



Neutral Citation Number: [2019] EWHC 3538 (Pat)

Claim No. HP-2019-00006

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

The Rolls Building  
7 Rolls Buildings  
Fetter Lane  
London, EC4A 1NL

Date: Tuesday, 17th December 2019

Before:

**MR. JUSTICE NUGEE**

Between:

(1) OPTIS CELLULAR TECHNOLOGY LLC  
(A company incorporated under the laws of the State of Delaware)  
(2) OPTIS WIRELESS TECHNOLOGY LLC  
(A company incorporated under the laws of the State of Delaware)  
(3) UNWIRED PLANET INTERNATIONAL LIMITED  
(A company incorporated under the laws of the Republic of Ireland  
- and -

**Claimants**

(1) APPLE RETAIL UK LIMITED  
(2) APPLE DISTRIBUTION INTERNATIONAL  
(A company incorporated under the laws of the Republic of Ireland)  
(3) APPLE INC  
(A company incorporates under the laws of the State of California)

**Defendants**

MR. ADRIAN SPECK QC and MR. THOMAS JONES (instructed by EIP Legal and Osborne Clarke) appeared for the Claimants.

MR. MICHAEL BLOCH QC and MS. RACHEL JONES (instructed by Wilmer Cutler Pickering Hale & Dorr LLP) appeared for the Defendants

**Approved Judgment**

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**MR. JUSTICE NUGEE :**

1. I have before me three applications by the defendants, who are all companies in the well-known Apple group, to stay or set aside these proceedings. The grounds on which they do so are not all identical, but I will explain them in due course. The proceedings are another example of a claim by a proprietor of a portfolio of standard essential patents (“SEPs”) to seek to enforce its rights. The vehicle by which that is done, as is well-known, is an action for infringement of UK patents; and in this case the Particulars of Claim plead seven UK patents which are referred to as the Asserted Patents. Among the matters pleaded in the Particulars of Claim is a recognition that the claimants (who I will refer to collectively as Optis) have given undertakings to the standard setting organisation in Paris, ETSI, under which they were obliged to offer a licence on fair, reasonable and non-discriminatory or FRAND terms. In the Particulars of Claim, the claimants allege that they have at all times been willing to offer the defendants a licence to the Asserted Patents that is held by this court to be FRAND.
2. In the prayer for relief, although certain offers have been made and the claimants claim a declaration that the offers that have been made were made in the course of the claimant's FRAND obligations, there is an alternative relief sought which is a determination of the FRAND terms for the licensing of the Asserted Patents to the defendants and a declaration that such terms are FRAND; and then an injunction which is expressed, not to have effect, or to cease to have effect, if the defendants enter into a licence on FRAND terms.
3. The structure of the litigation is a familiar one to anyone who has had the pleasure of reading the judgments in two previous cases: one, the *Unwired Planet* case (*Unwired Planet International Ltd v Huawei Technologies Co Ltd*), with a very detailed judgment by Birss J at [2017] EWHC 2988 (Pat), and a lengthy decision of the Court of Appeal given by Lord Kitchin at [2018] EWCA 2344; and the other the *Conversant* case (*Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd*) in the decision of Henry Carr J at [2018] EWHC 808 (Pat) and in the Court of Appeal in the judgment given by Floyd LJ at [2019] EWCA Civ 38. It is not necessary for me to yet again explain the background to standard essential patents, to FRAND licences and the standard setting organisations, and the effect of the undertaking given to ETSI, because as I say it is all set out in those judgments.
4. In this case, the defendants are, as I have said, three companies in the Apple group. The first defendant is a UK company, Apple Retail UK Limited, which operates retail stores in the UK. The second defendant, Apple Distribution International, is an Irish company and it is said to be -- and I did not understand this to be disputed -- the company in the Apple group which sells to UK customers products which are bought through a website. The third defendant is a Californian company, Apple Inc.; again it is alleged in the claim -- and I did not understand this to be disputed -- that Apple Inc. is responsible for the website. All three defendants are therefore said to infringe the UK patents.
5. The aim of the proceedings, I think one can reasonably infer, is an attempt to require the Apple companies to take a FRAND licence from Optis on terms which will be decided by the court, unless agreed.

