



Neutral Citation [2020] EWHC 29 (Ch)

Claim No HP-2015-000063

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

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

Date: 17 January 2020

**Before:**

**THE HONOURABLE MR JUSTICE MARCUS SMITH**

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**KONINKLIJKE PHILIPS NV**

Claimant

**- and -**

- (1) ASUSTEK COMPUTER  
INORPORATION  
(2) ASUSTEK (UK) LIMITED  
(3) ASUS TECHNOLOGY PTE LIMITED  
(4) HTC CORPORATION  
(5) HTC EUROPE CO LIMITED**

Defendants

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**Ms Sarah Ford, QC and Ms Ligia Osepciu** (instructed by **Bristows LLP**) for the **Claimant**  
(the Respondent in the present application)

**Mr Daniel Alexander, QC, Mr William Duncan and Ms Emma Mockford** (instructed by  
**Taylor Wessing LLP**) for the **First, Second and Third Defendants** (the Applicants in the  
present application)

Hearing date: 13 December 2019

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**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.

**Mr Justice Marcus Smith:**

**A. INTRODUCTION**

1. Early next year, in the Patents Court, a trial, currently listed for five weeks, will take place between the Claimant, Koninklijke Philips NV (“Philips”<sup>1</sup>), and five defendants. These defendants fall into two groups. The First, Second and Third Defendants all belong to the ASUS group of companies, and I shall refer to them as “ASUS”. The Fourth and Fifth Defendants are both part of the HTC group of companies, and I shall refer to them as “HTC”.
2. The trial next year is the latest stage in a long-running dispute between Philips on the one side and ASUS and HTC on the other. Because there have been a number of substantive hearings before this one, next year’s trial is referred to as “Trial D”, and I shall adopt that description.
3. At a hearing before me on 27 November 2019, ASUS raised the question of an application which, if successful, would result in ASUS leaving Trial D and so avoid the time and costs involved in ASUS defending the claims advanced by Philips in Trial D. The question before me on 27 November 2019 was not whether the application was well-founded – that was a matter that clearly could not be determined on that occasion, given how recently the application had been made – but when the application should be determined.
4. Philips contended that the application could only properly be determined at Trial D itself. ASUS sought determination of the application as soon as possible. Although conscious that this was not a straightforward application – that much was clear from the submissions before me on 27 November 2019 – it seemed to me important that the matter be determined (one way or the other) swiftly. Accordingly, I ordered that the application be heard, before me, on 13 December 2019. My reasons for this order are set out in my ruling of that date.<sup>2</sup>
5. This Judgment determines the substance of the ASUS application.

**B. BACKGROUND: STANDARD ESSENTIAL PATENTS AND FRAND LICENCES**

6. Trial D concerns the determination of the appropriate FRAND rate (a term I describe below) for the licensing of the Philips patent portfolio (the “Philips Portfolio”). The Philips Portfolio comprises nearly 80 patent families, covering a range of technologies relating to the 3G/UMTS and 4G/LTE telecommunications standards (the “Standards”). The Philips Portfolio includes patents in more than 50 countries across Europe, the Americas and the rest of the world.

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<sup>1</sup> A list of the terms used in this Judgment, together with the paragraph in the Judgment where the term is first used, is at Annex 1 hereto.

<sup>2</sup> Bearing a neutral citation of [2019] EWHC 3395 (Pat).

7. The Philips Portfolio comprises, in whole or in part, what are known as and referred to herein as “Standard Essential Patents”. It is necessary to be clear on what this means. The following explanation draws substantially on the description contained in the decision of the Court of Appeal in *Unwired Planet International Limited v. Huawei Technologies Limited*:<sup>3</sup>
- (1) A Standard Essential Patent is a patent which protects a technology which its owner has declared to be essential to the implementation of a telecommunications standard such as the Standards in this case.
  - (2) It is generally accepted that the promulgation of a telecommunications standard supports innovation and growth by ensuring the inter-operability of the digital technologies to which it relates. It leads to an increase in the range and volume of products which meet the standard and it allows consumers to switch more easily between the products of different manufacturers. Standards are set by standard setting organisations.
  - (3) Standard setting organisations bring together industry participants to evaluate technologies for inclusion in a new standard, encourage those participants to contribute their most advanced technologies to that standard and promote the standard once it has been agreed. There are various standard setting organisations around the world and each of them operates in much the same way. For the purposes of Trial D, the relevant standard setting organisation for the Standards is the European Telecommunications Standards Institute (“ETSI”).
  - (4) Standard Essential Patents can be of great value to their holders. Holders can expect a substantial revenue stream from their Standard Essential Patents as the standard for which they are essential is implemented in products sold to millions of consumers. This revenue stream is supported by the fact that alternative technologies which do not meet the standard may well disappear from the market.
  - (5) The potential for anti-competitive behaviour – I shall refer to this as “gaming” the system, but “hold-up” is also a term used – is obvious. The owner of a Standard Essential Patent may use the monopoly conferred by the patent to hold-up users after the adoption and publication of the standard, either by refusing to license the patent at all or by extracting excessive royalty fees for its use. In that way, competitors are prevented from gaining effective access to the standard and the part of the telecommunications market to which that standard relates.
  - (6) ETSI (like other standard setting organisations) therefore require the owners of Standard Essential Patents to give an irrevocable undertaking that they are prepared to grant licences of their standard essential patents on fair, reasonable and non-discriminatory (“FRAND”) terms. This undertaking is designed to ensure that any technology protected by a Standard Essential Patent which is incorporated into a standard is accessible to users of that standard on fair and reasonable terms and that its owner cannot impede the implementation of the standard by refusing to license it or by requesting unfair, unreasonable or discriminatory licence fees.

