

Nokia Co
v
InterDigital Technology Co

26 April 2005

Mummery, Rix,
and Jacob, LJJ
Court of Appeal
[2004] EWCA Civ 614

[2005] ArbLR 44

Arbitration proceedings—Parallel court proceedings—Stay—ICC arbitration underway in New York—Parties agreeing to exclude question of validity of patents from arbitration—Proceedings commenced before English courts on validity of patents—Whether to stay English proceedings (no)

No stay of court proceedings to determine issue excluded from arbitration

Nokia took a lump sum licence from InterDigital in 1999 for two periods. In period two, no royalty was payable unless a ‘major competitor’ of Nokia took a licence. Disputes arose as to whether further royalties were due for period two and, if so, what royalties were payable. The dispute was referred to ICC arbitration in New York. Nokia claimed that the patents under which a licence was available contained a number that were either invalid or not infringed by a manufacturer who sought to comply with GSM standards. Nokia applied to revoke three patents and thereby obtain judgment as to validity that could be deployed in the arbitration. InterDigital applied for an order to restrain Nokia from pursuing action before courts in the United States to obtain evidence, a declaration that the documents were irrelevant to the proceedings in England, and a stay of the proceedings in England in favour of the arbitration proceedings. The court at first instance decided that there was no basis for a stay.¹ The requests for an injunction and declaration were refused. InterDigital’s applications for amendments were rejected. Under s 72 of the Patents Act 1977, any person may bring proceedings to revoke a patent. Although the court had the power to stay proceedings whenever appropriate, the primary duty of the court is to bring a claim for relief on for trial fairly and quickly. As recorded in the terms of reference for the arbitration, the parties agreed to remove the validity and infringement of the three patents in question from the scope of questions to be decided by the arbitrators. This exclusion arose as a result of an objection by InterDigital who could not, before the

¹ [2004] ArbLR 47.

court, identify any form of alternative dispute resolution that could dispose of the issues of infringement and validity *inter partes*. There was nothing abusive in the actions pursued in the United States and they did not interfere with procedures in England. Nokia applied to the Court of Appeal for permission to appeal.

Held: Permission to appeal was granted. The appeal was dismissed. The only reason suggested for the stay was Nokia's motive to influence the arbitration. That was no reason for a stay. The courts were open to anyone who wished to challenge the validity of a patent. The private motives of parties who do so are irrelevant. This was not a case to which the power to stay pending arbitration applies. The proceedings were not an abuse of process. The judge's decision in relation to the proceedings in the United States could not be faulted.

Legislation and conventions referred to:

Patents Act 1977, s 72

Civil Procedure Rules, r 1.1(2)(e)

Michael Silverleaf QC, Henry Whittle, and Brian Nicholson for the Claimant
Guy Burkill QC and Colin Birss for the Defendant

LORD JUSTICE JACOB:

1. This is an adjourned application for permission to appeal from a judgment of Pumfrey J. He gave that in an action for the revocation of three patents and for certain declarations. I ordered the application to be adjourned to be heard by a full court with the respondents present in view of the significance of some of the points raised. In any event we have had the benefit of written original and supplementary written skeleton arguments from both sides. In view of that and because some of what I say may have more general importance, I think it desirable that permission be granted, though in the event it was not necessary to hear oral submissions on behalf of the respondents.

2. There are four points under appeal. Before I go into them it is necessary to set out the background. The defendants ('InterDigital') hold a substantial array of patents around the world. They say that these patents give them a controlling position over the Global System for Mobile Communications ('GSM'). Nokia deny this.

They say that the patents are really for a different and obsolete system called wireless local loop. Nokia say that InterDigital are 'stretching' their patents to cover what is really very different technology—technology which owes nothing to InterDigital's contribution.

3. The GSM operates according to internationally agreed technical rules. InterDigital say that some of their patents cover what is essential to comply with those standards. There is an internationally agreed definition of what is meant by 'essential'. Informally from about 1993 InterDigital were claiming that they held essential patents. In 2001 they formally notified the relevant standards institute (the ETSI) that, *inter alia*, the three UK patents the subject of the action were 'essential' within that definition.