6. The applications, one by each of the defendants, were brought on a number of grounds. Before me Mr. Michael Bloch QC, who appeared for the defendants, accepted that in the light of the Court of Appeal's decision in the two cases I have referred to, *Unwired Planet* and *Conversant*, many of those grounds cannot in fact succeed before me, although he wishes to reserve the right to pursue those grounds by taking an appeal to the Court of Appeal if and when the Supreme Court, which has heard argument on appeal from the Court of Appeal, hands down its judgment in those cases, which is something which is expected at some stage in the New Year. I will come back to that part of the application at the end.
7. The points which were taken that were live are really only two-fold. They both turn on the suggestion that the conduct of the claimants has been an abuse of a dominant position, contrary to Article 102 of the Treaty on the Functioning of the European Union ("TFEU"). In relation to Apple Inc., on which almost all the argument was concentrated, that is put forward as a ground for setting aside the permission to serve Apple Inc. out of the jurisdiction which was granted at an earlier stage in these proceedings. That was done by Deputy Master Kaye on 7th March 2019, in which he permitted the claimants to serve the proceedings on Apple Inc. out of the jurisdiction at an address in California.
8. The application to set that aside is brought pursuant to CPR Part 11, which, as is well-known, provides an opportunity for a foreign defendant served out of the jurisdiction to apply to set aside the service out on a number of grounds. In the present case, the way in which it has been put by Mr. Bloch -- something which Mr. Adrian Speck QC, who appears for the claimants, says was not flagged up in the application notices but he takes no point on not being ready to answer it -- was that in order to obtain permission to serve out of the jurisdiction, it is necessary for a claimant to persuade the court that there is a serious issue to be tried on the merits. Many authorities establish that in England that the test of a serious issue to be tried on the merits requires the claimant to show a reasonable prospect of success, a test which is of the same standard as that applicable in applications under Part 24. Mr. Bloch says that given the way in which the claimants have approached the potential licensing of its portfolio to Apple, there is no reasonable prospect of the claimants defeating the defence which Apple Inc. has under Article 102 TFEU. Mr. Bloch recognises that is a high hurdle, but he says in this case it can be clearly demonstrated to be met.
9. The grounds, and the only grounds that have been put before me, on which the other two defendants, Apple Retail UK Limited and Apple Distribution International, seek to set aside the proceedings or stay them in this application are also based on the defence under Article 102 TFEU. In their case, as well as the point that there has been an abuse for the same reasons that Apple Inc. relies on, Mr Bloch also relies on the point that no notice was given to them before proceedings were commenced. That raises a short point which I will deal with later.
10. The foundation of Mr. Bloch's argument is the judgment of the Court of Justice of the European Union ("CJEU") in *Huawei Technologies Co Ltd v ZTE Corp* (Case C170/13), which is reported at [2016] RPC 4 ("*Huawei v ZTE*"). In that case the CJEU set out in particular at [60] to [63] and at [71] certain requirements which the proprietor of an SEP had to comply with in order to ensure that it was not abusing its dominant position. There are, in effect, two requirements and they are summarised in [71] of the CJEU's judgment as follows:

"...Article 102 TFEU must be interpreted as meaning that the proprietor of an SEP, which has given an irrevocable undertaking to a standardisation body to grant a licence to third parties on FRAND terms, does not abuse its dominant position, within the meaning of Article 102 TFEU, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:

- prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated ..."

11. That judgment was considered both by Birss J in *Unwired Planet*, and by the Court of Appeal in the judgment of Lord Kitchin in *Unwired Planet*. I can take the conclusions from the Court of Appeal judgment where they considered the question whether the CJEU was laying down specific mandatory conditions. That can be seen in [268] and [269] of Lord Kitchin's judgment. At [269] he said the following:

"We have come to the firm conclusion that the CJEU was not laying down mandatory conditions at [70] of its judgment such that non-compliance will render the proceedings a breach of Article 102 TFEU and that the judge's interpretation of the CJEU's judgment is in this respect entirely correct."

12. They then gave a number of reasons. Birss J's conclusion can be seen in the preceding paragraph at [268], which was that the only mandatory condition is that contained in the CJEU's judgment at [60] and that the conditions set out in the judgment at [70] will, if satisfied, provide a safe harbour for the SEP owner by ensuring that the commencement of proceedings does not in and of itself amount to an abuse.
13. The condition in [60] of the CJEU's judgment was the one about giving notice, expressed in these terms:

"Accordingly, the proprietor of an SEP which considers that that SEP is the subject of an infringement cannot, without infringing Article 102 TFEU, bring an action for a prohibitory injunction or for the recall of products against the alleged infringer without notice or prior consultation with the infringer, even if the SEP has already been used by the alleged infringer."

I have assumed that the reference in [268] and [269] of Lord Kitchin's judgment in *Unwired Planet* in the Court of Appeal to [70] of the CJEU's judgment are to the paragraph that appears in the report I have as [71], which I read earlier.