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<sup>3</sup> [2018] EWCA Civ 2344.

- (7) Even with this undertaking, the negotiation of licences for Standard Essential Patents on FRAND terms is generally not straightforward, and the agreement of a FRAND licence between the holder of the patent (the “Holder”) and a party seeking to licence a patent (the “Implementer”) may not be possible. Not only might there be a dispute about the rate to be paid, there might also be a dispute about the number of patents that the Implementer might be required to licence and/or the territories that would be covered by the licence. In the present case, it is Philips’ commercial practice to require prospective licensees to take a world-wide, portfolio licence to the Philips Portfolio, whether that is something the prospective licensee wants or not.
8. The process of negotiating a FRAND licence thus itself becomes a potential tool for anti-competitive behaviour or gaming, both by Holders and by Implementers. Thus:
- (1) The owner of a Standard Essential Patent may use the threat of an interim injunction, enjoining the infringement of the Standard Essential Patent, as a means of securing the payment of excessive licence fees. The effect of such a threat is greatly mitigated by the fact that it is possible (in this jurisdiction at least) for a Holder or an Implementer to seek a declaration as to what the terms of a FRAND licence would be. This, in combination with the Holder’s irrevocable undertaking to grant a licence on FRAND terms,<sup>4</sup> means that it is possible for an Implementer to contend that an interim injunction is inappropriate, because damages will be an adequate remedy.
- (2) The FRAND licence, the terms of which are declared by the court, will generally deal not only with the licensing by the Implementer of Standard Essential Patents for the future, but will ensure compensation to the Holder by the Implementer for any past infringements committed by the Implementer. As the law presently stands, the court can declare a royalty rate for a licence that extends extra-territorially. In other words, what is licensed are not merely intellectual property rights for the United Kingdom, but beyond.<sup>5</sup>
- (3) On the other hand, the fact that (on the law as presently understood) an English court can declare what a FRAND licence is, does not mean that an Implementer is obliged to take such a licence, its terms having been declared. Of course, an Implementer may undertake, in the course of proceedings, to obtain a licence on whatever terms the court declares. Even if the Implementer does not so undertake, the Implementer may (on the court’s ruling) choose to take a licence. But an Implementer is under no obligation either to give an undertaking to obtain a licence in advance of judgment or to take a licence once its terms have been declared.

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<sup>4</sup> See paragraph 7(6) above.

<sup>5</sup> The Court of Appeal’s decision in *Unwired Planet* is presently on appeal to the Supreme Court. The hearing of that appeal took place in October 2019. One of the issues being considered by the Supreme Court is whether an English court has jurisdiction to determine the rates/terms for a global licence under a multi-national patent portfolio and declare such rates/terms to be FRAND. The argument before the Supreme Court has revolved around matters such as the limited territorial scope of patent rights, the need for judicial restraint and comity between national courts and the patent rights conferred by other nations.

- (4) This, of course, can result in gaming by the Implementer, and it is this aspect of FRAND licensing that is highlighted by the application of ASUS. I will come to describe the nature of that application in a moment. I should only stress at this point that it was Philips' contention that, by their application, ASUS were gaming the FRAND process, whilst it was ASUS' contention that, in resisting the application, Philips was doing exactly that itself. It is unnecessary for me to make findings in this regard: but it is important to bear in mind that this is a complex process, and it is important that I pay due regard to the important background to Standard Essential Patents, and their licensing, which I have described in these paragraphs.

### **C. ASSUMPTIONS ON WHICH THE ASUS APPLICATION WAS ARGUED**

9. The purpose of Trial D is to determine the FRAND rate for a license to (all or part of) the Philips Portfolio. It is no part of this Judgment to anticipate what the outcome of Trial D will be. However, it is important to note that the application of ASUS that I am ruling upon was fought on the basis of two assumptions intended to minimise the factual disputes that would otherwise have rendered the application either impossible, or else very difficult, to determine. I put these assumptions to Mr Daniel Alexander, QC, who appeared and appears for ASUS, on 27 November 2019 and he was prepared to deal with the application on this basis. He submitted that, although both assumptions favoured Philips' arguments, the application of ASUS should nevertheless prevail.

10. The assumptions are set out in my order of 29 November 2019. Paragraph 6 of the order provides:

“The hearing on 13 December 2019 shall proceed on the basis of the following factual assumptions (neither of which shall bind the parties in any subsequent hearing or trial and which are made without prejudice to any party's position in any subsequent hearing or trial):

- (a) That Philips' commercial practice of requiring prospective licensees to take a nationwide, portfolio licence to [the Philips Portfolio] is a proper and lawful practice; and
- (b) That FRAND, in this case, requires a willing licensee to take a worldwide, portfolio licence to [the Philips Portfolio].”

### **D. THE APPLICATION**

#### **(1) Background**

11. ASUS have a small market in the United Kingdom for products requiring a licence to the Philips Portfolio. They have taken the view that this is a market not worth developing and that therefore they will not be seeking a FRAND license to the Philips Portfolio. They are prepared to be enjoined, by way of a permanent injunction, from infringing the Philips Portfolio in the United Kingdom and will consent to an order to that effect.
12. It is trite, but nevertheless important to stress, that such an injunction could and would only relate to infringements of the Philips Portfolio in the United Kingdom. An English court would not grant an injunction having extra-territorial effect, enjoining infringements of the Philips Portfolio beyond the territory of the United Kingdom. This

was common ground between the parties and, as I say, trite law. In *Unwired Planet*, the Court of Appeal said this at [52]:

“We should say straight away that we accept without question that a UK [Standard Essential Patent] has limited territorial scope and that courts in this jurisdiction will generally only determine disputes concerning the infringement and validity of UK or [European Patent (UK)] patents. If a UK [Standard Essential Patent] is found valid and infringed, a UK court will only grant relief in respect of the infringement of that patent. As Aldous LJ explained in *Coflexip SA v. Stolt Comex*, [2001] RPC 9 at [18], the injunction must equate to the statutory right given; a right which has been held to have been validly granted and infringed. So, the court will only grant an injunction to restrain infringement of the [Standard Essential Patent] in issue in the proceedings. The same applies to a claim for damages: they will only be awarded for infringement of that [Standard Essential Patent].”

