

Case No: HP 2014 000005

Neutral Citation Number: [2015] EWHC 2097 (Pat)

**IN THE HIGH COURT OF JUSTICE**  
**CHANCERY DIVISION**  
**PATENTS COURT**

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

Date: 21/07/2015

**Before:**  
**MR JUSTICE BIRSS**

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**Between:**  
**UNWIRED PLANET INTERNATIONAL LIMITED** **Claimant**  
**- and -**  
**(1) HUAWEI TECHNOLOGIES CO. LIMITED**  
**(2) HUAWEI TECHNOLOGIES (UK) CO. LIMITED**  
**(3) SAMSUNG ELECTRONICS CO. LIMITED**  
**(4) SAMSUNG ELECTRONICS (UK) LIMITED**  
**(5) GOOGLE INC.**  
**(6) GOOGLE IRELAND LIMITED**  
**(7) GOOGLE COMMERCE LIMITED** **Defendants**  
  
**and**  
**UNWIRED PLANET INC.** **Ninth Party**  
  
**UNWIRED PLANET LLC** **Tenth Party**  
  
**TELEFONAKTIEBOLAGET L M ERICSSON** **Eleventh Party**  
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**Jemima Stratford QC and Sarah Ford** for the **Claimant** and the **Ninth and Tenth Parties**  
(instructed by **Enyo Law**)

**James Segan** (instructed by **Powell Gilbert**) for the **First and Second Defendants**  
**Jon Turner QC, James Bourke and James Walmsley** (instructed by **Bristows**) for the **Third**  
**and Fourth Defendants**

**Mark Brealey QC and Daniel Piccinin** (instructed by **Freshfields Bruckhaus Deringer**) for the  
**Eleventh Party**

Hearing date: 14th July 2015  
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**Judgment**

**Mr Justice Birss:**

1. This is an application by Ericsson, the Eleventh Party, to strike out allegations of breaches of Article 101 TFEU which are made against it by the defendants in this action or for summary judgment in its favour on the points. In addition Ericsson applies to stay a counterclaim brought by one of the defendants, Samsung, under s9 of the Arbitration Act 1996.
2. The claimant is Unwired Planet International Ltd. I will refer to the claimant and the Ninth and Tenth parties together as Unwired Planet unless it is necessary to distinguish between them. Unwired Planet's business is licensing. It holds a portfolio of patents related to telecommunications. Many of the patents in Unwired Planet's portfolio are declared essential to various telecommunications standards including 2G standards (such as GSM/GPRS), 3G standards (such as UMTS) and 4G standards (such as LTE). The patents which have been declared as essential to a standard can be called SEPs. Most of the patents were acquired from Ericsson pursuant to an agreement called the Master Sale Agreement (MSA) dated 10<sup>th</sup> January 2013. The MSA transferred patents to Unwired Planet and includes terms in which Ericsson shares in the revenue earned by Unwired Planet from licensing the patents.
3. The defendants are companies forming part of major telecommunications equipment businesses: Huawei and Samsung. Both groups sell mobile devices and infrastructure equipment such as base stations. When the action began Google was also a defendant but recently the proceedings between Google and Unwired Planet have settled.
4. On 10<sup>th</sup> March 2014 Unwired Planet brought proceedings for patent infringement in this jurisdiction. It contends that the products sold by the defendants which are compliant with the standards infringe its SEPs. The proceedings involve five SEPs. They are EP (UK) 1 230 818, EP (UK) 2 229 744, EP (UK) 2 119 287, EP (UK) 2 485 514, and EP (UK) 1 105 991. The 514 patent is a divisional of 287. All five SEPs in this case were acquired from Ericsson. The proceedings include one further patent which is not a SEP: EP (UK) 0 989 712. That patent did not come from Ericsson; the invention was made by Unwired Planet. In addition to the conventional allegations of patent infringement, the Particulars of Claim also assert that Unwired Planet has pursued negotiations to license the patents to the defendants on FRAND terms but thus far has been unsuccessful.
5. The defendants' position as explained in their Defences is that none of the patents are valid or infringed. This includes (where relevant) a denial that any given SEP is in fact essential to the relevant standard. The defendants have all stated expressly that they are willing licensees. They are prepared to take a licence under any Unwired Planet patent which has been found to be valid and infringed.
6. The defendants also make allegations about competition law and FRAND. The detailed positions of the defendants vary but at this stage the matter can be summarised broadly. Ericsson participated in the standard setting process in Europe involving ETSI. Ericsson therefore declared its SEPs to ETSI as essential under the ETSI IPR policy and gave a FRAND undertaking. The breaches of Art. 101 TFEU which fall to be considered on this application relate to the MSA whereby Ericsson transferred the patents to Unwired Planet. I will return to them below. On the basis of the breaches of Art 101, the transfer of the patents is said to be void and so Unwired Planet has no title to sue. Samsung has a patent licence from Ericsson which was entered into in 2014. Samsung contends that since the patents which came from Ericsson in fact still belong to Ericsson, they are covered by the 2014 licence. The proceedings include a counterclaim by Samsung for an indemnity under the 2014 licence to cover any sums due to Unwired Planet. Samsung also alleges that the patents are still under Ericsson's control even if not owned by it (the "control defence"). By that alternative route Samsung contends the patents are licensed

under the 2014 licence, alternatively that Ericsson has a duty to procure a licence, even if they are owned by Unwired Planet.

