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Patent Licensing

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When a defendant loses a patent trial, when would they decide that submitting to an injunction is better than taking a license? The appeal judgment in the English case of *ZyXEL v TQ Delta* [2019] EWCA Civ 1277, tells a tale of tactics and legal agility. After completely waiving any right to rely on RAND undertakings, ZyXEL tested the bounds of the developing English law.

The claims in this case involved the enforcement of a number of TQDelta's patents relating to the ITU-T's DSL telecoms standards. Since the patents in suit had been declared essential to the ITU-T standards, they were encumbered by a RAND undertaking—that is, an undertaking made by TQDelta that it would grant a license to the patents on Reasonable and Non-Discriminatory terms.

At First Instance

Following what has become standard practice in these cases, TQDelta sought an injunction for infringement, but only if ZyXEL refused to take a license. ZyXEL in turn relied on the RAND undertaking to avoid any injunction. Trials were scheduled to deal with technical matters (patent infringement and validity) first; and RAND matters (such as the valuation for patent damages, and license terms and valuation) afterwards. Following the decisions in the High Court and the Court of Appeal in the long-running

dispute between Unwired Planet and Huawei, it was likely that a RAND license determination would be considered from a global perspective, not just based on the UK portfolio.

In March 2019 however, Mr. Justice Henry Carr found in the English High Court that two of the patents were essential and infringed, but only one of these two was valid — and that had a mere three months of life left before it would expire. Unless ZyXEL took a license, an injunction of 3 months would therefore follow in addition to financial damages for past infringement.

Developments and Maneuvers

Both ZyXEL and TQDelta reacted to this decision in very different ways.

ZyXEL now faced a very different balance of risk. Before the technical trial, the claim against them had been a more serious threat because it included another patent with a longer lifetime. ZyXEL had been facing a choice between (on the one hand) entering into a license agreement to access the UK market, or (on the other hand) being bound by an injunction that would have prevented them from accessing the UK market. But now, the injunction was quite short; and the findings of past infringement could be dealt with easily by paying damages.

ZyXEL therefore decided in March 2019 that they did not want a license anymore. They said so, writing a witness statement and offering an undertaking with the following waiver:

“ZyXEL hereby and irrevocably waive any and all rights they might have to seek to enforce TQDelta's RAND obligations to license TQDelta's UK-designated DSL SEPs in the United Kingdom.”

This was a dramatic tactic. By making this waiver, ZyXEL threw away the right which would hold off the injunction. Instead, they would submit to the three-month injunction and pay damages for past infringement of the infringed patent.

Meanwhile, in response to this change of tack TQDelta reacted in two ways to keep their RAND claim alive. First, they issued a new claim for infringement of two further DSL-related patents. Second, they sought to amend their original claim, requesting additional relief in respect of RAND issues. This included for example seeking declarations that ZyXEL were not willing licensees to TQDelta's portfolio of patents, and that TQDelta was not obliged to offer any license to ZyXEL.

The Dispute and the Appeal

So the question arose: if ZyXEL did not rely on RAND as a defense, was a trial even necessary? ZyXEL thought not and applied to strike out the RAND part of TQDelta's claim, and so to cancel the RAND trial. In response, TQDelta said that there was still a live dispute between the parties, meaning that a RAND trial was necessary.

At first instance, Mr. Justice Birss agreed with TQ Delta. He said that the real point, and the only point, was whether the

waiver was workable. Also he had reservations about what ZyXEL's undertaking actually meant, highlighting several downstream problems. He observed that TQDelta had claimed for declaratory relief, which was not dealt with by the waiver. On this basis and observing that "there is a real and lively dispute as to RAND terms. That dispute has not gone away", he allowed the RAND trial to proceed.

ZyXEL appealed, with expedition. They said that his conclusions were not open to the Judge, and that he was wrong in law about the uncertainty as to scope and effect of the waiver. The right result, they said, was that RAND fell away entirely.

Also to draw a line under the damages claim, shortly before the appeal hearing, ZyXEL asked TQDelta how much they thought the claim was worth—and then paid them in full on request, in the sum of nearly US\$1.2 million.

The Rationale and the Principles

Lord Justice Floyd allowed the appeal (and Lord Justice Lewison agreed), cancelling the RAND trial.

Floyd LJ started with the Court of Appeal's decision in *Unwired Planet*, the current leading case on issues of standards-portfolio patent licensing in the United Kingdom. He extracted seven guiding principles from the ruling, which (condensed) are as follows.