13. ASUS contended that, given their decision not to seek a FRAND licence to the Philips Portfolio, their participation in Trial D was otiose and a waste not only of their time and costs, but also of the court’s time and that of the other parties. It was, essentially for this reason, that I ordered the early determination of the ASUS application.

**(2) The decision in *TQ Delta***

14. ASUS relied on the decision of the Court of Appeal in *TQ Delta LLC v. ZyXEL Communications UK Limited*.<sup>6</sup> In that case:

- (1) ZyXEL irrevocably waived any right to a RAND (in that case) licence. The effect of this was to eliminate any defence ZyXEL would have to an injunction on the part of TQ Delta as regards any future infringement in this jurisdiction.<sup>7</sup> Quoting from [40] and [41] of the judgment of Floyd LJ in the Court of Appeal:

“40 I accept that it may not be open to ZyXEL selectively to *claim* the right to be granted a RAND licence. If the licence is a unitary, portfolio, worldwide, group to group licence, it is arguable that ZyXEL must take it as a whole or not at all. They cannot claim it for the UK only, or for certain patents or for certain companies in the group. That follows from the proposition that it is arguable that the RAND licence is a unitary, worldwide licence, and ZyXEL have no right to a country-by-country, company-by-company licence because such a licence is not RAND.

41 It does not follow from the above that ZyXEL are somehow prevented from saying to [TQ Delta] and the court that they no longer rely on any licence to which it is entitled to resist the grant of relief for infringement of the UK patents. That is what the waiver does, however. It waives any and all rights ZyXEL might have to seek to enforce [TQ Delta’s] RAND obligation to licence [its Standard Essential Patents] in the United Kingdom. I can see no basis whatsoever for saying that such a waiver should be treated as ineffective or invalid. To say the waiver is ineffective is equivalent to saying that the proceedings must go on as if ZyXEL were relying on the RAND undertaking to resist the grant of the injunction in the UK, when ZyXEL are prepared to give an irrevocable undertaking not to do so.”

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<sup>6</sup> [2019] EWCA Civ 1277.

<sup>7</sup> See *TQ Delta* at [9], [10], [40] and [41].

- (2) So far as past infringements were concerned, ZyXEL agreed to pay the full amount of the damages claimed by TQ Delta, so that this issue in the dispute became a non-issue.<sup>8</sup>
- (3) In these circumstances, the Court of Appeal held that a declaration could serve no useful purpose, and that it was not the business of the Senior Courts to adjudicate on matters serving no useful purpose.<sup>9</sup>
15. It was contended before the Court of Appeal in *TQ Delta* that ZyXEL was, in effect, gaming the RAND regime by making a selective waiver in the UK regarding its right to a RAND licence, whilst leaving the point open to be deployed in other jurisdictions. In other words, by its waiver, ZyXEL was not abandoning its right to a RAND licence were it to be sued for the infringement of a TQ Delta Standard Essential Patent elsewhere. TQ Delta sought a declaration preventing such an outcome, which Floyd LJ disposed of as follows:

“47 That brings me to the reliance placed by [TQ Delta] on the recently added claim for a declaration that ZyXEL are not “willing licensees”, and, by reason of their conduct, are not entitled to a RAND licence. The utility of such a declaration is said to be that it would have effect as *res judicata* in proceedings in foreign jurisdictions were [TQ Delta] to seek to obtain injunctive relief for infringement of patents in those jurisdictions.

48 There are a number of quite serious problems with this way of putting the case. First, there are no other proceedings in existence involving these parties anywhere in the world. The US proceedings involve US companies in the Unizyx group, not the two appellants. Moreover, we were not shown any evidence that [TQ Delta] had any proceedings against the first or second appellants in imminent contemplation. The grant of relief in aid of foreign proceedings requires to be particularly closely scrutinised, but it is a step further to grant such relief in favour of foreign proceedings which are not extant and may never be started. Secondly, in this evolving jurisdiction, there is no single Europe-wide, let alone worldwide approach to the interaction between the RAND undertaking and the grant of relief for patent infringement. It is not possible to be at all sure that such a declaration would have the impact on any foreign proceedings which [TQ Delta] hope for. Thirdly, the doctrine of *res judicata* is a technical one – Mr Saunders [counsel for TQ Delta] rightly goes no further than saying that the declaration may be *res judicata* in the foreign proceedings, without the benefit of any evidence as to how the finding of this court would be treated in the foreign proceedings. The foreign court may not have a doctrine of *res judicata*, or at least not one which recognises the decisions of a foreign court. Fourthly, the concept of a “willing licensee” is not in any sense an internationally recognised term of art. There will at least be potential for argument about whether the declaration is in fact of any assistance in the exercise being conducted in the foreign jurisdiction. Fifthly, [TQ Delta’s] contention is that ZyXEL are not “willing global licensees”. Proceedings to obtain such a declaration should surely include other companies in the group, so that ZyXEL’s global interests are represented.