7. There are also allegations of breaches of Art 102 TFEU (abuse of a dominant position). Here it is alleged that the terms offered by Unwired Planet are not FRAND. Another allegation is that in seeking an injunction in these proceedings Unwired Planet has acted contrary to Art 102 TFEU.
8. Since the competition law arguments involve more parties than the claimant company, Ericsson and two other Unwired Planet companies have been joined to the proceedings. Ericsson and Unwired Planet deny any breaches of competition law and any breach of a FRAND obligation. Unwired Planet denies its offers are not FRAND.
9. This is a complex and multi faceted dispute and I was docketed to deal with it. The first CMC was in July 2014 and there have been a number of further hearings. The case has been divided into five technical trials in sequence a few months apart and a single non-technical trial. Technical trial A starts on 5<sup>th</sup> October 2015 and deals with 744. The last technical trial, trial E, starts on 27<sup>th</sup> June 2016. The non-technical trial will deal with competition law and FRAND. It is due to start in October 2016. It is scheduled for 13 weeks.
10. With that introduction I can turn to the applications.

#### *Ericsson's application to strike out / for summary judgment*

11. In its Re-Re-Amended Defence and Counterclaim (RRADCC) Samsung contends that Ericsson has breached Art 101 TFEU in three ways. First, that in transferring patents to Unwired Planet, there was a failure to ensure the complete, proper and effective transfer of an enforceable FRAND obligation. Second, that by dividing Ericsson's patent portfolio into two parts (Ericsson retains patents itself and transferred some to Unwired Planet) in the way that it did a breach of competition law has taken place in that unfair higher royalties will be earned and competition will be restricted or distorted. Third, that certain terms in the MSA are stand alone infringements of Art 101. Samsung also argues that these three breaches interact with each other and exacerbate the distortions of competition which arise. Huawei advances the third breach but not the first or second.
12. Ericsson submits that each of these three allegations has no realistic prospect of success. Unwired Planet supports Ericsson. Samsung contends each is properly arguable and should go to trial. Huawei supports Samsung (on the third point). I will take each point in turn, reminding myself that Samsung contends they interact.
13. The law relating to striking out and summary judgment was not in dispute. As on the previous occasion in which I heard an application for striking out and summary judgment in this action, the parties argued this issue on the footing that in this case the test for summary judgment and the test for striking out were the same and could be summarised as the existence or not (as appropriate) of a real prospect of success. Samsung also reminded me of the judgment of Roth J in ***Sel-Imperial v British Standards Institution*** [2010] EWHC 854 (Ch) at paragraphs 16-18. The aspect emphasised by Samsung is the point made by the learned judge, now President of the Competition Appeal Tribunal, that, particularly in competition law claims, where the area of law is developing the court should be cautious to assume that the case law will not develop further than it has already. I also note the point made by Roth J at paragraph 17 that a contention of infringement of competition law is a serious allegation of breach of quasi-public law and that such allegations are notoriously burdensome. I respectfully agree with Roth J.

#### *Commercial background*

14. To put the applications into context, Ericsson explained that it is a major innovator in the mobile telecommunications sector investing about \$5 billion per annum (15% of its net sales) in R&D. It holds a portfolio of over 37,000 patents with roughly 2,000 new patents being granted each year. It sells telecommunications equipment and software in over 180 countries. It does not make mobile handsets. Many of its patents are declared as essential to various telecommunications standards.
15. The MSA dated 10<sup>th</sup> January 2013 transferred 2,185 patents to Unwired Planet. The licence between Samsung and Ericsson on which Samsung relies in this case was entered into afterwards on 1<sup>st</sup> February 2014. Ericsson says that Samsung knew and understood that the patents transferred to Unwired Planet were not included in the licence. I should record that Samsung does not accept that things are that simple but I do not need to resolve that issue on this application.
16. Ericsson describes its motive in transferring part of its portfolio to Unwired Planet as being to enable it fairly to earn more revenue. Its concern is that while the patents remain within Ericsson's very large portfolio, its ability to earn a fair revenue in respect of those inventions is hindered. Once the patents are transferred, Unwired Planet will be able to obtain fairer and therefore greater remuneration for them than Ericsson was able to obtain while still ensuring that any royalties collected in respect of essential patents are FRAND.

*The first breach - transfer of FRAND obligation*

17. Ericsson submits that any fair reading of the contractual documentation shows that Unwired Planet is bound by FRAND. The claimant made a FRAND declaration to ETSI on 6<sup>th</sup> March 2014. Unwired Planet has complied with its FRAND obligation by committing to license the SEPs to Samsung on FRAND terms. Therefore the allegation that there was a failure to transfer the FRAND obligation to Unwired Planet is hopeless.
18. Samsung argues to the contrary. It submits that the terms of the MSA itself do not compel the relevant Unwired Planet entities which are parties to the contract to give a FRAND undertaking. It also argues that even if the contract did compel Unwired Planet to give a FRAND undertaking, that obligation is only enforceable by Ericsson and not by third parties. The contract could have but expressly did not allow third parties to enforce its terms. In the course of argument a particular aspect of Samsung's case was emphasised in addition to these matters. Samsung emphasised that its case here included a point that what had to happen in order to satisfy Art 101 was not merely that Unwired Planet had to be compelled to offer a FRAND undertaking to ETSI, but that Ericsson's own FRAND undertaking had to be transferred to Unwired Planet.
19. I start with the MSA itself. It is governed by the law of the state of Delaware USA but neither party relied on this as a reason why I could not rule on Ericsson's applications either way. The MSA was entered into by Ericsson, a company called Cluster LLC and various Unwired Planet companies including the Ninth and Tenth parties but not the claimant. Cluster is and was a subsidiary of Ericsson which held the patents which were going to be transferred. The assignment of the patents to the claimant required Ericsson's consent and that took place on 27<sup>th</sup> February 2014.
20. Ericsson submits that the MSA expressly provides for Unwired Planet LLC and its affiliates to be subject to FRAND obligations. It puts its case in various ways. It is necessary only to refer to the following. By clause 6.7(a) the parties acknowledge that the patents were subject to existing encumbrances including FRAND commitments inter alia to ETSI in respect of SEPs. By clause 6.14(a) the Unwired Planet parties acknowledge that all encumbrances will continue after assignment. By clause 6.14(b) the Unwired Planet parties acknowledge that within a reasonable time after closing they will provide declarations to ETSI in accordance with the ETSI IPR Policy. Such declarations will include a FRAND commitment.

