



Neutral Citation Number: [2021] EWHC 2826 (Pat)

Case No: HP-2021-000004

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
PATENTS COURT

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

Date: 22nd October 2021

Before :

THE HON MR JUSTICE MELLOR

Between :

GODO KAISHA IP BRIDGE 1

(a company incorporated under the laws of Japan)

- and -

(1) HUAWEI TECHNOLOGIES CO., LIMITED

(a company incorporated under the laws of the People's Republic of
China)

(2) HUAWEI DEVICE CO., LIMITED

(a company incorporated under the laws of the People's Republic of
China)

(3) HUAWEI TECHNOLOGIES (UK) CO., LIMITED

Claimant

Defendants

Nicholas Saunders QC and Stephen Innes (instructed by **EIP Europe LLP**) for the **Claimant**
Iain Purvis QC and Kyra Nezami (instructed by **Allen & Overy LLP**) for the **Third**
Defendant

Stuart Baran (instructed by **Bristows LLP**) for **Counterparty C**

Hearing date: 18th October 2021

Approved Judgment

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

COVID-19: This judgment was handed down remotely by circulation to the parties' representatives by email. It will also be released for publication on BAILII and other websites. The date and time for hand-down is deemed to be Friday 22nd October 2021 at 10am.

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THE HON MR JUSTICE MELLOR

Mr Justice Mellor:

Introduction

1. At the hearing of the FRAND CMC on 18th October 2021, I dealt with various points arising on directions which were embodied in my Order of that date. In this judgment I deal with two substantive applications argued at that hearing.
2. Although I have reached clear conclusions on both applications, each involved some intricate issues, the resolution of which may be of wider interest, which is why I reserved my judgment for a short time.
3. The second application can be readily identified: it is an application by the Third Defendant (currently the only Defendant which has been served, which I shall call simply Huawei) for security for costs against the Claimant (IPB). The first concerns an important confidentiality issue.

Confidentiality re Comparable Licences A & C

4. The first application concerns what terms as to confidentiality should attach to two out of three licences (A, B & C) relied upon by IPB in its FRAND Statement of Case as being comparable for the purposes of establishing, in this case, what are FRAND terms for the licensing of the so-called Nozomi portfolio of patents. At the moment the two licences in dispute (A & C) are subject to an External Eyes Only (EEO) regime. Huawei seeks re-designation down to the lower confidentiality level of ‘Confidential Between Parties Information’, as defined in my earlier Confidentiality Order of 20 July 2021. No issue arises regarding Licence B. The application engages not just the interests of the parties to this case, but also the counterparties to Comparable Licences A and C.
5. Counterparty C was represented before me by Mr Stuart Baran of Counsel and he provided me with a useful Skeleton Argument and oral submissions. This was the second time in a week when a third party addressed submissions to me concerning confidentiality of a document in which it had a distinct interest. When writing this judgment, I received representations from a counterparty in a third case. In common with the earlier case, Mr Baran and his clients did not have access to the evidence which was before me and so his submissions had to cover a wide ground.
6. For its part, Counterparty A was content, as I understand it, simply to register its resistance and leave the matter in the hands of the Court. IPB took an essentially neutral stance save in so far as any re-designation (or lack of it) might impact on the steps in the litigation already ordered. IPB was excluded from a good part of the argument made by Counterparty C and Huawei because of one feature (referred to as the Sensitive Fact) which Huawei insisted was not revealed to IPB. Mr Baran drew attention to the apparent conflict between Huawei’s attitude on that point and its desire to have Comparable Licence C dealt with on a more relaxed basis.
7. The applicable principles were not in dispute. Reference was made to *Oneplus v Mitsubishi* [2020] EWCA Civ 1562 especially the summary of Floyd LJ at [39] but I also have in mind the various citations in his [19]-[38] which underpin his summary. Of particular importance to the current application is [39](ii):

‘An arrangement under which an officer or employee of the receiving party gains no access at all to documents of importance at trial will be exceptionally rare, if indeed it can happen at all.’