14. I take it then to be established law, binding on me at this level, that of the conditions referred to in the CJEU's judgment in *Huawei v ZTE*, that in [60] of giving notice to, or prior consultation with, the alleged infringer is a mandatory condition, but that the other one of expressing willingness to conclude a licensing agreement on FRAND terms and presenting a specific written offer for a licence on such terms is not a mandatory condition, but is what in the words of the Commission (as cited by Lord Kitchin at [267]) were "behavioural criteria" to assess when a potential licensee can be considered to be willing to enter into a licence.
15. What therefore the CJEU has done is to provide a safe harbour for proprietors of SEP portfolios, but even if they do not manage to get into the harbour because they have not complied with the conditions laid down by the CJEU, that does not mean that they are then automatically to be condemned as abusing a dominant position. As it was put in argument, if you do not manage to get into the harbour, that leaves you in the open sea. That does not mean you are going to sink because it still may be possible, depending on all the facts, for you to come safely to land, and that depends on the particular weather you encounter out in the open sea. In other words the question of abuse or no is one that will turn on the facts.
16. Mr. Speck said that the facts that are relevant in those circumstances include the way in which patent litigation of this type is conducted in the UK, and he told me that patent litigation in certain other countries is conducted in a different way. That characterisation of the exercise that the court is engaged on, when considering the question of abuse of dominant position, was not as I understood it disputed by Mr. Bloch.
17. What then are the grounds on which Mr. Bloch says that it can be decided at this stage that there has been such conduct by the claimants to amount to an abuse of a dominant position, such that there is no real prospect of defeating that defence? What he relies on are the terms of the licence which were offered by the claimants on 26 February of this year, which was the day on which these proceedings were issued, and which are annexed to the Particulars of Claim and are therefore an open document.
18. That, as is common ground, consists of the licence that was settled by Birss J in the *Unwired Planet* case, together with some variations. The notable variations, apart from changing the names of the parties, are firstly a change in the royalty rate to take account of the fact that the claimants in this case assert that they have a very much larger portfolio than the portfolio in issue in *Unwired Planet*. Indeed, as I understand it, some of their portfolio does consist of the portfolio that was in issue in *Unwired Planet*, and they have since acquired it. The effect of that is that for end user devices compliant with 4G, the royalty rates, which in the licence settled by Birss J were 0.052% of the Net Selling Price for each end user device that was sold in Major Markets and 0.026% for each sold in Other Markets or in China, are substituted in this offer by 0.41% for Major Markets and 0.161% for Other Markets or China. Those, given the scale of Apple sales globally -- and this of course is a global licence -- amount to very significant sums. The estimate that was put on it in the evidence was that it might amount to some \$4 billion going forwards for the next five years from

the date of grant, plus another \$4 billion for back royalties back to the date of the licence being effective, which, as in *Unwired Planet*, was 1 January 2013. Apart from the change in the royalty rate, there is secondly one extra term, which does not appear to have been considered by Birss J, which is a term requiring interest at the rate of 5% per annum to be paid on the back royalties.

19. The terms are otherwise those that were settled by Birss J. Mr. Bloch says, however, with all respect to him, and in circumstances in which there may or may not have been detailed engagement with the terms by the implementer in that case (Huawei), that they can be seen to be obviously and incontrovertibly unfair.
20. The particular points which he identified under this head include the following: there is a definition of "Licensed Patents", which includes all patents claimed, declared or otherwise asserted by the owner to be (effectively) essential. There is a definition of "Patents", which includes claims of licensable patent applications. He says that the effect of that is that the claimants only have to acquire patent applications and assert them to be essential for Apple to be in a position where it cannot, in practice, avoid paying the back royalties in respect of them and that given the way in which the definition of Major Markets and Other Markets is defined -- and Major Markets for 4G means a market in which there are three or more Licensed Patents -- it would be possible by acquiring 1, 2 or 3 Licensed Patents in a country to move it from being an Other Market into a Major Market.
21. Mr. Bloch points out that it is not possible for Apple to challenge applications which have not yet matured into granted patents; and there appears to be no mechanism in the licence for Apple, even if successful in invalidating, or showing not to be essential, patents that have been brought into this licence, to recover the back payments for the previous six years (plus interest) which will by then have been paid.
22. Mr. Bloch also points out that according to the jurisprudence of the CJEU, the offer should be a reasonable offer at the time it is made. At the time it was made, on 26 February 2019, it was not possible for Apple to have challenged and taken proceedings for invalidity in relation to any particular patents, by reason of some terms of the arrangements entered into between the claimants and Apple, the details of which are confidential and which I need not go into, but which had the practical effect during the negotiating period that Apple was not in a position to challenge the validity of any patents.
23. Those features, he says, as well as the feature under this form of licence that Apple has to pay even for countries in which there are no patents at all, are all features which make this unreasonable, as is the definition of "Licensee" which is defined as referring to all three of the defendants. The effect of that is that because the royalties have to be paid by the Licensee, it thereby makes all three defendants jointly liable. The total sums estimated to be payable under a licence in this form, being as I say some \$8 billion, are, says Mr Bloch, in excess of anything that the first two defendants could reasonably be expected to undertake liability for.
24. Those are the main points. They may not be all of the points, but certainly the main points which have been urged by Mr. Bloch as being the grounds on which it can be seen, at this stage, that the licence offered by the claimants could not conceivably be regarded as on FRAND terms. He went so far as to say that it could not have been