21. On 14<sup>th</sup> June 2013 and, Ericsson submits, in compliance with its obligations under clause 6.14(b), Unwired Planet LLC made a FRAND declaration to ETSI relating to the relevant patents.
22. Samsung pointed out that certain terms of the MSA were not publicly available from the US SEC public version of the MSA, that 6.14(a) does not expressly refer to FRAND and that 6.14(b) did not require any Unwired Planet parties to become a member of ETSI. These things are all correct as far as they go but they do not undermine Ericsson's case that the agreement compelled Unwired Planet LLC and its affiliates to be subject to FRAND obligations.
23. There is nothing in the point that the claimant was not a party to the MSA. The terms of the MSA mean that Ericsson has to give consent to an assignment of the patents to the claimant. When the patents were assigned to the claimant on 27<sup>th</sup> February 2014, the relevant contract (The Amendment, Waiver and Consent Agreement) modified the terms of the MSA and in particular section 6, to fix the claimant with the same obligations as the other Unwired Planet parties.
24. In my judgment any suggestion that the arrangement between Ericsson and Unwired Planet failed to compel Unwired Planet to make a FRAND declaration is hopeless and should be struck out.
25. Also hopeless is the suggestion that this arrangement might realistically permit Unwired Planet to sell on patents without a FRAND obligation. There was a suggestion in the evidence of Patricia Treacy for Samsung that Unwired Planet had done exactly that. Unwired Planet had transferred certain SEPs it received from Ericsson on to Lenovo in 2014. Samsung contended that Lenovo had not made a FRAND declaration and that this illustrated and supported its case. This was answered in the witness statement of Jon Lawrence of Freshfields for Ericsson who explained that the European Commission, when it approved Lenovo's acquisition of Motorola Mobility from Google, had analysed the competitive effects of that transfer. In doing so it considered Lenovo's acquisition of SEPs from Unwired Planet and confirmed that the FRAND commitments given by Unwired Planet for the SEPs acquired by Lenovo would continue to apply.
26. However these points do not dispose entirely of Samsung's first alleged breach because two other points are made: that even if Unwired Planet was compelled to make a FRAND declaration, third parties could not enforce that obligation; and that in any event this arrangement did not transfer Ericsson's FRAND obligation, it simply created a new one.
27. As to the first point, it is true that the MSA includes a term (clause 8.11) which provides that the terms are for the benefit of the parties and not third parties but that does not matter. Ericsson submitted that once a party has made a FRAND declaration to ETSI, that commitment to license on FRAND terms will be enforceable by a third party against the declarant. Samsung disputed this but I agree with Ericsson. Anyone seeking a license under the patents will be entitled to require Unwired Planet to license on FRAND terms.
28. The second point is a subtle one. Samsung contend that when the Unwired Planet patents were part of Ericsson's portfolio, the obligation to license them on FRAND terms, with particular emphasis on the non-discriminatory bit of FRAND, meant that such a licence took into account their inclusion within a much bigger portfolio. That was Ericsson's FRAND obligation. Now that the patents have been divided out, Unwired Planet's FRAND obligation does not take into account the other patents held by Ericsson. So when Unwired Planet license them more money is likely to be earned from licensees than would have been the case if they had remained within Ericsson's portfolio. What should have happened, contends Samsung, is that Ericsson's FRAND obligation should have been assigned to and become binding on Unwired Planet. Elements of this argument are related to the second breach but at

this stage I am considering the terms of the transfer itself. It is plainly correct that the transfer did not transfer what Samsung calls Ericsson's FRAND obligation to Unwired Planet. The question is whether that is something which could have as its object or effect a distortion or restriction of competition.

29. I think this is hopeless too, for the following reasons.
30. It is plainly appropriate when transferring a standards essential patent which is subject of a declaration to ETSI to grant licences on FRAND terms that the transferee should be obliged to grant FRAND licences. I note that ETSI itself changed its IPR Policy on 20<sup>th</sup> March 2013 to provide expressly that FRAND obligations should run with the patents and bind all successors in interest (Art 6.1bis ETSI IPR Policy). No doubt the simplest approach to demonstrating publicly that this has occurred is for the transferee to make their own ETSI declaration in relation to the patents, as Unwired Planet did in this case.
31. Ericsson referred to sources showing that the European Commission has recognised as important in competition law terms that the transferee would be obliged to license on FRAND terms. One source was paragraph 285 of the European Commission's Guidelines on the applicability of Art 101 to horizontal co-operation agreements (14<sup>th</sup> January 2011, OJ EU, 2011/C 11/01) which refers to the need for a contractual clause between buyer and seller of IPR to ensure that the FRAND commitment is transferred. Another source was the Commission's merger decision dated 13 February 2012 relating to Google/Motorola Mobility (Case No. COMP/M.6381). At paragraph 120 the Commission stated that it considered that Google (the transferee) would be bound by the FRAND commitment previously given by Motorola and that would therefore constrain Google's incentives to raise the royalty level. At paragraphs 133-135 the Commission addressed the question of whether Google's letter to the standard setting organisations in which it had stated it regarded itself as bound to license on FRAND terms was actually binding. Ericsson pointed out that at paragraph 135 the Commission stated that "*it is difficult to see how a court hearing a patent action brought by Google on the basis of Motorola Mobility's SEPs would allow Google to backtrack from the principles that it has publicly enunciated in the letter. Thus, Google will know that it could harm itself – and damage any argument before a court or competition authority that it is acting in good faith – if it reneges on the letter in the future.*" Ericsson submitted that this approach was consistent with the concept of whether terms were "equitably refusible" mentioned in my judgment of 24<sup>th</sup> April 2015 ([2015] EWHC 1029 (Pat)). I accept that submission and respectfully agree with the sentiments expressed by the Commission in paragraph 135.
32. In addition Ericsson pointed out that the Commission's approval of the transfer of Unwired Planet patents (formerly Ericsson patents) to Lenovo made no mention of this point. Lenovo were not taking on either Ericsson's or Unwired Planet's previous FRAND commitments as such and yet the Commission was content.
33. Nevertheless Samsung submitted that support for its proposition that in order to comply with Art 101 what had to be transferred to Unwired Planet was *Ericsson's* FRAND commitment (my emphasis) could be found in three sources. First, in paragraph 285 of the European Commission's guidelines on horizontal cooperation agreements the text refers to transferring "that" commitment, in other words the FRAND commitment of the transferor. Second, the same kind of point could be made about a European Commission press release dated 10 December 2009 which had been issued welcoming ICom's public FRAND declaration in that the Commission referred to ICom being ready to "take over Bosch's previous commitment". Third, again the same point can be made reading the Commission's merger decision in Google/Motorola Mobility paragraph 120 because it refers to the FRAND commitment "previously given".
34. Samsung's reliance on these sources reads too much into the language. The Commission plainly did not have its eye on the subtle point now being made when it