4. After some years of discussion between the parties, in 1999 Nokia took a licence, although at the time they maintained none was needed. The reason was two-fold—partly a desire to avoid lengthy and costly world patent litigation and

partly for the commercial reason that they wanted to enter into a research and development agreement with InterDigital about certain technology. At that point one of Nokia's main rivals, Ericsson, had been in litigation with InterDigital in the US for some six years, one may surmise, at vast expense.

5. The licence granted has two periods, the second (on InterDigital's case) starting at the beginning of 2002. The royalty for the first period was a fixed sum of US\$31.5 million. That, for the second, is in dispute in an ICC arbitration. Nokia maintain that nothing is due. InterDigital say that several hundred million dollars is due. In part, they base their claim on the terms of settlement they have reached with Ericsson as some sort of a comparable. Nokia suggest in fact that the Ericsson licence had been structured so as to distort the commercial position. They say that the high rate which Ericsson apparently agreed to pay is particularly surprising in view of the fact that interlocutory decisions in what are called 'Markman' hearings in the US seem to have gone Ericsson's way.

6. The arbitrators have held that they will not determine validity completely, but that the general validity and strength of InterDigital's patent portfolio is relevant to their considerations. This determination seems reasonable. A man would not pay much for an obviously invalid patent, but would certainly pay if the patent appeared watertight and, more so, if it covered what he had to do to comply with standards.

7. With a view to influencing the arbitrators to consider the patent portfolio to be of no or little value, Nokia commenced these revocation proceedings, now due to be heard in October 2005. Though InterDigital maintain that the patents are valid as they stand, they are seeking to restrict their scope by amendment proceedings which will be heard at the same time. That is at least an acknowledgment that all may not be well with the unamended patents. In these proceedings Nokia also seek a determination that the patents are not within the meaning of 'essential' as defined, that you do not need to use the patented inventions to practise GSM technology.

8. In the US, Nokia commenced proceedings against Ericsson for discovery of documents pursuant to a useful US statute provision known as 28 USC 1782. This is a provision by which US courts can be asked to give assistance to foreign and international tribunals.

9. Nokia also invoked a subpoena procedure against Ericsson in the US for documents which might be relevant to the arbitration.

10. It was against this background that the applications before Pumfrey J were made. They consisted of three applications by InterDigital and one by Nokia. The InterDigital applications were for:

- i) That the claimant be restrained from pursuing its applications under 28 USC 1782.
- ii) Further or alternatively, it be declared that the discovery sought in those applications is irrelevant to any issue herein.
- iii) Those parts of the Claimant's [sic] pleadings herein relating to the irrelevant issue of whether some (unspecified) GSM equipment may fall within the scope of the patents herein be struck out;
- iv) save as aforesaid all further proceedings in this action be stayed pending the conclusion of the pending arbitration between the parties or further order in the meantime.

Nokia's application was to add the claim for a declaration that the patents are not 'essential'.

11. Pumfrey J refused the stay, refused the injunction, and allowed the amendment. He did not deal with InterDigital's application for a strike-out explicitly although when one reads his reasoning it is quite clear that he covered it. He took the view, as Mr Burkill accepted, that if the amendment was allowed there was no point in a strike-out.

The stay

12. Pumfrey J dealt with this in just five paragraphs. In my judgment, he was quite right. Five paragraphs was, if anything, prolix. The only reason suggested was that Nokia's motive was to

influence the arbitration, as indeed they freely admitted. That is no reason whatever for a stay. No doubt anyone who applies for revocation of a UK patent has a motive for so doing. It will normally be for some commercial purpose, though it need not be. Sometimes the motive may be to influence or partly to influence some other tribunal. If the court revokes the patent here the other tribunal will (without, of course, in any way being bound) probably look at the reasons given. If they are well expressed and appear sound, they could well have an influence. It often happens, for instance, that revocation actions here are started with a view to influencing the rather slower procedures in the European Patent Office. There is nothing wrong in any of that. The Act says that 'any person' may apply for revocation. For the court to stay proceedings therefore there must be a really good reason.

