a declaration that licence offers made by Conversant violated the FRAND principle (Prayer for Relief, §1);
  - ii) sought an injunction restraining Conversant from “*unfair, unreasonable, discriminatory overpricing and other acts which are in violation of the FRAND principle*” (Prayer for Relief, §2). This included bringing the English proceedings; Conversant’s conduct in licensing negotiations; and, it would appear, reliance on any licence settled by this Court;
  - iii) alleged that by bringing the English Proceedings and requesting the English court to make a global FRAND determination, Conversant had undermined ZTE’s right to obtain a verdict from the Chinese courts, affected international comity and challenged the judicial sovereignty of the Chinese courts (Section V, heading and third paragraph);
  - iv) alleged that by bringing the English Proceedings and requesting the English court to make a global FRAND determination, Conversant had violated its FRAND obligations (Section V, heading and final paragraph; and last paragraph of Section II).
  - v) sought a finding of “liability” in respect of Conversant’s acts, including the acts of bringing the English Proceedings and requesting the English court to make a global FRAND determination; Conversant’s conduct in licensing negotiations; and, it would appear, reliance on any licence settled by the English court (Section VII).
- 13 Conversant contended that these claims went beyond anything required for a FRAND rate to be set in China, and created a risk of findings which could be used by ZTE China to reverse the result, or interfere with the efficacy, of the English proceedings, or to interfere with any licence resulting from the English proceedings.

### **Conversant’s application**

- 14 Conversant waited until determination at first instance of ZTE’s jurisdiction application before challenging the Targeted Claims. In my view, this was sensible since the Shenzhen Proceedings were not served until July 2018. Once they were served, and the Chinese court set a tight timetable, this application was brought.
- 15 In correspondence, ZTE China’s stance was that any amendments required to the Shenzhen Complaint could be dealt with after the Jurisdiction Appeal had been determined. It did not accept that any of the Targeted Claims were wrongful, but offered an assurance, which did not appear to be legally binding, that it would not seek an injunction in China to restrain the English proceedings. In its evidence in answer to this application, served on 1 August 2018, ZTE China offered the same limited assurance and continued to contend that the Targeted Claims were legitimate. It also alleged that Conversant had delayed unjustifiably and pointed to delays in the Chinese proceedings if it was required to amend and re-serve the Shenzhen Complaint.

- 16 In ZTE's skeleton there was a mention of a possible undertaking not to seek an injunction in relation to the English Proceedings. However, there was no undertaking not to seek relief in the Shenzhen Proceedings which might interfere with the conduct of negotiations, or FRAND licences which might result from the English proceedings, nor any undertaking not to claim that findings in the Shenzhen Proceedings meant that issues in the English Proceedings were *res judicata*.
- 17 However, on the second day of the hearing of this application, ZTE China offered a much more extensive package of binding undertakings and agreements to resolve the application. After a brief initial consideration, Conversant made clear that it did not consider that the offer went far enough and further drafting was required. The parties then engaged in further discussion and an Order was made by consent on 17 August 2018.
- 18 The effect of the amendments to the Shenzhen Complaint, which have now been agreed, is that ZTE China has made significant changes which have removed or neutralised the principal aspects of the Targeted Claims which were challenged by this application. In particular, ZTE China has agreed to amend the Complaint by removing prayer 2 and most of prayer 1; to remove all claims for liability which might involve claims as to damages or other financial relief; to remove or heavily amend most of the factual allegations to which Conversant objected; not to bring any further claims akin to those deleted by amendment for liability or any financial relief; and not to rely on any alleged *res judicata* arising out of the Shenzhen Proceedings other than in relation to the FRAND rate and FRAND licence terms for Chinese Patents.
- 19 Conversant has been informed by ZTE China that it has begun the process of amending the Shenzhen Complaint. Conversant has provided the necessary authority to its Chinese lawyers to accept service of the amended Shenzhen Complaint. Conversant contends that the overall result of the Order is that it has succeeded on this application.

## Discussion

- 20 Determination of costs where a claim has been compromised can be difficult because it requires the court to consider what it would have decided had a compromise not been reached. Two cases deal with this. In *Brawley v. Marczynski (No 1)* [2003] 1 WLR 813, the Court of Appeal considered the situation where an action had been compromised but, nonetheless, the court was asked to determine costs. It held that:

“... where litigation had been settled save as to costs there was no convention that there should be no order as to costs ... the court's overriding object was to do justice between the parties without incurring unnecessary court time and additional cost; that where it was obvious which party would have won had the substantive issues been fought to a conclusion it would be appropriate to award costs to that party; that where that was not obvious, the extent to which the court would be prepared to look into the previously unresolved substantive issues in order to determine the issue of costs would depend on the circumstances of the case, including the amount of costs at stake and the conduct of the parties; that in the absence of a good reason to make a specific order the court would make no order as to costs ...”