expressed itself in those documents. Of course the fact that there is no case or other source which supports Samsung's point does not mean it is wrong. None of the sources relied on by Ericsson actively consider and reject the argument either.

35. If I consider the argument on its merits, in my judgment it must fail. It would be unreal and commercially unworkable for competition law to require that the transferor's own FRAND obligation should somehow be transferred in the manner alleged by Samsung. That would mean looking back at the position of the transferor in order to decide what FRAND terms were today. So many questions arise. Some are the following: What happens if the patents are assigned more than once? When considering these patents now in the hands of Unwired Planet does one look at Ericsson's portfolio today or as it was at the date of transfer? Neither makes much sense when you start thinking about it. How does the transferee or putative licensee get access to information about the predecessor's portfolio? What happens when patents are acquired by someone with their own existing portfolio?
36. In conclusion, the allegation that there was a failure to ensure that the transferee made a FRAND commitment in relation to the transferred patents has no real prospect of success. The transferee was obliged to commit to FRAND and did so. The fact that the transferee's FRAND commitment is a fresh one rather than a commitment based in some way on a consideration of the portfolio from which the transferred patents came has no real prospect of being shown to have as its object or effect a distortion or restriction of competition contrary to Art 101. Thus, subject to the question of any interaction with the second or third breaches, I would strike out the first breach.

*The second breach – dividing the portfolio*

37. Ericsson submits that if Samsung's second breach argument is correct, such that selling some of its patents to Unwired Planet is a breach of competition law, then that leads to the "astonishing proposition that Ericsson can never sell part of its portfolio of essential patents, but would be forced to increase its patent portfolio year on year as new patents are granted as a result of its continued investment in R&D". It argues that the main reason Samsung is wrong is because of FRAND. The ETSI IPR Policy (Art 6.1bis) contemplates the possibility that patents can be transferred and the Commission Guidelines referred to above also expressly contemplate this. The important thing is that the transferee is bound by FRAND as well. Unwired Planet is committed to FRAND in this case and moreover Samsung's first alleged breach is wrong (see above). What matters for competition law is the FRAND obligation. That is secure in this case. Art 101 is not infringed by selling essential patents as long as those patents remain covered by a FRAND commitment.
38. Samsung's answer is that Ericsson is shooting at the wrong target. Its allegation is not that any division of a portfolio of essential patents is unlawful. Samsung's case is that this transfer infringes Art 101 as a result of its particular characteristics. A number of characteristics are relied on but there are two main ones: first that Ericsson retains the right under the MSA to a substantial share in the licensing revenue generated by Unwired Planet and can transfer further (unspecified) patents to Unwired Planet in future and second that Unwired Planet is a particular kind of entity – referred to in polite company as a non-practising entity (NPE) or patent assertion entity (PAE).
39. As to the first point, there is no doubt that the MSA contains clauses which provide for revenue to pass back to Ericsson. Certain of the details are regarded as confidential and do not matter for present purposes. What is not confidential is that if Unwired Planet are successful in their business and earn significant revenues from licensing these patents, Ericsson will earn a substantial share of that revenue. The MSA also provides that Ericsson can transfer up to a further 500 patents to Unwired Planet between 2014 and 2019 for no further consideration. The patents are selected at Ericsson's sole discretion.