49 The judge did not deal at all with these fundamental objections to the grant of declaratory relief of the kind now suggested. He observed cryptically at [43] that the

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<sup>8</sup> See *TQ Delta* at [38]

<sup>9</sup> At [38].



waiver is arguably “just more hold-out”, but he did not explain how this observation led to the conclusion that there was still some proper basis for useful declaratory relief concerning these specific defendants.”

### (3) The position of ASUS

16. ASUS relied on the decision in *TQ Delta* in support of their application to be removed from Trial D as defendants. It is necessary to consider the pleadings, which have (in the case of both ASUS and Philips) recently been amended. In support of their application, ASUS made a number of changes to their draft Re-Amended FRAND Statement of Case:

(1) Paragraph 15 contains ASUS’ waiver of their right to a FRAND licence and provides as follows:<sup>10</sup>

“ASUS does not in these proceedings advance a FRAND defence in response to Philips’ claim for infringement of the patents in suit. Rather, ASUS’ response to Philips’ FRAND SoC is as follows:

15.1 Given ASUS’ limited sales in the United Kingdom of [devices infringing one or more UK patents in the Philips Portfolio: hereafter “Infringing Devices” and “Philips UK Patents”] (which, in 2018, were less than 1,700 units per annum), ASUS has decided to waive any and all rights it has...to seek to enforce Philips’ obligations to licence on FRAND terms, its currently owned, UK designated [Philips UK Patents] in the United Kingdom for use in such [Infringing Devices] (“the ASUS UK FRAND Waiver”). ASUS is prepared to provide an irrevocable undertaking to such effect to the Court.

15.2 In the premises, ASUS does not plead to paragraphs 1 to 59 of Philips’ FRAND SoC, which addresses matters such as the parameters and approach to be applied in determining whether the terms for a licence to the Philips Portfolio are FRAND. ASUS does not consider that any useful purpose would be served by it setting out its detailed position on such matters, given the waiver of its rights which it is prepared to make by way of the ASUS UK FRAND Waiver.

15.3 Accordingly, the only issue to which ASUS does plead is, as set out below, that of relief.”

(2) In consequence, ASUS admit that Philips is entitled to injunctive relief. Paragraph 63.4.1 provides:

“It is admitted that, in light of the ASUS UK FRAND Waiver, Philips is entitled to the injunctive relief sought...save only that any injunction which is granted for this reason must include a proviso that it will cease to have effect if the patents in suit which have been found to be valid and infringed in the UK are no longer in force.”

(3) Finally, ASUS are prepared to pay the damages claimed by Philips for past acts of infringement. Paragraph 63.4.3 provides:

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<sup>10</sup> I have not copied the amendments and deletions that are contained in the pleading.

“In the circumstances, ASUS is prepared to pay damages in respect of the past acts of infringement of [Philips UK Patents] (to the extent they are held to be valid and infringed)...in the sum of [US\$] 0.75 per relevant device...”

17. According to the ASUS Defendants, therefore, the damages Philips was entitled to was:

$$\text{Number of Infringing Devices} \times \text{US\$}0.75$$

This, according to ASUS amounted to US\$45,577.50. On this basis, no doubt subject to paying this sum, ASUS contended that they were entitled to leave Trial D.

**(4) Philips’ response**

**(a) Introduction**

18. Philips’ response was that ASUS had to remain as defendants in Trial D because the amount of the damages that Philips was entitled to remained at large. To this extent, Philips contended, the position of ASUS was very different to that of ZyXEL in *TQ Delta*.

19. Because ASUS’ application was a relatively recent one, Philips’ position has yet to be fully articulated in the pleadings. That is understandable, and ASUS (quite rightly) took no point on this. The dispute about the amount of damages payable by ASUS to Philips in respect of past infringements of the Philips UK Patents by Infringing Devices operates on two levels:

- (1) A fundamental level, concerning the volume of sales which needed to be taken into account in order to compensate Philips; and
- (2) What might be termed a more traditional quantum dispute, essentially turning on the royalty rate per Infringing Device that should be paid by ASUS in compensation for infringing the Philip UK Patents.

20. I shall consider each of these points in turn below.

**(b) The “fundamental” point: the volume of sales relevant to an assessment of damages**

21. Philips denied that – even if the FRAND rate was US\$0.75 per Infringing Device (which was not accepted by Philips as the rate in this case<sup>11</sup>) – the devices that needed to be taken into account, when calculating Philips’ past losses, were only Infringing Devices as I have defined them – that is, devices infringing Philips UK Patents.

22. Philips’ position was that it was entitled to payment of those royalties that would have been payable had ASUS done, in relation to past infringements of the Philips UK Patents, what it should have done. What ASUS should have done was acquire a licence to render lawful these otherwise unlawful sales of Infringing Devices. The only licence, according to Philips, that could render the sales of Infringing Devices lawful was a FRAND licence meeting the assumed requirements set out in paragraph 10 above.

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<sup>11</sup> As to which, see below.

Specifically, FRAND, in this case, involved a worldwide, portfolio licence to the Philips Portfolio.

23. On this basis, the royalties attracted by all devices licensed under this counterfactual and hypothetical FRAND licence amounted to damages recoverable by Philips, whether those devices were Infringing Devices or not. In short, the damages payable in relation to the infringement by the Infringing Devices of the Philips UK Patents included the royalties that would have been earned on the sale or marketing of other devices, apart from Infringing Devices, provided they triggered a royalty payment under the counterfactual and hypothetical FRAND Licence.
24. Although Philips' Reply was to ASUS' Amended FRAND Statement of Case – in other words, it pre-dated the ASUS application and pre-dated the draft Re-Amended FRAND Statement of Case produced as a consequence of ASUS' application – the “fundamental” point was in fact taken by Philips in the Reply. Paragraphs 39(c) and (d) of Philips' Reply contend that, “by reason of ASUS' infringement of, and failure to licence, the patents in suit, Philips has suffered loss and damage in the form of loss of revenues under a (worldwide) FRAND licence for the Philips Portfolio of which the patents in suit form part.”
25. ASUS contended – as it inevitably had to – that this averment was bad in law and should be struck out.