13. I would add this. The courts of England and Wales are open to anyone who wishes to attack the validity of a patent, just as they are open to anyone who wants to enforce one. It is just as important that bad patents are knocked out as that good ones are upheld. In an ideal world patent offices would only grant valid patents, but that is not the way of this world. Hard-pressed patent examiners may miss a piece of prior art altogether or, faced with a determined patentee and no one to present a contrary argument, have insufficient time to consider or work up objections. There can hardly be a patent agent who, privately, will not readily admit that he or she has got lots of things 'past the office' on flimsy grounds. In the nature of things a patent office, however hard it tries, can only be a coarse filter. Patents that pass the filter cannot be taken as necessarily valid. So it is important and in the general public interest that there be ready access to the courts for those who wish to challenge validity. Their private motives simply do not come into it.

14. It is noticeable in this connection that the Act says that any person can apply for revocation by way of contrast to the previous Act that used to say 'persons interested'.

15. Another suggested basis for a stay is that if granted it may be that the proceedings would

prove unnecessary. Much play is made of the public interest in a possible saving of court time, and reference was made to CPR Pt 1.1(2)(e), the particular reference to the requirement that the court should have regard to the saving of possible court time. It is said that, after all, Nokia have a licence. So if the arbitration is over with no possibility of appeal (which is not currently the case) then what is the point? That is a matter for Nokia, not for this court. Proceedings are properly on foot. The licence agreement expressly contemplates that Nokia can attack the licensed patents. This is not a case to which the power to stay pending arbitration applies. The proceedings are not an abuse of process. The judge has made a case management decision not to stay, and I can see no basis whatever for saying that he exercised his discretion wrongly.

16. Since the judgment things have moved on. The arbitrators refused an application for a stay pending the decision in these proceedings and have heard the arbitration. An award is expected in May. However there are opportunities for appeal or challenge, albeit limited. Nokia say that the decision of the court on validity may still serve a useful purpose for them commercially. It is not for this court to try and gainsay that. If Nokia wish to press on for revocation, that is their entitlement. The same goes for patent 571, which expires in October. InterDigital says it is particularly irrelevant for that reason. They may be right. It is for Nokia to choose whether to press on, not the court.

The USC 1782 proceedings

17. Things have moved on since the judgment. Pumfrey J refused to restrain Nokia from proceeding with these. The US District Court has now heard and determined them. It refused to grant the relief. So there is nothing substantive to appeal save the decision on costs; this was that InterDigital should pay these. Mr Burkill submits that now that it is known that the applications were unsuccessful (partly because of the information contained in Pumfrey J's judgment about what would be relevant in a UK patent

application) his discretion should now be regarded as wrongly exercised. That only has to be stated to be rejected. This was a decision on costs and in the circumstances the judge's decision cannot conceivably be faulted.

The strike out application

18. Before the amendment, the grounds of invalidity pleaded ran as follows under the heading 'Construction':

- 1 Since the Defendant asserts that '571 is essential for compliance with the GSM standard, it can be inferred that the Defendant will contend for broad constructions of the claims in which at least the elements set out below are not essential requirements of the claims. Such broad constructions are not admitted.
- 2 Claims 1 and 32 (and their dependent claims)—
 - (i) require the 'information signals' received by the base station to be analogue signals which are converted by an analogue-to-digital converter.

Then there is another requirement of the claim set out. The same thing is said in relation to claims 14 and 23 as for claims 1 and 32 about the necessity for having analogue to digital converter.

19. Similar pleadings appear in relation to the other two patents. These pleadings amount to what was in the course of argument graphically summarized by Rix LJ as follows, namely: 'You have said X from which it can be inferred you are saying Y, and that will not do.' Mr Burkill attacked this pleading on the basis of an attempt to construe the claim by reference to subsequent conduct. That of course cannot be done, but equally that is not what is being said here. This is no more than an allegation about the construction of the claims. It is not an attempt to use anything that has been said afterwards to construe the claims. The application, as it stood, was misconceived. It is accepted in any event that if the amendment is allowed, as Pumfrey J did, there would be no real point in the strike-out even if it were still technically correct.