40. As to the second point, the original patent holder Ericsson competed in the downstream market with potential licensees such as Samsung and was therefore open to and indeed probably needed cross-licences from those competitors. This strongly influenced its licensing approach. No doubt it will still do so. Also as a major R&D organisation, manufacturer and seller, its commercial reputation is a matter of importance. On the other hand, as an NPE, Unwired Planet is in a different position. It is simply seeking to monetise the patents it holds. It can act aggressively, threaten and sue putative licensees with no adverse consequences, reputational or otherwise. It has no products and so is not interested in cross-licences.
41. Samsung also contends that the fact that Unwired Planet is bound by a FRAND commitment does not help because it does not follow that Unwired Planet will not abuse its market power against parties who need a licence. The MSA creates incentives for Unwired Planet to charge higher and excessive royalties.
42. Samsung supports its stance on this aspect of the case with a witness statement from an economist Dr Cristina Caffarra of Charles River Associates. In her statement Dr Caffarra says that there is a growing recognition in the economics literature that the type of transaction entered into by Ericsson may well, depending on its exact structure and effects, be anti-competitive and harmful. She refers to two papers on this topic which support her view. One is by Professor Fiona Scott Morton of Yale and Prof Carl Shapiro at Berkeley ("*Strategic Patent Acquisitions*" 79 *Antitrust Law Journal* 463 (1014)). The other is by Prof Robert Harris ("*PAEs and Privateers: Economic Harm to Competition and Innovation*" *Antitrust Bulletin* 59.2 (2014) 281-325). I was invited to read these papers and I did so. I found Scott Morton and Shapiro's paper to be broadly supportive of Samsung's case that it is at least arguable that competition law issues can arise when a practising entity (such as Ericsson) transfers patents to what the authors call a "hybrid NPE", which is an NPE which maintains a contractual relationship with a practising entity (and so would include Unwired Planet). The distinction drawn is between that and a "pure NPE", in other words one with no relationship back to the originator or another downstream firm. The authors describe the hybrid NPE model as "the most troubling" (p494).
43. I did not find the other paper so compelling. It has a polemical tone. The version of the paper in the hearing bundles I was provided with was a "working draft". I gather that was a slip by Samsung's lawyers of which Dr Caffarra was unaware. I was provided with a full copy after circulating the draft judgment. My view of the full paper is the same.
44. In the draft judgment I also noted that in his paper Prof Harris describes himself as a senior consultant at Charles River Associates, but that Dr Caffarra's statement had not mentioned that. Counsel invited me to remove the observation on the ground that there was a real risk this might imply the article was written in a consultancy capacity, that this might imply that Dr Caffarra had failed in not making that clear, that this had not been raised at the hearing, was harsh and not justified. Counsel submitted that academic economists are often associated with consultancies. I have not removed the observation for the following reasons. It is correct that this was not discussed during the hearing. Nevertheless, I do not know in what capacity the paper was written. The "working draft" carries a prominent reference to Charles River Associates. It is surprising that Dr Caffarra's statement did not mention that given the stress the statement places on the paper. The observation that academic economists often carry out consultancy work misses the point.
45. Dr Caffarra addressed the point that Unwired Planet has given a FRAND commitment. She stated her view that it cannot be assumed that this solves all problems (paragraphs 20 onwards). The arrangement may create incentives to make excessive royalty demands. The gains to Ericsson as a result of Unwired Planet extracting royalties from Samsung may distort competition in markets in which Samsung and Ericsson compete. Dr Caffarra described this as a coherent argument from the perspective of economics.

46. Ericsson did not file economic evidence in reply, no doubt wisely since on applications of this kind that tends simply to highlight the fact that the matter needs to go to trial. Ericsson submitted that while Dr Caffarra's opinion was that there was a coherent argument from the perspective of economics, there was not a coherent argument from the perspective of Art 101. It submitted that Art 101 does not constrain a patentee from seeking a higher level of royalty nor does it constrain a manufacturer from seeking a higher price for his goods by implementing a distribution agreement which recommends that his distributor charge higher prices (citing **JCB v Commission** T-67/01 [2004] 4 CMLR 24 at paragraphs 130-133) and, on a related point that an increase in profitability is not contrary to competition law (citing **Bookmakers Afternoon Greyhound Services v Amalgamated Racing** [2009] EKCLR 863 at paragraph 86). Samsung did not dispute the principles established by these cases but submitted they were a long way from the facts of this case.
47. I am troubled by the following aspects of the second alleged breach. Although it denies it, at times Samsung's argument does appear to cut across the idea that a subset of patents from a portfolio could ever be transferred out of a larger portfolio. That must be wrong. Moreover the transfer obviously takes the patents out of Ericsson's portfolio and so out of the ambit of Ericsson's FRAND commitment. I cannot see how that alone could be contrary to Art 101. Also there is real force in Ericsson's point that the commitment of both transferor and transferee to license on FRAND terms is all that the law, including competition law, ought to require when transferring standards essential patents between undertakings. There is much to be said for the submission that a FRAND commitment is or ought to be the way in which the rights of the holder of a patent which is essential to a standard are to be constrained by law. In my judgment if the holder abuses a dominant position then that is a matter for Art 102 TFEU. The fact that a transferee might abuse a dominant position which they are in as a result of the transfer cannot make the transfer contrary to Art 101. I am also sceptical about the breadth of Samsung's complaint that Ericsson is trying to earn more money from its patents, as if that is a sin. It is not.
48. However despite these concerns, it seems to me that the second alleged breach does raise a properly arguable case that ought to go to trial. The MSA is not merely a sale of patents to Unwired Planet. Ericsson retains a share in the royalties to be earned and can transfer a substantial further body of patents to Unwired Planet if it wishes. Moreover Unwired Planet is a different kind of undertaking from Ericsson. Unwired Planet does not compete in the downstream market the way Ericsson does. I cannot say that these aspects together disclose no real prospect of succeeding in an argument that the object and/or the effect of the MSA (and the assignment arrangements which went with it) is one which leads to distortions or restrictions of competition. I also bear in mind **Sel-Imperial**. The relationship between standards essential patents, FRAND, NPEs and competition law is a developing one. It is an important area in the context of telecommunications technology. There are very few cases which deal with it and that adds to my reluctance to strike out a fact sensitive issue like this one.
49. On 16th July 2015 and after the draft judgment was circulated to the parties, the CJEU handed down its judgment in **Huawei v ZTE** Case C-170/13. Although clearly relevant to the general issues of SEPs, FRAND and competition law, I do not believe it has a direct bearing on the issues decided in this judgment.

*The third breach – specific terms in the MSA*

50. The two clauses relied on by Samsung and Huawei are clauses 3.4 and 6.1(aa). The defendants say they are examples of hard core restrictions on competition and are a form of horizontal price fixing. Ericsson say this has no foundation whatsoever. I will take the clauses in turn.
51. Clause 3.4 operates to set a minimum payment to Ericsson by Unwired Planet in respect of a licence granted by Unwired Planet under a patent transferred to Unwired

Planet. The clause sets a minimum percentage of the net sales revenue of the licensed party which must be paid by Unwired Planet to Ericsson. This minimum percentage is payable regardless of whatever royalty rate has been agreed between Unwired Planet and the licensee. So as an example and making up numbers, if the minimum percentage was 50% and Unwired Planet had agreed a licence based on a royalty of 25% of net sales revenue, then for every £1 sold by the licensee, Unwired Planet would be paid 25p but would still have to pay Ericsson 50p.