(c) *The “traditional” quantum dispute: the royalty rate per device*

26. It is important to note that Philips' latest pleading – its Re-Amended FRAND Statement of Case – is not responsive to the ASUS draft Re-Amended FRAND Statement of Case considered in paragraph 16 above. However, it is significant that Philips Re-Amended FRAND Statement of Case deletes the averment that a royalty rate of US\$0.75 per relevant device was the appropriate FRAND royalty rate.<sup>12</sup> This point is, therefore, at large.
27. Obviously, it would be unacceptable for Philips to fail to state a case as to the royalty rate that was the appropriate royalty rate per Infringing Device. Provision will have to be made to ensure that these points in dispute are properly articulated in the pleadings. It is clear, however, that these points on quantum will remain at large and unresolved even if the fundamental point is decided in ASUS' favour. In short, there is likely to have to be a trial of these points – unless they can be settled – in any event. Whether these issues are best resolved within Trial D or in an altogether separate trial (“Trial E”) is a matter which may have to be considered depending upon the outcome of ASUS' application. If Philips succeeds on the fundamental point, then ASUS' application will very likely fail because ASUS will be forced to remain a defendant in Trial D. That is because the assessment of damages payable by ASUS will – to a material extent – depend upon the nature of the FRAND licence declared by the court during the course of Trial D.
28. Although subject to further articulation in the pleadings, the quantum points taken by Philips are as follows:

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<sup>12</sup> See paragraph 60(c)(iii) of the pleading.

- (1) The appropriate “per device” royalty rate. Philips’ original position was that the royalty rate for infringements of Philips UK Patents by Infringing Devices was US\$0.75. That plea has now been deleted by amendment. In its written submissions, Philips suggested that “the court should take, as its starting point, the royalty rate payable by those who are non-compliant under a worldwide licence (i.e. US\$1 per unit)”.<sup>13</sup>
- (2) There was an issue as to the period over which damages should be calculated (whatever its geographic scope).<sup>14</sup>
- (3) It was suggested by Philips that, if the counterfactual and hypothetical FRAND licence were confined to Infringing Devices only, then any per device royalty rate would need to be increased:<sup>15</sup>

“The base rate [which Philips contended should be US\$1 per unit]<sup>16</sup> should then be adjusted to take into account relevant differentiating factors between a licence with global scope and one covering a single jurisdiction, such as the value of the Philips Portfolio in the UK (as compared to the value of the portfolio globally) to the extent that the geographic coverage of a portfolio is deemed to be relevant; and inefficiencies of licensing on a territory-by-territory basis. These matters will be a matter for expert evidence at the FRAND trial.”

29. These points – and quite possibly others – will be at issue, even if I were to decide the fundamental point against Philips.<sup>17</sup> They cannot possibly be decided summarily but will require resolution at trial. That might be seen as an argument for not determining the fundamental point at all, on grounds that ASUS will have to participate in a trial in any event. However, it seems to me that even though these issues remain at large, ASUS is entitled to know where it stands and it is important for the court to consider how such issues are to be resolved: it may be, as I have noted, that Trial D is an inappropriate forum for the resolution of such issues.
30. Accordingly, I turn to consider the fundamental point at issue between the parties.

## **E. THE FUNDAMENTAL POINT**

### **(1) Applicable principles for strike out/summary judgment**

31. As I have described, although the ASUS application is largely based upon the decision of the Court of Appeal in *TQ Delta*, in that case the quantum of damages for past infringements was not in issue, whereas in this case it is. Furthermore, Philips has expressly pleaded, in its Reply, a contention that damages should be assessed on the basis of far more than merely Infringing Devices.<sup>18</sup>

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<sup>13</sup> Paragraph 77 of Philips’ written submissions.

<sup>14</sup> See paragraph 79 of Philips’ written submissions.

<sup>15</sup> See paragraph 78 of Philips’ written submissions.

<sup>16</sup> See paragraph 28(1) above.

<sup>17</sup> And, no doubt to some extent, they will feature even if I decide the fundamental point in Philips’ favour.

<sup>18</sup> See paragraph 24 above.

32. Whilst it might be said that this contention ought, more properly, to find its place in Philips' FRAND Statement of Case rather than in a Reply, since it is an averment principally going to a remedy claimed by Philips (namely, the amount of damages Philips is entitled to), given the late nature of the ASUS application, this is a pleading point that I am going to overlook for present purposes. All of the parties accepted that Philips' pleadings would have to be re-visited in light of ASUS' draft Re-Amended FRAND Statement of Case, and this no doubt will be one point that will be re-visited.
33. Realistically, ASUS accepted that, in order for the ASUS application to succeed, ASUS must be able to strike out those parts of Philips' statements of case asserting this point or else obtain summary judgment in its favour in respect of those parts.<sup>19</sup> The relevant principles on summary judgment were helpfully set out for me in Philips' written submissions,<sup>20</sup> and I have borne them in mind. It does seem to me that this case is more appropriately labelled a strike-out than a claim for summary judgment:<sup>21</sup> what is at issue, at least so far as ASUS submitted, is a point of law as to how compensatory damages for the infringement of a UK patent right are to be assessed. It is not, according to ASUS, a case where there is a substantial factual ingredient to that legal question. That is because of the assumptions (which are articulated at paragraph 10 above) on which the legal question before me is being approached. Accordingly, although I am mindful of the injunction in *Tesco Stores Limited v. MasterCard Inc*<sup>22</sup> not to decide difficult questions of law at an interlocutory stage where facts may determine how those legal issues may present themselves for determination and where the legal issues are in an area that requires not only detailed argument but mature consideration, I do not consider this to preclude me from grappling with ASUS' application.