- (i) UK patents have territorial scope for the United Kingdom only, so any injunction that flows from them is also limited to the United Kingdom.
- (ii) The (F)RAND undertaking is designed to allow free access to standards technology even if it is covered by patents.

- (iii) Patent owners are entitled to fair reward for their inventions, however. So it is necessary for the parties to engage together constructively to come to terms, or submit to a legal determination of what that reward is.
- (iv) A global license may be (F)RAND. A national license may not be. This depends on the facts, such as the scope of the portfolio in question and the court's assessment of what a willing licensee and licensor would agree in those circumstances.
- (v) Sometimes, a national license could be (F)RAND. In those cases, if a patent is valid and infringed, an injunction is appropriate if a defendant refuses to take a national license.
- (vi) Other times, a global license is (F)RAND. In those cases, the same regime applies if an implementer refuses to take a license on global terms.
- (vii) The rationale is explained because these principles would only ever be engaged if an implementer was uncooperative, the patentee had complied with its undertakings, and that an infringement existed that gave rise to appropriate remedies.

On the facts of the case before them, the Court of Appeal's views on the waiver itself were very different to those of the judge at first instance. For example, Birss J had said the attempt to limit the waiver to the United Kingdom was wrong in principle, because FRAND operated on a global basis (because he said the terms could only be accepted by ZyXEL's corporate group globally or not at all). In

a sense, this is extracted from the principle in (iv) above. Floyd LJ disagreed, however, considering that the terms of the waiver was sufficient to dispense with RAND entirely. Whether the facts supported a global license or a national license, the waiver operated in respect of all RAND issues.

TQDelta relied heavily on its request for a declaration that ZyXEL was unwilling, to show that there was a live dispute. Floyd LJ observed that TQDelta was quite entitled to ask for declaratory relief in its claim at the outset, but after ZyXEL's change of tack the position was very different. He observed a number of serious problems with TQDelta's reliance on its new amendments. He found no evidence of any ongoing dispute between the parties about RAND anywhere in the world, meaning that the dispute was not properly between the parties but related more to the portfolio itself. Moreover, the concept of a 'willing licensee' was very far from having a recognized concrete definition. Finally, he noted that if ZyXEL's corporate group was to be bound to a RAND determination globally, more companies in that group would need to be present in the case, so that they could be properly represented before the court.

Floyd LJ did consider whether the RAND trial might nevertheless hold a useful purpose and be justified: but the likely future costs (which were estimated to be some £4 million), together with the court's very limited current resources, meant that a 10-day trial was not justified when the utility of trial had fallen away.

So TQDelta's amendments were struck out, and the RAND trial was struck from the list.

What Does This Mean for the Future?

Before variable winds, be prepared to change tack. This decision and the intricate tactics that led up to it are a lesson in litigating before an important and developing jurisprudence, and the importance of keeping a close eye on your own case.

That agility may come with some cost. It can be anticipated that there will be costs claims on both sides, with ZyXEL likely to claim its costs of the appeal while TQDelta may claim costs of prosecuting the RAND case prior to ZyXEL's waiver. Any future decision on that question may be interesting reading.

Potentially of wider significance is the question of how this ruling might interplay with the pending cases of *Huawei v Unwired Planet* and *ZTE v Conversant*. At the time of writing, those decisions

are under appeal and to be heard before the Supreme Court in October 2019. The defendants (appellants) in both cases have criticized the currently-developing law before the High Court and Court of Appeal as being a case of jurisdictional expansionism, which they ask the Supreme Court to overturn.

It seems likely that the Supreme Court in those cases will be assisted by Floyd LJ's judgment and analysis here. Specifically, his statement of the principles extracted from *Unwired Planet* makes clear what the limits of the prevailing law are, and that the effect of the test will always depend on the facts of the case. What is more, he makes clear the Court of Appeal's view that FRAND does not *only* operate on a global scale, but that a national license can be FRAND in the appropriate circumstances. He made this emphatic and disagreed with the judge at first instance in that regard. Equally however, he

emphasized that in some cases, a global license is an appropriate solution to the FRAND question.

Perhaps most profoundly, the decision in *ZyXEL v TQDelta* illustrates by example the bounds of the developing case law under *Unwired Planet*. It may be taken to indicate that this is not an out-of-control expansionism, but that the tests operate within limits. Here, the Court of Appeal has applied the same law that previously benefitted the patent holders in their cases—and it has shown that the right facts may well turn the tide in favor of the implementer.

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