52. Ericsson submits this clause imposes no restriction on Unwired Planet's conduct at all. Obviously the sensible thing for Unwired Planet to do would be to arrange its affairs overall so that on average it recoups more than the minimum payment to Ericsson but that is no different from a case in which a wholesaler sells goods to a retailer at a price. Plainly the retailer if it wants to stay solvent will try and charge prices which make a profit overall but the retailer may choose, in a given case, to sell at a reduced price and make its profits on other sales.
53. The defendants submit that one does not stop the analysis at the legal obligations produced by the agreement; one has to look at the incentives created by this agreement. Clause 3.4 creates a powerful incentive on Unwired Planet to charge royalties at least at the specified rate in clause 3.4 and this is the sort of thing which is prohibited by Art 101. Samsung referred to the Guidelines on Technology Transfer Agreements (2014/C 89/08) and to paragraphs 99 and 118 which referred to direct or indirect price fixing as between competitors and non-competitors respectively as hard core restrictions on competition. Ericsson pointed out that paragraph 99 expressly provides that a minimum royalty obligation does not in itself amount to price fixing.
54. In addition Huawei referred to **General Motors v Commission** (C-551/03) [2006] ECR I-03173. This case shows that one must assess an agreement in its context in order to decide if it has an anti-competitive object and that a provision may be restrictive of competition even if that is not its sole object. The facts of **General Motors** are very different from this case.
55. Clause 3.4 could be properly characterised as a minimum royalty provision akin to what is permitted by paragraph 99 of the tech transfer guidelines but, when I consider it in the light of the circumstances relied on for the second alleged breach, I can see that it is arguable that the clause could contribute to the creation of an anti-competitive incentive to charge higher royalties. To assess the clause in its proper context is going to cover the same ground as the second breach alleged by Samsung. I will not strike out this allegation.
56. However Huawei only advances the third breach and does not purport to advance the second. Huawei's emphasis on **General Motors** highlights a puzzling aspect of its stance. The context Huawei relies on amounts to the same allegations as are relied on by Samsung in its second breach argument. I will not strike out Huawei's case but I will observe that among the various possible permutations, one must be that the third argument fails but the second argument succeeds. Query whether in that circumstance, given the way its case is currently pleaded, Huawei should recover any costs relating to Art 101 even if it spends time and cost arguing about context. That risk is a matter for it.
57. Clause 6.1(aa) provides that Unwired Planet shall not license the patents other than on terms in which the royalty due is a percentage of the aggregate net sales revenue of the licensee and its affiliates. In her evidence Christina Petersson, Head of IPR at Ericsson, explained that this does not prevent Unwired Planet from licensing on a percentage basis with a cap, nor does it prevent Unwired Planet from charging different percentage royalties to different licensees. Subject to FRAND Unwired Planet will be free to negotiate different percentage rates for different devices as it sees fit. If a percentage basis is inappropriate in a particular case the MSA allows Unwired Planet to seek Ericsson's consent to agreeing other licensing terms. Indeed

this has happened in practice in that a lump sum offer by Unwired Planet to Lenovo was consented to by Ericsson.

58. Ericsson pointed out that I had held in a previous judgment that a royalty based on net sales was a pretty conventional form of IP licence. So it is. But that is a different thing from saying that a clause which purports to compel a licensor only to offer licences on those terms is inevitably compliant with Art 101.
59. Clause 6.1(aa) plainly purports to restrict the terms on which Unwired Planet can do business. The fact that Ericsson can consent to different terms does not change that. Nevertheless as Ericsson points out, not every restriction on commercial freedom is automatically restrictive of competition. Samsung and Huawei contend that this clause will tend to increase royalties and has an anti-competitive object and effect. I must say I regard this as a weaker case than the one based on clause 3.4 but when I consider it together with the second alleged breach I reach the same conclusion as for clause 3.4. Clause 6.1(aa) is best dealt with in the context of the other allegations which I have decided should go to trial. I will not strike out either defendant's allegations, making the same observation about Huawei's case on this clause as for clause 3.4.

#### *Interaction*

60. The second and third alleged breaches will be dealt with at trial. I do not consider that the alleged interaction between those two and the first alleged breach justifies not striking the first one out. Some of the arguments arising under the second breach are similar to Samsung's point about the transfer of *Ericsson's* FRAND obligation but I simply cannot see how that FRAND transfer argument can be correct on any view. The first point does not improve the second or third points and seeing the first point in context with the other two does not improve it either.

#### *Stay under the Arbitration Act 1996*

61. Ericsson applies for a stay under s9 of the Arbitration Act 1996. The section provides as follows:

***"9.— Stay of legal proceedings.***

*(1) A party to an arbitration agreement against whom legal proceedings are brought (whether by way of claim or counterclaim) in respect of a matter which under the agreement is to be referred to arbitration may (upon notice to the other parties to the proceedings) apply to the court in which the proceedings have been brought to stay the proceedings so far as they concern that matter.*

...

*(3) An application may not be made by a person before taking the appropriate procedural step (if any) to acknowledge the legal proceedings against him or after he has taken any step in those proceedings to answer the substantive claim.*

*(4) On an application under this section the court shall grant a stay unless satisfied that the arbitration agreement is null and void, inoperative, or incapable of being performed.*

..."

62. As is clear from s9(3) and (4), the Act creates a mandatory as opposed to a discretionary obligation on the court to grant a stay in respect of any claim that comes within the scope of an arbitration agreement so long as the application is made in

appropriate circumstances. Those circumstances are that the stay is sought after acknowledgement of service but before the applicant has taken a step to answer the substantive claim.