## (2) The assessment of damages for the infringement of a UK patent

34. Section 61(1) of the Patents Act 1977 provides:

- “(1) Subject to the following provisions of this Part of this Act, civil proceedings may be brought in the court by the proprietor of a patent in respect of any act alleged to infringe the patent and (without prejudice to any other jurisdiction of the court) in those proceedings a claim may be made –
- (a) for an injunction or interdict restraining the defendant or defender from any apprehended act of infringement;
  - (b) for an order for him to deliver up or destroy any patented product in relation to which the patent is infringed or any article in which that product is inextricably comprised;
  - (c) for damages in respect of the infringement;

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<sup>19</sup> At the moment, these assertions are contained in Philips' Reply: see paragraph 24 above. However, for the reasons I have given, I am going to approach the question on the basis that Philips has asserted in its FRAND Statement of Case that its damages are to be assessed on this basis.

<sup>20</sup> At paragraph 41, referring to *Easyair Limited v. Opal Telecom Limited*, [2009] EWHC 339 (Ch) at [15] and *Iiayma (UK) Limited v. Samsung Electronics*, [2018] EWCA Civ 22 at [39].

<sup>21</sup> There is, of course, a significant overlap between the two.

<sup>22</sup> [2015] EWHC 1145 (Ch) at [69].

- (d) for an account of the profits derived by him from the infringement;
  - (e) for a declaration or declarator that the patent is valid and has been infringed by him.
- (2) The court shall not, in respect of the same infringement, both award the proprietor of a patent damages and order that he shall be given an account of the profits.”
35. Philips’ claim is one for damages in respect of ASUS’ infringement of various of the Philips UK Patents within the Philips Portfolio.
36. It is trite law that damages will only be awarded for the infringement of a UK patent.<sup>23</sup>
37. Infringement of a UK patent is a statutory tort. *Clerk & Lindsell* say this about the measure of damages:<sup>24</sup>

“The measure of damages depends upon whether the patentee exploits his monopoly by licensing others to make and sell his invention, or by manufacturing or selling himself. In the first case, the normal measure of damages is the amount of royalties he has lost by reason of the infringer’s failure to take a licence before making or selling the invention. Where the patentee himself manufactures or sells, and the defendant cannot show that he could have had a licence, the measure of damages is the amount the patentee has lost by reason of the defendant’s obtaining orders for the patented article that would ordinarily have gone to the patentee.”

38. The present case, because of the obligation on Philips to provide a licence to its UK intellectual property rights on FRAND terms, is a case where damages must be assessed on the basis that Philips exploits its statutory monopoly by licensing others to make and sell its inventions. This calculation is informed by the basic, compensatory, rule for the assessment of tortious damages articulated in *Livingstone v. The Rawyards Coal Company*:<sup>25</sup>

“...where any injury is to be compensated by damages, in settling the sum of money to be given for reparation of damages you should as nearly as possible get at that sum of money which will put the party who has been injured, or who has suffered, in the same position as he would have been in if he had not sustained the wrong for which he is now getting his compensation or reparation...”

In the present case, the level of compensatory damages is calculated by reference to the counterfactual, hypothetical licence that the Holder would have charged the Implementer had the Implementer, prior to infringing, sought a licence from the Holder validating what would otherwise be an infringement. I shall refer to this licence – which is a fiction only – as the Counterfactual Licence.

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<sup>23</sup> See paragraph 13 above. To be absolutely clear, this was common ground between the parties. Philips, in particular, stressed that it was not seeking to re-write UK law in this regard. It is important that I note this, for it was ASUS’ position that Philips’ contentions were “[c]ontrary to the fundamental principles upon which intellectual property remedies are provided”. If that is the case, it is important to identify where Philips’ contended for approach departs from orthodoxy.

<sup>24</sup> Jones (ed), *Clerk & Lindsell on Torts*, 22<sup>nd</sup> ed (2018) (“*Clerk & Lindsell*”) at §25-138. See also *General Tire and Rubber Company v. Firestone Tyre and Rubber Company Limited*, [1975] 1 WLR 819.

<sup>25</sup> (1880) 5 App Cas 25 at 39.

39. Both parties placed great reliance on Fletcher Moulton LJ's statement of the law in *Meters Limited v. Metropolitan Gas Meters Limited*:<sup>26</sup>

“There is one case in which I think the manner of assessing damages in the case of sales of infringing articles has almost become a rule of law, and that is where the patentee grants permission to make the infringing article at a fixed price – in other words, where he grants licences at a certain figure. Every one of the infringing articles might then have been rendered a non-infringing article by applying for and getting that permission. The court then takes the number of infringing articles, and multiplies that by the sum that would have had to be paid in order to make the manufacture of that article lawful, and that is the measure of the damage that has been done by the infringement. The existence of such a rule shows that the courts consider that every single one of the infringements was a wrong, and that it is fair – where the facts of the case allow the court to get at the damages in that way – to allow pecuniary damages in respect of every one of them. I am inclined to think that the court might in some cases, where there did not exist a quoted figure for a licence, estimate the damages in a way closely analogous to this. It is the duty of the defendant to respect the monopoly rights of the plaintiff. The reward to a patentee for his invention is that he shall have the exclusive right to use the invention, and if you want to use it your duty is to obtain his permission. I am inclined to think that it would be right for the court to consider what would have been the price which – although no price was actually quoted – could have reasonably been charged for that permission, and estimate the damage in that way. Indeed, I think that in many cases that would be the safest and best way to arrive at a sound conclusion as to the proper figure. But I am not going to say a word which will tie down future judges and prevent them from exercising their judgment, as best they can in all the circumstances of the case, so as to arrive at that which the plaintiff has lost by reason of the defendant doing certain acts wrongfully instead of either abstaining from doing them, or getting permission to do them rightfully.”