Amendment to the pleadings

20. I turn to the amendment to the pleadings. Nokia, by the amendment, seek:

A declaration that the importation, manufacture, sale, supply, offer for sale or supply, keeping or use of—

- (i) GSM mobile telephones, and
- (ii) GSM system infrastructure equipment, and each of them, compliant with the ETSI GSM standard TS 141 101 V4.11.0/3GPP TS 41.101 version 4.11.0 Release 4, without the licence of the Defendant does not require infringement of UK Patents Nos 2,174,571; 2,208,774 and 2,224,414 or any of them such that the Patents and each of them are not essential IPR for GSM release 4.

21. The definition of 'essential' is clear. It is contained in the relevant standard and the standard is clear. No one suggests otherwise. It is entirely possible, and has been done, to set out why Inter-Digital claim that the claims are essential. We were shown the document which was produced before Pumfrey J, or shortly thereafter. I can see nothing in the document whatever which suggests that the issue of essential or not is not well and clearly defined. You take the standard, you take the patents, you take the definition of 'essential' and you see whether there is any way around or not. This is not an application for a declaration of non-infringement of a specific article of the sort which is covered by s 71 of the Patents Act 1977 but equally it seems to me that the issue, one way or another, is clearly enough defined to be the subject of the court's inherent jurisdiction.

22. In this connection it was said that in some cases the standard provides for options and that only some of the options are covered by the patents. That, to my mind, makes no difference though it might qualify the ultimate declaration which would indicate which options are covered and which are not. That is also suggested to make the proposed declaration theoretical. I do not think so. It tells everybody exactly where they

stand, which options are covered, and which are not covered by the patents.

23. It is also said that there is no real extant dispute between the parties and so this is not an appropriate matter for a declaration. Nokia have a licence. No claim of infringement is asserted against them is the way the argument works. But to my mind, clearly, the essentiality or its degree affects the value of a patent. If they dominate then what one has to pay is quite different than if they cover nothing essential; and can be easily circumnavigated. That may affect the arbitration. If it does, it does. But it is not a matter specifically covered by the arbitration and, just as in the case of the application for the stay, one cannot invoke the jurisdiction to stay pending an arbitration or anything like that. Moreover, the issue of 'essential' or not does not appear to be a matter solely for the arbitrators.

24. What is the position as regards the expiry of the current licence? Paragraph 8 of the particulars of claim as proposed to be amended states this:

Further and in any event, the essentiality of the Patents to equipment compliant with GSM Revision 4 is relevant to the requirement for and/or terms of any licence to be entered into following the expiry of the licence currently in force.

25. Mr Burkill submits that as matters stand the arbitrators may decide that the licence is fully paid up and that therefore this point pleaded in para 8 will never arise. To my mind that is somewhat specious. Plainly as matters stand between the parties there is a real commercial issue between them as to essentiality of these patents. I do not regard the fact that there is a possibility that the point may go away in a settlement as indicating that it is not live now. Likewise I do not accept

the submission that the opinion of the court as to 'essential' or not is merely an advisory opinion. If it were, that might be a ground for refusing a declaration depending precisely on many other circumstances. But at present it is a real, live commercial question between the parties.

26. Finally a point was made in relation to the 571 patent which expires next October. Even that one remains a live commercial issue between the parties in relation to essentiality, at least to the extent that it may be touched upon or relevant to the arbitration. As I take the view there should be no stay until all matters connected with the arbitration are over, I see no reason for a stay in relation to the application for a declaration of non-essentiality in relation to 571.

27. I would dismiss this appeal

LORD JUSTICE RIX:

28. I agree.

LORD JUSTICE MUMMERY:

29. I agree.

Ruling

30. We have discussed your applications. The order we make is, as I have indicated, we grant you permission to appeal. We will dismiss the appeal. We will order the appellant to pay the costs and the costs of the appeal to be subject to immediate detailed assessment. Mr Silverleaf has asked us to vary the order below which was for an order for detailed assessment of the costs below unless agreed with a payment on account. We see no reason for altering the order Pumfrey J made. That was a perfectly correct order. So the order for costs here is an immediate detailed assessment of the costs of the appeal to be paid by the appellant.