- 21 The issue was also considered in *BCT Software Solutions Ltd v. C Brewer & Sons Limited* [2004] C.P. Rep. 2 where Mummery LJ held that even where the parties asked the court to determine costs, everything else in the litigation having been agreed, a judge would be entitled to say to the parties, "*If you have not reached an agreement on costs, you have not settled your dispute. The action must go on, unless your compromise covers costs as well*".
- 22 In the present application, the position is somewhat different from in those two cases. I am not concerned with the compromise of a trial where, potentially, witnesses have not been heard and cross-examined. Rather, I am concerned with an interim application, with no cross-examination, where it is somewhat easier to decide what the outcome would have been if the issues had been fought out. Also, I heard full argument from the parties before the application was compromised.
- 23 I intend to apply the principles set out in *Brawley v. Marczynski*. I consider that it is obvious that Conversant would have succeeded on this application, had the parties not reached an agreement. The issues were fought to a conclusion; this is a case where very substantial amounts of costs are at stake; and I have been able to form a view as to the conduct of both parties.
- 24 Specifically, I would have required ZTE China to amend its Complaint in the Shenzhen Proceedings to remove those parts of the Targeted Claims which have now been deleted, failing which I would have granted an anti-suit injunction, in accordance with the principles set out in the judgments of Lord Goff in *Aerospatiale v Lee Kui Jak* [1987] AC 871 at 892 – 897 and *Airbus v Patel* [1999] 1 AC 119 at 133 - 140 as summarised by Toulson LJ in *Deutsche Bank AG v Highland Crusade Offshore Partners LP* [2010] 1 WLR 1023 at [50]. I consider that those aspects of the Targeted Claims which have now been agreed to be deleted or amended were vexatious, in that they sought to obstruct, or could have had the effect of obstructing, pending proceedings before the English court; or of undermining or frustrating the performance of a judgment given by the English court. It was not necessary for ZTE China to advance these Targeted Claims in the Shenzhen Proceedings, since Mr Bloch QC explained that ZTE China wishes to make the amendments that it has now agreed to as it considers that they represent an improvement to the Shenzhen Complaint.
- 25 I conclude that Conversant has in substance succeeded on this application. Nonetheless, ZTE China resists an order for costs. First, Mr Bloch submitted that costs should be reserved pending the determination of the Jurisdiction Appeal. It was suggested that the court cannot determine the extent to which ZTE's conduct was vexatious without regard to whether the court's seizure of jurisdiction was appropriate. It was argued that in granting permission, I recognised that the appeal had a realistic prospect of success and therefore that it might not have been appropriate to exercise jurisdiction.
- 26 I do not accept this submission. The purported service of the Shenzhen Proceedings, including the Targeted Claims, in July 2018, precipitated this application. The Shenzhen court set a tight timetable, with a possible trial date in January 2019. It was apparent that the hearing of the application could not be delayed, and the parties agreed that it was sufficiently urgent to be heard as vacation business. Since the

application was fully argued, and I have been able to reach a conclusion as to its merits, it is appropriate to deal with the costs at this stage.

- 27 Secondly, ZTE China argued that enforcement of the costs order should be stayed pending judgment on the Jurisdiction Appeal and provision should be made for reconsideration should the appeal be successful (in whole or in part). There is some force in this point. I express no view at this stage upon whether the result of the appeal would cause me to vary the costs order, but I can see that each side might have further arguments to advance. If Conversant is willing to undertake to repay the costs awarded to it in the event that the court considers that it is appropriate to do so, following the result of the Jurisdiction Appeal, then there is no need for a stay of enforcement, and I shall give the parties permission to apply following judgment on the appeal. If the undertaking is not offered, then I shall stay enforcement of the costs order pending judgment on the appeal.
- 28 Thirdly, whilst Mr Bloch acknowledged that it can reasonably be said that the agreed Order is a substantial part of what Conversant sought, he argued the Order could not have been agreed without substantial concessions made by Conversant, and a substantial discount is therefore appropriate. This, it is said, should either result in no order as to costs or a deduction of 65% of Conversant's costs. In particular, Mr Bloch relied on the fact that Conversant agreed in the Order to accept service of the amended Complaint in the Shenzhen Proceedings; and to offer an undertaking to deal with the potential impact of proceedings which it has commenced in Germany on the English Proceedings.
- 29 I do not accept this submission. The issue of possible delay as a result of re-service of the amended Shenzhen Complaint was first raised shortly before the hearing of the application on 1 August 2018 and was quickly resolved by Conversant's evidence in response (Moss 8). After Conversant agreed to accept service of the amended Shenzhen Complaint, ZTE China did not make an adequate offer and continued to contest the application. Similarly, Conversant's undertaking concerning the German proceedings was offered two days before the hearing, but nonetheless ZTE China continued to contest the application.
- 30 Fourthly, ZTE China points out that the application was dismissed as against ZTE UK, which was not a party to the Chinese Proceedings, and did not participate in those proceedings. I agree that this merits some discount, but as Mr Bloch fairly acknowledged, the extent to which the overall costs were increased by the joinder in the application of ZTE UK is likely to have been modest. No evidence was directed to the position of ZTE UK, and the argument concerning it was brief. I shall deduct 5% from Conversant's costs.

## **Quantum**

- 31 As to quantum, Conversant seeks £284,000 which it contends is proportionate given the complexity and significance of the issues. It points out that the figure as sought in Conversant's original schedule was £207,000, which was similar to that in ZTE's costs schedule (£190,000) and since then substantial work has been required to agree and draft an appropriate order following ZTE's offer on the final morning of the hearing.



- 32 As against this, ZTE points out that it had not (at least at the time of service of its submission on costs) been served with Conversant's revised schedule. Furthermore, five counsel have been included in Conversant's costs schedule, which appears excessive.
- 33 I accept Conversant's submission that this application raised complex issues which were very significant, in the context of a dispute of great commercial importance. In the light of ZTE's submissions, I shall not make a summary assessment of the costs. However, I shall order a payment on account by ZTE China of 65% of 95% of Conversant's costs, to be paid within 28 days, which, by my calculation, amounts to £175,370.