40. I consider this to be a helpful – indeed an authoritative and binding – statement of the law. The question is how to apply it in a case where:

- (1) The Holder of UK intellectual property rights has undertaken to licence those rights on FRAND terms, but only on FRAND terms.<sup>27</sup>
- (2) FRAND terms, in this case, require a willing licensee to take a worldwide, portfolio licence to the Philips Portfolio.<sup>28</sup> Such a licence would obviously be forward-looking (i.e. it would licence future sales) but, to the extent necessary, would also be backward-looking (i.e. it would resolve past infringements).<sup>29</sup>
- (3) The Implementer, here ASUS, is not obliged to take such a licence if it does not wish to do so.<sup>30</sup> In such a case, the Implementer must pay appropriate compensatory damages for past infringements (and, obviously, not infringe in the future).

41. The key issue is the extent to which the FRAND terms that are declared by the court are to be “read across” into the assessment of the appropriate compensatory damages for past infringements which are calculated by reference to the Counterfactual Licence.

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<sup>26</sup> (1911) 28 RPC 157 at 164-165.

<sup>27</sup> See paragraph 7(6) above.

<sup>28</sup> See paragraph 10 above.

<sup>29</sup> See paragraph 8(1) above.

<sup>30</sup> See paragraph 8(2) above.

42. It is important to appreciate that there is a critical distinction between the FRAND licence whose terms are declared by the court for the purposes of a FRAND dispute such as Trial D (the “Declared Licence”) and the Counterfactual Licence used for the purposes of assessing damages. The Declared Licence settles the terms of the FRAND licence which the Holder must offer and which the Implementer can choose, at its discretion, to accept or refuse. The Counterfactual Licence is merely a construct intended to assist in the calculation of damages for past infringements by the Implementer. There is no question of a licence being entered into by the Implementer: the Implementer simply pays damages calculated by reference to the licence it should have entered into in order to render its past unlawful infringements lawful.
43. For the sake of argument, in addition to the assumptions made in paragraph 10 above, I shall assume that the royalty rate in the Declared Licence will be US\$0.75 per device. I appreciate, of course, that that is part of the province of Trial D. Nevertheless, it seems to me more straightforward to consider the parties’ positions in light of an assumed US\$0.75 rate per device.

**(3) The parties’ positions**

44. Each of the parties drew on the Declared Licence for the purpose of assessing the damages payable by ASUS for its past infringements of the Philips UK Licences. They differed in the extent to which the terms of the Declared Licence should be read across for the purposes of this compensatory exercise. The parties’ respective positions were as follows:
- (1) ASUS contended for a royalty rate of US\$0.75 applicable only to Infringing Devices. That contention was based upon Fletcher Moulton LJ’s reference to there being almost a rule of law that where a Holder grants permission to make the infringing article at a fixed price then the damages awarded are simply a multiple of the fixed price and the number of Infringing Devices. In other words, one takes the FRAND rate that would be declared (here US\$0.75), and applies that rate not to the total number of devices that would be covered by the Declared Licence, but only to those devices that infringe UK patents, namely the Infringing Devices.
  - (2) Philips contended for an assessment of damages as described in paragraphs 21 to 25 above. Drawing on Fletcher Moulton LJ’s statement that the court must consider what would have been the price that could reasonably have been charged by the Holder to the Implementer for permission to use the Philips UK Patents, Philips contended that as a matter of logic the price that ASUS had to pay was defined by the Declared Licence. Granted, that licence would only relate to past sales, but that was the only difference between the Declared Licence and the Counterfactual Licence. The Counterfactual Licence would include those terms obliging ASUS to pay royalties on non-UK sales. That was not because those sales infringed foreign intellectual property laws, nor because the UK was taking an extra-territorial jurisdiction. It was simply a consequence of the ordinary UK measure of loss for an infringement of a patent.<sup>31</sup> The test was, “What is the cost

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<sup>31</sup> Philips relied upon *Gerber Garment Technology Inc v. Lectra Systems Limited*, [1997] RPC 443, where losses were calculated not just by reference to the lost royalties on infringing products, but included consequential



of a licence to render the past infringement lawful?” In this case, the answer was a licence at a rate of US\$0.75 which was applicable to far more than merely Infringing Devices.

45. Both parties thus read across the terms of the Declared Licence in order to inform the assessment of damages for Infringing Devices in the UK, which was done by reference to the royalties receivable under the Counterfactual Licence. They simply differed in the extent of their reading across. ASUS, essentially, took the per device rate in the Declared Licence, and nothing else; whereas Philips incorporated the entirety of the Declared Licence, save for its forward-looking elements.

#### (4) Analysis

46. I consider that both ASUS and Philips misunderstand the essence of the compensatory principle and Fletcher Moulton LJ’s application of that principle in *Metropolitan Gas Meters*. The compensatory principle is intended to place the Holder in the position it would have been in had the tort not been committed. In cases of infringements of UK patents, where the Holder licenses the use of the invention, a useful measure of the damages to be awarded is the amount actually charged or – failing that – the amount the court considers could reasonably be charged for the licence. In both cases, however, the question is one of proper compensation, and Fletcher Moulton LJ made clear that nothing he was saying should prevent judges from exercising their judgment in reaching the proper tortious measure of damages.