8. I was also reminded that Henry Carr J considered the question of EEO designation for comparable licences in *TQ Delta v Zyxel* [2018] EWHC 1515 (Ch), [2018] FSR 34. At [34], he said this:

‘I have concluded that disclosure of the licence agreements should not be limited to external eyes only, but that the third parties should be given the opportunity to vary or set aside that order before disclosure is made. In my view, the onus must be on those who wish to limit access to key documents to external eyes only to justify that limitation, rather than on the party who is, prima facie, entitled to see the documents, to justify its entitlement to access.’
9. Counterparty C’s (very much) preferred option was that the EEO designation should be maintained throughout this case, and it put forward a series of persuasive submissions explaining why the information in Licence C deserved a significant degree of protection and why the circumstances were truly exceptional. Realistically recognising that I might disagree with that course, its second option was to maintain EEO for the moment and adjourn the question to a later date, suggesting until the conclusion of Trial B, or alternatively only when Huawei comes forward with a concrete reason as to why a relaxation from EEO was necessary e.g. for the formulation of a settlement offer. Counterparty C also put forward a series of suggestions by which more stringent protection would be given to Licence C than provided for in the undertakings presently involved in the Confidential Between Parties Information arrangements.
10. I am unable in a public judgment to discuss the arguments in detail because to do so would disclose confidential information. Mr Baran made an argument based on a high degree of symmetry between two situations, but I was persuaded by Mr Purvis’ counterargument that the degree of symmetry was nowhere near as significant as Mr Baran made out. More generally, Mr Purvis accused Mr Baran and his clients of adopting an extreme position, perhaps hoping to shift the Overton window further towards that position than would otherwise be in the case, and there was some force in that submission.
11. In the directions I gave in the last part of the hearing, I directed Huawei to file its Reply Statement of Case on FRAND by 17 January 2022, this being in response to IPB’s FRAND Statement of Case which was served on 1st October 2021. There was some debate between the parties as to whether the direction should include a requirement that Huawei plead any positive case it has on FRAND, the purpose being, according to IPB, to ensure that Huawei pleaded any case it wished to run involving competition law, but in the result I declined to add any requirement, leaving it to the usual rules in CPR16.5(2)(b) and the *Aldi* guidelines. The transcript records the discussion which took place, to which reference can be made should Huawei attempt to hold some positive case back until later.

12. However, one of the reasons for giving Huawei this generous time in which to prepare and file their FRAND SoC is so that the issues are properly and fully pleaded. This consideration impacts on this confidentiality issue.
13. It is clear that IPB regards Comparable Licence C as the most powerful comparable licence. Having reviewed the three comparables, I can see why IPB wishes to place significant weight on it. Mr Baran submitted that Huawei's very experienced lawyers would be able to plead and run Huawei's case perfectly adequately without any input from personnel at Huawei. In my view in the circumstances, this submission is untenable so far as it is contemplated that Trial D should take place without anyone at Huawei ever seeing Comparable Licence C. In the particular circumstances of this case, I also think it would place an undue burden on the running of Huawei's case on the FRAND part of this litigation if I postpone relaxation of the EEO regime until the conclusion of Trial B (around 5 months before Trial D). Accordingly, I have come to the conclusion that, notwithstanding the sensitivity of the document (which I entirely accept), if appropriate protections can be put in place, a limited number of personnel at Huawei should have access to Comparable Licence C so that (a) Huawei can plead fully and properly in its FRAND SoC to the allegations relying on that document and (b) Huawei's legal and experts teams are able to progress Huawei's case down to Trial D.
14. In terms of appropriate persons, Huawei have four persons in the Confidential Between Parties Information designation. Two of these four are currently involved in licensing negotiations and two are not (with no intention of being so involved in the future). I am in no doubt that I should exclude the two persons who are currently involved in licensing negotiations on behalf of Huawei, at least until after the Sensitive Fact no longer applies. I realise that the two I have excluded may be best placed to comment on Comparable Licence C, but I am sure the two who will have access will be able to provide satisfactory input and instructions.
15. I will require the two persons who are not involved in licensing negotiations (who are both Legal Counsel) to undertake to Counterparty C that they will not, for a period of 5 years, participate in or advise upon any present, ongoing or future licensing negotiations involving Counterparty C or its subsidiaries or affiliates on the one hand and the Huawei Defendants, or their subsidiaries or affiliates on the other. Such undertaking will be until further Order of the Court, because it may be appropriate at a later stage of this litigation to relax that undertaking.
16. I will also require that the documents in question are provided to the two individuals on a read-only basis under the supervision of Huawei's solicitors, so that neither individual retains a physical copy nor is able to hold an electronic copy in a device's memory (other than in temporary memory during the supervised access) for later unsupervised access.
17. I am well aware that, with these additional restrictions, I am creating a third tier of confidentiality protection in this case, but in my view Comparable Licence C and the interests of Counterparty C require it.
18. The situation regarding Comparable Licence A is different in several material respects. I was initially inclined to impose the same regime on Comparable Licence A as C. However, the differences are such that on reflection I consider it is appropriate to re-designate Comparable Licence A as 'Confidential Between Parties Information', so