sincerely put forward as a FRAND licence, a suggestion which is difficult to reconcile with the fact that a licence in very similar terms has, albeit between different parties and on different evidence, been held to be FRAND by Birss J. As I understand it, there was no appeal against that aspect of his decision.

25. I can see that all the points which Mr. Bloch has urged are points on which it is entirely possible that a court hearing a FRAND trial in this action may agree with Mr. Bloch. On some of them Mr. Bloch may be said to have the better of the argument and, in those circumstances, it may very well be right that the offer put forward was not a FRAND offer.
26. Nevertheless, I am persuaded by Mr. Speck that this is not an argument which can lead the court to conclude at this stage that there is no reasonable prospect of the claimants avoiding a finding that they have abused a dominant position.
27. Mr. Speck took the point that, in fact, it does not necessarily follow from the fact that the claimants are the owners of a portfolio of standard essential patents that they have a dominant position. He accepted on the authorities that the relevant market is the market in the licences for those patents, and since Optis are the only people who own those patents and the only people who can license them, they have 100% of that market; nevertheless, he said, that does not necessarily mean the claimants are in a dominant position. He pointed to the decision of Birss J, again upheld by the Court of Appeal, in *Unwired Planet*, where the decision was not open and shut, but regarded as turning on the facts. Birss J came to his conclusion really on the basis that Unwired Planet had not put forward a positive case that they were not in a dominant position, at which point a number of presumptions could be relied upon. It is also apparent from his judgment that he heard a considerable amount of expert evidence on the question. Mr. Speck may be right that there will be a real question in this case as to whether there is or is not a case of the claimants being in a dominant position, although it has to be said that I was not pointed to anything specific in the evidence which indicates the grounds on which the claimants will dispute the dominance of their position.
28. But even assuming, without in any way deciding, that the claimants are likely to be found to be in a dominant position, I accept Mr. Speck's submission that in order for there to be an abuse, there has to be something which depends on an assessment of all the facts. Among the other facts, which seem to me very relevant to that assessment, is the question of how the English court, in contrast, it may be, to other courts in other countries, deals with a proprietor of SEPs who has given an undertaking to ETSI.
29. As reflected in the pleadings which I referred to earlier, it seems to me that Mr. Speck is right. The practice in the cases which have so far taken place is that the English court will, first of all, require the proprietor to establish that there has been infringement of a UK patent, and only at that stage will consider the question of whether the terms that have been put forward on either side are FRAND or not. Until it has resolved the question of whether they are FRAND or not, the English court's practice is not to grant an injunction, with the result that the implementer can continue to sell its technology in the UK, despite the finding of infringement which, by then, will have taken place. It is only at the stage at which the court has settled the FRAND terms, or they have been agreed, that the question arises whether the implementer will take a licence on those terms or not, it being recognised that there is no legal

obligation on the implementer, however much there may be in practice a commercial one, to take a licence on the terms settled by the court.

30. One can see this playing out in the judgment of Birss J in *Unwired Planet* where, in discussing the question, under the heading of "Remedies", whether an injunction should be granted at [793], he said this:

"The relevant patents have been found valid and infringed. Unwired Planet wish to enter into a worldwide licence. Huawei is willing to enter into a UK portfolio licence but refuses to enter into a worldwide licence. However a worldwide licence is FRAND and Unwired Planet are entitled to insist on it. In this case a UK only licence would not be FRAND. An injunction ought to be granted because Huawei stand before the court without a licence but have the means to become licensed open to them."