47. That is the fundamental principle, and it is one that both ASUS and Philips have lost sight of. Both ASUS and Philips have been too dogmatic in reading across (selected) terms of the Declared Licence. More specifically:

- (1) ASUS’ measure of damages – being based upon a global royalty rate of US\$0.75 – runs the risk of under-compensating Philips. The fact is that a global rate – based on the sales of many more devices – will for that reason be lower than a rate targeted only at Infringing Devices. To my mind – and I say this extremely conscious that I have heard no evidence on the point whatsoever – the measure of damages proposed by ASUS appears to be too low.<sup>32</sup>
- (2) Philips’ measure of damages – being based on global royalties that would be payable were ASUS to be assumed to have entered the Declared Licence prior to its infringing conduct – runs the risk of over-compensating Philips as well as potentially dragging English courts into an exorbitant jurisdiction encroaching upon the jurisdictions of other courts. It is worth exploring why this should be:
  - (a) The English courts have been extremely careful, when considering making FRAND declarations, to avoid obliging Implementers to enter into a FRAND licence. A measure of damages based on past infringements within a specific jurisdiction which automatically drags in past sales in

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losses – in this case, lost royalties in relation to sales of non-infringing products where those products would have been sold had the defendant not infringed. The Court of Appeal made clear that damages for patent infringement were no different in principle from the damages recoverable for other torts.

<sup>32</sup> This is the point articulated by Philips at paragraph 28(3) above.

other jurisdictions runs the great risk of enabling the Holder to recover royalties for sales in those other jurisdictions which, had the Holder litigated there, would not have been recovered.

- (b) That is why the measure of damages proposed by Philips runs the great risk of English courts usurping the jurisdiction of other courts, whose jurisdiction ought more appropriately to be engaged in preference to that of the English courts.
- (c) This is not merely a theoretical question of comity. Suppose – as is quite likely in this factual context – that the Declared Licence is a unitary, portfolio, worldwide, group to group licence. Suppose, in the United Kingdom, Implementer A infringes the Holder’s UK intellectual property rights, but that damages (based upon the Declared Licence) are calculated by reference to sales (in other jurisdictions) of Implementer B, C and D’s products, these being companies in the same group as Implementer A. In this case, were the Declared Licence to be used to define the terms of the Counterfactual Licence, the damages payable would be calculated by reference to the royalties that would be paid by not just Implementer A, but Implementers B, C and D. It is difficult to see how the award of damages in the English court could prevent the Holder from enforcing its intellectual rights in other jurisdictions against Implementers B, C and D. There would be no *res judicata* nor issue estoppel and the risk of over-compensation is obvious.

In short, essentially for the reasons articulated by Floyd LJ in *TQ Delta* in relation to declarations,<sup>33</sup> an English court ought to tread extremely warily when seeking to translate the terms of the Declared Licence into the Counterfactual Licence used for the purpose of calculating the tortious measure of damages that would be payable in precisely that case where the defendant implementer does not want the Declared Licence. To my mind – and, again, I say this extremely conscious that I have heard no evidence on the point whatsoever – the measure of damages proposed by Philips appears to be too high.

## (5) Conclusion

- 48. The process whereby damages for infringement of UK patents are assessed is heavily fact based. In my judgment, any automatic linkage between the terms of the Declared Licence and the terms of the Counterfactual Licence is wrong in principle and a claim based on such automatic linkage ought to be struck out.
- 49. That is not to say that the terms of the Declared Licence are irrelevant. To the contrary, it would equally be wrong to disregard the terms the Declared Licence when quantifying a Holder’s loss in relation to a past infringement of its patents. In short, the extent to which the terms of the Declared Licence inform the assessment of damages is a question of fact. Whilst I consider a measure based upon an automatic linkage between the Declared Licence and the Counterfactual Licence to be unarguable, it may be that in this specific case either the measure proposed by ASUS or the measure

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<sup>33</sup> See paragraph 15 above.

proposed by Philips is the appropriate one, or it may be that the true measure lies somewhere in-between.

50. The short answer to ASUS' application is that the extent to which the terms of the Declared Licence are relevant to the assessment of damages is itself a question of fact to be determined at trial. That question is in no way susceptible of summary determination. It follows that the dispute between ASUS and Philips as to the damages payable for ASUS' past infringement of the Philips UK Patents is one that has to be determined at a trial. Given that the terms of the Declared Licence are relevant to that question, it follows that this issue must be determined as part of Trial D.

## **F. DISPOSITION**

51. For these reasons, the ASUS application is dismissed. The parties should draw up an appropriate order, to include provision for amendments to the pleadings.

**ANNEX 1**

**TERMS USED IN THE JUDGMENT**

(paragraph 1 footnote 1 in the Judgment)

<b>TERM</b>	<b>FIRST REFERENCE IN THE JUDGMENT</b>
ASUS	Paragraph 1
ASUS UK FRAND Waiver	Paragraph 16(1) (in quotation)
Counterfactual Licence	Paragraph 38
Declared Licence	Paragraph 42
ETSI	Paragraph 7(3)
FRAND	Paragraph 7(6)
HTC	Paragraph 1
Holder	Paragraph 7(7)
Implementer	Paragraph 7(7)
Infringing Devices	Paragraph 16(1) (in quotation)
Philips	Paragraph 1
Philips Portfolio	Paragraph 6
Philips UK Patents	Paragraph 16(1) (in quotation)
Standard Essential Patents	Paragraph 7
Standards	Paragraph 6
Trial D	Paragraph 2
Trial E	Paragraph 27