Comparable Licences A & B can be disclosed to all four individuals at Huawei who are nominated in that designation, and who have given the required undertakings.

19. I ask the parties to implement these directions regarding Comparable Licence C by drafting appropriate undertakings and a revised Confidentiality Order which I can approve and issue.

Security for Costs

20. At the first CMC on 20th July 2021 I ordered 3 technical trials (A, B and C) plus a FRAND Trial (D), with Trial C stayed. These trials have now been listed with Trial A (7 days) in October 2022, Trial B (9 days) in February 2023 and Trial D (15 days) in July 2023. Huawei seeks security in the total sum of £8,128,000 for its costs of Trials A, B and D. This figure is made up of the estimated costs of those three trials. If I order security, that total is agreed, although there is a small dispute as to the stages of security making up that total. I set out here the respective proposals for the staged payments, but I observe that Huawei's proposal provides a (very rough) indication of the way in which the costs will be incurred over time. For the purposes of this application I assume that the costs incurred on each side will be roughly the same.

Trial dates	Claimant's proposed payments	Third Defendant's proposed payments
	30.11.21 £628,000	30.11.21 £1,628,000
	28.02.22 £1m	28.02.22 £1m
	31.07.22 £2m	31.07.22 £2m
October 2022 Trial A (est. costs £2,165,200)		
	01.12.22 £2.5m	01.12.22 £2.5m
February 2023 Trial B (est. costs £2,165,200)		
	01.05.23 £2m	01.05.23 £1m
July 2023 Trial D (est. costs £3,797,600)		

21. The complication in this case arises from the structure of IPB and the way in which it holds assets, including patents in the Nozomi portfolio. As a Godo Kaisha, IPB is a company incorporated under the Japanese Companies Act. A Godo Kaisha has a corporate structure modelled on overseas limited companies (but is not required to publish its financial statements and these are considered to be confidential). However, by a declaration of trust, IPB has created a so-called self-trust. A declaration of self-trust can be used when a person who intends to be the trustee of the trust initially owns the asset. Under Japanese law, the original owner of the asset becomes both the trustee and the original beneficiary and the trustee will administer, manage or dispose of the trust asset in accordance with the purpose of the trust as provided for in the declaration of trust. Generally, the beneficiary interest would be transferred to a third party or parties.
22. So the patents in the Nozomi portfolio are held by IPB on trust. Under Japanese law, the trustee IPB is the legal owner of the trust assets and is the person entitled to bring proceedings for infringement of those patents, and is entitled to pay any resultant

expenses from trust assets. The terms of the trust are confidential, so I will consider the arguments based on the ramifications of those terms in an annex to this judgment which will have to remain confidential.

Applicable principles

23. Huawei brings its application under two heads: CPR 25.13(2)(a), on the basis that IPB is resident out of the jurisdiction in Japan, which is not a state bound by the Hague Convention and CPR 25.13(2)(c) on the basis that there is reason to believe that IPB will be unable to pay Huawei's costs if ordered to do so.
24. The applicable principles are not in dispute. IPB reminded me of the summary by Hamblen LJ in *Danilina v Chernukhin* [2018] EWCA Civ 1802 at [51]. Mr Purvis QC for Huawei emphasised two points in particular: the first concerning the standard of proof required i.e. reason to believe, by reference to *Jirehouse Capital v Beller* [2008] EWCA Civ 908 (i.e. the defendant does not have to show on a balance of probabilities that the claimant company will be unable to pay); and second, that questions as to ability to pay have to be decided at the time of the application for security. The question is whether there is reason to believe that a future event will occur: the claimant company being unable to pay the defendant's costs, if ordered to do so, at or after trial. Both points are made in the notes in the White Book at 25.13.12. I have kept all these points in mind.