31. That, as I understand it, represents the practice in these cases. At any rate, it has not been suggested to me that there is any other practice. It has not been suggested to me that there are circumstances in which this court will grant an injunction before it has resolved the question what terms of a licence are FRAND and before the implementer has had an opportunity to take a licence on those terms or not.
32. As I read the CJEU decision, the concern which the CJEU was addressing in *Huawei v ZTE* was the concern whether actions for injunctions could be brought which could effectively amount to an abuse of a dominant position. In circumstances where the outcome of any trial, if the claimant is entirely successful, will be that the defendant will be offered an opportunity to take a licence on terms that, by definition, the court has found to be fair and reasonable and non-discriminatory, and where the court will only be willing to grant an injunction in circumstances where the defendant, having been given such an opportunity, has chosen not to take such a licence, I find it difficult to say at this stage that that outcome is necessarily something which makes the launching of these proceedings, even if accompanied by an offer which was not fair and reasonable, an abuse of process such as to give the defendants the ability not only to argue that other terms should be held to be FRAND, but to say that the action as a whole was an abuse and should be struck out, or that there was a defence to the claim for an injunction. As Mr. Speck pointed out, the injunction sought in the prayer for relief is not a straightforward injunction but is a qualified injunction, and the claimants themselves have expressed their willingness to grant a licence on FRAND terms, in compliance with the undertaking that they gave to ETSI.
33. It may be that Mr. Bloch is right and that the terms offered were not fair and reasonable. It may be that Mr. Bloch is right also that offering terms that were so unfair and unreasonable amounts to an abuse of a dominant position such as to give a defence to the claim for an injunction, even if the court were otherwise willing to settle FRAND terms. But I do not think that I can conclude on this application, at this stage of the proceedings, that that is the only reasonable outcome of the way in which the proceedings have been brought. I do not think, therefore, that I can conclude that there is no serious issue to be tried on the merits such as to justify, on that ground, setting aside the permission to serve out that was granted by Deputy Master Kaye. I

therefore propose to dismiss the application of the third defendant, Apple Inc., to set aside the permission to serve out on those grounds.

34. That leaves the separate point taken in relation to the first two defendants, being the point, which *is* a mandatory requirement, that notice or prior consultation with the alleged infringer is required before an action is brought. Here, Mr. Bloch takes a stand on the facts (which do not appear to be disputed in themselves) that what the claimants did was negotiate with Apple Inc. on behalf of, it is said, all the Apple entities, whereas he says that the requirement to give notice or prior consultation, found in [60] of the CJEU's judgment in *Huawei v ZTE*, requires notice to be given separately to each legal entity that is proposed to be sued.
35. Again, he may be right about that, but I do not I think can conclude on this application that he is so clearly right about that that the suggestion that the first two defendants have an unanswerable defence to the claims is one which can be said to be established at this stage. It does seem to me that there is a reasonable prospect, at the very lowest, of the claimants persuading the court at trial that it was sufficient for them to comply with the requirements laid down by the CJEU to have spent, on the evidence, some two years negotiating with Apple Inc. on the understanding, on both sides, that the negotiations with Apple Inc. were not simply for a licence to be taken by Apple Inc. for itself, but were for a licence to be taken by Apple Inc. for all the Apple companies involved in relevant sales, whether physical sales in retail shops by the UK company, or sales through the website by the Irish company. As I say, that seems to me to be something which I need not decide at this stage, but there is, at the lowest, a reasonable prospect that the claimants are right about that.
36. Those are the only points which have been argued before me. As I alluded to earlier, a number of other points were advanced in support of the applications, but Mr. Bloch has not argued them. He recognised that it is not possible for any of them to succeed at this level on the current state of the law. What I propose to do, in the circumstances, is simply to dismiss the applications of all three defendants. Although I canvassed with counsel the idea of dismissing particular grounds, it seems to me that that is unnecessary. What the court does is either accede to an application or not. Since I have held that all the grounds failed, some, that have been argued, because I am not persuaded by them, some because they have not been argued, I will simply dismiss all three applications.
37. Mr. Bloch has asked for the time for seeking permission to appeal that decision to be extended until 21 days after the Supreme Court hands down judgment in the cases which are awaiting judgment before it. Subject to anything further that Mr. Speck wants to say, it seems to me that it is simplest and convenient to accede to that application.
38. I will say, because it was a point raised by Mr. Speck, that I have before me no application for a stay of these proceedings generally pending the Supreme Court decision so I give no encouragement to the notion that extending the time for applying for permission to appeal has any implication for the future conduct of the action which, on the law as it currently stands, will, in my judgment, proceed in the normal way.

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