63. It is settled that s.9(3) (and its equivalent under predecessor legislation) is not to be read in a way such that, for instance, only service of a defence or equivalent would potentially count as a step “*to answer the substantive claim*”): **Bilta (UK) Ltd v Nazir & Ors** [2010] EWHC 1086 (Ch) per Sales J (as he then was) at paragraphs 27 - 28. Although the judge could see sound reasons for confining the sorts of steps contemplated by s9(3) to things like serving a defence, he held that binding authority precluded that result.
64. Nevertheless not every step in proceedings is enough to satisfy s9(3). The Courts have applied what Floyd J (as he then was) described “*as a gloss to the plain words of the Act*” (**Nokia v HTC** [2012] EWHC 3199 (Pat) at [14]). A relevant step in proceedings is one that “*impliedly affirms the correctness of the proceedings and the willingness of the defendant to go along with a determination by the Courts of law instead of arbitration*”: **Eagle Star Insurance Co. Ltd v Yuval Insurance Co. Ltd** [1978] 1 Lloyd’s Reports 357 CA. The quality of any step for the purposes of s.9(3) “*has to be judged objectively in the light of the whole context known to both parties*” (**Bilta** at para 31, applied in **Nokia v HTC** at para 19).
65. Where a defendant agrees directions for the conduct of proceedings, that agreement may be regarded for the purposes of s.9(3) as an unequivocal acceptance that the Court is the correct forum for deciding all the issues which might foreseeably arise in the action: **Nokia v HTC** at paragraphs 26- 27.
66. In **Ahad v Uddin** [2005] EWCA Civ 883, the Court of Appeal provided guidance on how to approach the application of s.9(3) where a stay application is made in relation to matters introduced by amendment to existing pleadings. The Master of the Rolls (Lord Phillips MR) stated that:
  - i) “The simple issue is... whether the matters introduced by amendment were part and parcel of the dispute of which the court was already seised, or whether they were discrete matters in respect of which Section 9 entitled the defendant to insist that they be arbitrated” (paragraph 19);
  - ii) put another way, the question is whether the “*issues raised by the amendment belong in the action*” (paragraph 22); and
  - iii) for the purposes of testing whether an amendment introduces matters that belong in the action, one can proceed on the hypothesis that there is no arbitration clause and consider whether separate/subsequent court proceedings would be vexatious and/or infringe the *Henderson v Henderson* principle (paragraph 22).
67. Ericsson’s application relates to Samsung’s counterclaim for damages or a contractual indemnity for breach of the 2014 licence. That 2014 licence agreement contains an exclusive arbitration clause at paragraphs 12.3-12.6. The arbitration is to take place in the USA under the Judicial Arbitration and Mediation Services (JAMS) rules.
68. The procedural context in which this arises is as follows:
  - i) Before Ericsson were a party to this action, Samsung pleaded a “control defence” which alleged that even if the MSA was valid and Unwired Planet was the true owner of the transferred patents, the patents were under Ericsson’s control and so under the 2014 licence Samsung had a licence.

- ii) In November 2014 after sight of Samsung's then existing Amended Defence and Counterclaim, Ericsson sought to be involved in the proceedings and in a letter of 4<sup>th</sup> December 2014 agreed to be joined to the control defence. This was subject to an application by Unwired Planet to strike out the control defence which was due to be heard at the December CMC on 12<sup>th</sup> December.
  - iii) On 11 December 2014, the day before the December CMC, Samsung served a Supplemental Skeleton. This contemplated that Samsung's existing control defence might be found to be inadequate and asked for permission to amend. In that regard the skeleton mentioned the possibility of an indemnity claim, stating that "*Samsung should be entitled to an indemnity from Ericsson in respect of any claim for infringement of the patents ...*"
  - iv) At the hearing Ericsson was represented by counsel and solicitors. The point about Samsung was specifically raised by Unwired Planet's Counsel at the hearing. He observed that an amendment to claim an indemnity from Ericsson would be a major amendment to make.
  - v) The precise terms of the court's order made at the December CMC were negotiated between the parties and approved by the court. The order provided for Ericsson's joinder into the proceedings. It adjourned Unwired Planet's strike out application pending Samsung's proposed amendment to the control defence and set a timetable for Samsung's amendments. The order also provided for the issues to be decided at the non-technical trial and dealt with the date of that trial. The issues included the control defence.
  - vi) Samsung's Re-Amended Defence and Counterclaim, which included the indemnity claim against Ericsson, was served on 30 January 2015.
  - vii) The parties (including Ericsson) consented to an order further revising the timetable for pleadings. The consent order embodying those agreed changes was sealed on 4<sup>th</sup> March 2015.
  - viii) In a letter from Freshfields of 5<sup>th</sup> March 2015 Ericsson consented to Samsung's draft Re-Amended Defence and Counterclaim but subject to reserving the right to apply to strike out the Art 101 allegations and to seek a stay under the Arbitration Act. This was the first time Ericsson raised the arbitration issue.
69. Ericsson contends that the claims for damages/indemnity fall squarely within the scope of the exclusive arbitration clause. Its consent to Samsung's amendments which brought in the claim was expressly subject to its right to apply for the stay. It follows that the claims should be stayed. Ericsson contends that this is not a case like *Ahad* in which a claimant sued a defendant in breach of an arbitration clause and the defendant waived the right to arbitrate and a question of amendment then arose. This case is quite different. Unwired Planet, not a party to the 2014 licence, sued and Samsung raised the 2014 licence against Unwired Planet. Ericsson came in to defend its interests. Ericsson has accepted that the court is the place to deal with the equitable defences raised by Samsung. It would not be vexatious in the *Henderson v Henderson* sense to litigate the indemnity claim separately. Whatever the extent of any issue estoppel arising from this case, in any arbitration of the damages/indemnity, the issues of causation, quantum and type of loss can be determined by the arbitrators in the contracting parties' chosen jurisdiction under their chosen law.
70. Samsung contends that before 5<sup>th</sup> March 2015 Ericsson had already objectively affirmed the correctness of the proceedings for determining the indemnity/damages claim against it. That affirmation occurred in a number of ways: first agreeing on 4<sup>th</sup> December 2014 to be joined to the control defence without any reservation of arbitration rights, second agreeing, without reservation, to the directions made after

the December CMC for service of the Re-Amended Defence and Counterclaim, third agreeing, without reservation, to extensions to the pleadings deadline. Samsung submits that one is entitled to consider the consequences of a stay. The stay seems to be calculated either to render findings on the interpretation of the 2014 Licence in favour of Samsung on an unsafe basis for securing consequential relief or simply to delay Samsung in obtaining the relief to which it would be inevitably entitled.