The respective positions

25. The positions of the parties were refined through numerous rounds of evidence, the written skeletons and finally in oral submissions.
26. IPB did not dispute that the condition in CPR 25.13(2)(a) was satisfied. The evidence established that (a) a judgment of the English court can be enforced by a Japanese court, but the judgment must be final and binding i.e. either an appeal from the judgment is no longer possible or any appeal has been exhausted and (b) Huawei would be able to enforce a judgment against the assets of this trust, since the costs would fall within 'Obligations Covered by Trust Property', an exception to the general rule in the Japanese Trust Act (see Articles 23(1) & 21(1) items 5 and 9). IPB contended that the potential delay in enforcement would be compensated for by an award of interest. IPB pointed out that Huawei had not sought to identify in evidence any additional cost of enforcement (cf *Nasser v United Bank of Kuwait*, where the additional burden of enforcing in the US was held to be represented by additional costs of £5,000).
27. To avoid any risk or burden with delay in enforcement, IPB offered an undertaking, which changed as the evidence developed. The final undertaking which emerged was that IPB, as trustee of the trust, will pay any costs order made against the Claimant in favour of the Third Defendant, including any orders for payments of costs on account, when they fall due for payment, unless the English Court orders a stay of enforcement or otherwise stays the award of any payment of costs. The evidence established that such an undertaking would be enforceable in Japan against the assets of the trust.
28. Due to this undertaking, the application really turns on CPR 25.13(2)(c) (as I think Mr Purvis QC accepted) i.e. is there reason to believe the Claimant will be unable to pay the Third Defendant's costs if ordered to do so?

29. Huawei invited me to consider the position in late 2023, when the result of all three trials was known and IPB was facing a potential costs liability of the £8m figure.

My analysis

30. It seems to me that this is the wrong scenario to consider, as it will never arise. On the handing down of judgment in Trial A (say in November 2022), the Judge will make an Order for the costs of that Trial (which will include all the steps leading up to it). I recognise that percentage orders are common in patent cases, but often the reduction is minor so for simplicity I will assume that the winner gets an order for costs in its favour. The almost invariable practice is to make an order for an interim payment on account of those costs, which can be 60-70% of the total. So an interim payment could be as much as £1.4m (65%). I readily acknowledge that the overall costs incurred on each side by that point will be very much more than that, and could be say £4.5m.
31. Similarly for Trial B, the Court is likely to make an order for an interim payment of around £1.4m in say March or April 2023, by which time the total costs incurred on each side might be around say £7.0m, since on the current timetable the expert evidence for the FRAND trial will be complete by then.
32. However, the significance of the two orders for interim payments is twofold, and I need to consider the various possible outcomes on the assumption that security in the full sum of £8,128,000 has not been ordered.
33. Let me first take the scenario where IPB loses Trial A. If it fails to pay the interim payment on account, it is likely that an application for security (or further security) would be brought immediately and the Court invited to stay the remainder of the action pending payment and provision of security. Thus, the interim order ameliorates the risk of IPB's action creating a costs burden on Huawei which cannot be recovered. However, the loss of Trial A would mean that IPB, in addition to having to pay the interim order immediately, would not be able to recover its own costs of £2.1m.
34. By contrast, if IPB wins Trial A, the interim payment would have to be made by Huawei, but would also mean that Huawei would have to bear its own costs of Trial A.
35. If IPB loses Trial A but wins Trial B, then the interim payments will largely cancel each other out, as will the overall costs burden of those trials. The same is true if IPB wins Trial A but loses Trial B. Then the remaining costs burden on Huawei will arise from the costs of Trial D.
36. Considering all these scenarios, it seems to me that the maximum costs exposure for Huawei is at the conclusion of Trial B – say £7m-£2.1m-1.4m = £3.5m, but that would rise to a maximum of £4.6m by the conclusion of Trial D, on the assumption that Huawei would be awarded the entirety of its costs of Trial D. Although this is a possibility, it seems to me to be unlikely that IPB would so position itself as to lose on all points at a FRAND trial. It is much more likely that costs would be split between the two sides, so it is more realistic to assume that Huawei's maximum burden would be about £3.5-4.0m.
37. The remaining scenario to consider is if IPB loses both technical trials, then Trial D will not go ahead as planned. IPB would then have to propose a further patent or patents