71. In evaluating these arguments I remind myself that the issue is not one of discretion. The answer to the problem turns on the proper characterisation of the steps taken by Ericsson in these proceedings before 5<sup>th</sup> March 2015.
72. This is a different situation from the one which arose in *Nokia v HTC*. There Nokia sued HTC for patent infringement and HTC participated in the CMC setting directions for the whole case, without qualification. The arbitration issue only arose afterwards by HTC contending that it had a licence (which would be a defence to a claim for patent infringement). The licence contained an arbitration clause and HTC contended it should be arbitrated. That is why in paragraph 26 of the judgment Floyd J referred to the fact that a patentee who asserts infringement by necessary implication is asserting that the acts are unlicensed. This assertion was in the proceedings from the outset and HTC knew that. That is what Floyd J meant by describing HTC participating as an unequivocal acceptance of the fact that the court was going to decide all the issues which foreseeably arise. By participating in the CMC in those circumstances HTC was accepting that the court would determine whether the acts were licensed. The judge was not referring to the likelihood that a party might amend its case to introduce a new issue, not presently part of the case.
73. At its heart the problem comes down to this. The terms of the 2014 licence were always going to be considered in this action because they relate to the defence advanced by Samsung against Unwired Planet's claim for patent infringement. It cannot be said that Samsung acted in breach of the arbitration clause by pleading the 2014 licence as a defence to Unwired Planet's claim.
74. On the other hand Ericsson's best point is that while it is true that in December 2014 when Ericsson agreed to be joined, it knew that Samsung were contemplating including a claim for an indemnity under the 2014 licence, nevertheless no such contract claim under the 2014 licence against Ericsson had actually been formulated at that point. It was still open to Samsung not to bring the indemnity claim at all. Surely Ericsson must have been entitled to see how Samsung put its case before it decided how to react. Ericsson argues that the proper time for Ericsson to raise an arbitration point, if it was going to, was at the point at which it did, i.e. when Ericsson decided to accept the proposed amended pleading from Samsung. That was on 5<sup>th</sup> March and everything done prior to that was subject to the fact that Ericsson had not yet consented to Samsung's proposed amendments at all.
75. With this in mind I reject now Samsung's reliance on the second and third steps. The second step is Ericsson's supposed agreement, without reservation, to the directions made after the December CMC for service of the Re-Amended Defence and Counterclaim. The December CMC order did not give Samsung permission to make the amendments it intended to make. The order simply set a timetable for service of the proposed amendments. If the other parties, Unwired Planet and/or Ericsson, once they had seen the proposed amendments, had disputed that permission should be given, that would have to have been dealt with at a later hearing. That is why Unwired Planet's strike out application was stood over.
76. The third step is the only one which took place after Ericsson had seen Samsung's proposed amended claim. It is Ericsson's agreement to a timetable for responsive pleadings, including Ericsson's Defence to Samsung's Counterclaim. That agreement crystallised in a consent order dated 4<sup>th</sup> March. However Ericsson can fairly say that at that stage it had not accepted the proposed amended pleading. It was only on 5<sup>th</sup> March that Ericsson consented to the form of Samsung's pleading

which included the damages/indemnity claim. If the second step cannot help Samsung then this step cannot either.

77. However despite this I am not satisfied I should stay Samsung's counterclaim against Ericsson under the Arbitration Act. The problem is the first step and Ericsson's becoming a party to the proceedings. What happened when Ericsson agreed to become a party to the proceedings in December 2014 was that Ericsson was accepting that the argument about whether the Unwired Planet patents fell within the scope of the 2014 licence was going to be decided by the court and Ericsson (and Samsung) were going to be parties to that proceeding and that decision. It was not a breach of the arbitration clause for Samsung to plead the 2014 licence against Unwired Planet and so it was not a waiver of any breach by Samsung for Ericsson to join the proceedings. Nevertheless, from the point of view of an objective observer, by joining those proceedings Ericsson was accepting that an issue which Ericsson could have insisted was arbitrated as between Samsung and Ericsson, would be decided in a manner binding on all parties (Unwired Planet, Ericsson and Samsung). The only outstanding question was whether Samsung's pleaded case would be accepted by the court as having a real prospect of success but if the court did accept the pleading then that is what would happen. Ericsson may well have taken the view that it had no realistic alternative and I think that is probably right. However it seems to me that once Ericsson had accepted that the court would, as between itself and Samsung (never mind Unwired Planet), decide a dispute about the scope and effect of the 2014 licence, if Ericsson had wanted to insist on its right to arbitrate part or all of that dispute, it could and should have reserved its right at that stage. Since the indemnity counterclaim was expressly raised in court at the hearing, Ericsson cannot say that it was not aware of the possibility of such a claim when it accepted that the court was going to decide at least one issue relating to the 2014 licence which Ericsson could have insisted was arbitrated.
78. Accordingly I find that by agreeing in December 2014 to join the proceedings without reservation, Ericsson took a step which affirmed its willingness to go along with a determination by the court of issues covered by the arbitration clause. Ericsson has taken a step within s9(3) of the Act and no stay should be granted.

### *Conclusion*

79. Ericsson's application succeeds in striking out the first alleged breach of Art 101 TFEU but not the second or third alleged breach. The claim for damages or an indemnity under the 2014 licence will not be stayed.