from its portfolio for further technical trials, it being well-established that a SEP patentee is only entitled to have a FRAND trial if it establishes that at least one of its patents is valid and essential, or by agreement between the parties (see *Vestel Elektronik Sanayi Ve Ticaret A.S. & Anor v Access Advance LLC & Anor* [2021] EWCA Civ 440 per Birss LJ at [78]-[79] and my conclusion in *Mitsubishi v Oneplus* [2021] EWHC 1541 (Pat) at [23]). At that point, I envisage that the Court would be invited to reconsider the issue for security, either that it should be awarded or increased, depending on the then state of the trust's financial position. I recognise at that point, Huawei's costs exposure might be £7m-£1.4m = £5.6m, but it perhaps more likely that IPB would pay the second interim sum, otherwise the action would not be allowed to continue at all, in which case the exposure would be around £4.2m.

38. The consideration of all these scenarios also needs to take account of what IPB is seeking to recover in this action. Mr Heaney, in his fifth witness statement on behalf of Huawei, drew attention to IPB's lump sum offer of 14 January 2021 in relation to mobile devices, indicating how the sum increases when one takes account of the life of the Nozomi portfolio and if the licence includes infrastructure. These sums are multiples of the costs in issue. I derive some assistance also from the comparable licenses relied on by IPB. At the lower end, an outcome where the Nozomi portfolio is held to be worthless is so unlikely that I can leave that out of account. The comparable licenses clearly establish that the Nozomi portfolio has value. At minimum, it seems highly likely that the amounts recoverable by IPB will at least exceed the costs incurred by it. At the higher end, IPB might expect to recover something in the region of the sums in Comparable Licence C or more if infrastructure is included, although Huawei hotly dispute that infrastructure should be included in any FRAND licence. Furthermore, it is realistic to consider that as the likely recovery approaches the costs incurred figures, the parties are perhaps more likely to settle.
39. Accordingly, provided IPB establishes its right to a FRAND trial, this is not an action where IPB will recover nothing and I consider the likely recovery will exceed by some margin what each party is prepared to spend on costs. On this assumption, the recoverable royalties will represent a sum from which any unpaid costs can be deducted, even if they represent royalties extending as far as, say, 2026.
40. Thus, the scenario I have to consider is very far from the archetypical case where security is required and ordered to prevent an impecunious claimant from exerting unfair pressure on a better resourced defendant. Furthermore, the prize for IPB will only be attainable if IPB pays adverse costs orders granted against it as the action proceeds, as it has undertaken to do.
41. So, on this analysis and even before I come to consider the arguments over the resources available to IPB, a scenario where Huawei is left out of pocket for its costs (either to a significant extent or at all) seems remote.
42. Huawei made a series of points about the resources available to IPB with the aim of persuading me that I should conclude IPB will be unable to pay Huawei's costs if ordered to do so. I discuss these points in the Confidential Annex (which nonetheless remains part of this Judgment, as the paragraph numbering indicates), which must remain subject to the Confidential Between Parties Information confidentiality regime in this case. However, I can state my conclusion publicly here. I was not persuaded by any of Huawei's arguments that there was a realistic risk that the trust would not exist

or have insufficient resources to enable IPB to pay Huawei's costs, when those costs orders which are realistic would fall to be made.

43. Underpinning much of Huawei's position was the beguiling submission that IPB had more than sufficient cash available now to be able to ' earmark ' the £8,128,000, possibly by payment into an escrow account held by IPB's solicitors. That course would suit every defendant, but it is not a basis on which to order security for costs.

Conclusion on security for costs

56. In the present circumstances, Huawei has failed to establish a basis for an order for security for costs, whether in the sum originally claimed of £8,128,000 or any lesser sum. The circumstances and evidence presented to me do not establish that there is reason to believe that IPB will be unable to pay Huawei's costs if ordered to do so. As I have indicated, if IPB loses both Trial A and B, it is likely that the situation will have to be re-examined at that point and the resources available to IPB and its situation will have to be re-evaluated.

