

SVEA COURT OF APPEAL
Department 02
Division 0204

JUDGMENT
5 October 2012
Stockholm

Case No.
T 8399-11

CLAIMANT

ONDA Communication S.P.A.
Via del Lavoro, 9
33080 Roveredo in Piano
Italy

Counsel: Advokaten Monique Wadsted and jur. kand. Victor Holmberg
P.O. Box 7009
103 86 Stockholm

RESPONDENT

Telefonaktiebolaget LM Ericsson (publ), Reg. No. 556016-0680
164 83 Stockholm

Counsel: Advokaten Christer Danielsson
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CHALLENGED ARBITRAL AWARD

Arbitral award rendered in Stockholm on 8 July 2011, ICC Arbitration No. 16697/MLK/ARP, see appendix A

JUDGMENT OF THE COURT OF APPEAL

1. The Court of Appeal rejects the claims of the claimant.
2. ONDA Communication S.P.A. is ordered to compensate Telefonaktiebolaget LM Ericsson (publ) for its litigation costs before the Court of Appeal in the amount of SEK 105,000, all of which comprises costs for legal counsel, plus interest thereon pursuant to Section 6 of the Swedish Interest Act (SFS 1975:635) from the day of the judgment of the Court of Appeal until the day of payment.

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BACKGROUND

ONDA Communication S.P.A. (Onda) is an Italian company, with the main business purpose of the sale of cellular phones and modem cards. The Swedish company Telefonaktiebolaget LM Ericsson (publ) (Ericsson) manufactures and sells equipment for cellular as well as fixed telecommunications and also supplies other products and services in this field.

On 11 August 2006, Onda and Ericsson entered into two license agreements called the GSM Patent License Agreement (the GSM Agreement) and the UMTS Patent License Agreement (the UMTS Agreement). Under both of these agreements Ericsson granted a license to certain patents for which Onda should pay a certain turn-over based royalty fee. Under the wording of the agreements the license grant is limited to the use of the patents in products which fall within the scope of the definition of “Company Products”. The scope of the license grant with respect to certain specific products and the parties’ obligations in connection therewith are the object of the dispute in the present case.

The GSM Agreement and the UMTS Agreement contain arbitration clauses of the same wording. These provide that disputes shall be resolved by arbitration under the arbitration rules of the International Chamber of Commerce (ICC). They provide that the arbitration proceedings shall take place in Stockholm and that arbitral tribunal shall comprise three arbitrators. The agreements shall be governed by Swedish law.

On 23 October 2009, Ericsson requested arbitration and moved that Onda should be ordered to pay certain royalty fees for products that the Chinese Company ZTE had supplied to Onda and which had subsequently been resold.

In the arbitration proceedings Onda objected and maintained that the products it had bought from ZTE did not fall within the scope of the license

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agreements and that the dispute as a result fell outside the scope of the license agreements. Thus, Onda maintained that the arbitrators did not have jurisdiction to try the case. Moreover, during the arbitration proceedings Onda requested a stay in the proceedings to await the results of the investigation of the Italian Competition Authority into whether Ericsson had abused its dominant position.

On 15 May 2010, the arbitral tribunal rendered a decision following a preliminary review of its jurisdiction in which it held that it had jurisdiction. Concurrently, the motion for a stay of the proceedings was rejected.

The arbitral award was rendered on 8 July 2011. Therein, the arbitral tribunal carried out a final review of its jurisdiction and decided as in its preliminary decision.

MOTIONS BEFORE THE COURT OF APPEAL

Onda has moved that the Court of Appeal shall annul the arbitral award rendered in Stockholm on 8 July 2011 between the parties, with the exception of item h of the award.

Ericsson has objected to Onda's motion in its entirety.

The parties have claimed compensation for their litigation costs.

THE PARTIES' RESPECTIVE CASES BEFORE THE COURT OF APPEAL

Onda

The main ground referenced by Onda in support of its case is that ZTE's products do not fall within the scope of the license agreements' definition of Company Products, and that a dispute concerning these products does not fall within the scope of the arbitration clauses of the license agreements.

Ericsson's claim that the dispute did fall within the scope of the license agreements was obviously unfounded. Thus, the arbitral tribunal has tried a dispute that was outside the scope of the arbitration agreement between the parties. Consequently, the arbitral award shall be annulled under items 1 or 2

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of the first paragraph of Section 34 of the Swedish Arbitration Act (SFS 1999:116) (the LSF).

As a second ground, Onda has maintained that the arbitral tribunal's decision to reject Onda's motion for a stay of the proceedings was such a procedural error that likely affected the outcome of the case. This forms ground for annulment of the arbitral award under item 6 of the first paragraph of Section 34 of the LSF.

Onda has provided further details on its motions as follows.

The license agreements were entered into because Onda was planning to start producing its own products instead of reselling those of others. Negotiations took place before the entry into of the agreements. Ericsson, which must be considered the stronger party in the context, drafted the wording of the agreements. Having regard to the purpose of the license grants – to enable Onda to commence its own production – the products that were to be governed by the license grant, “Company Products”, were defined in Section 1.5 of the GSM Agreement and Section 1.4 of the UMTS Agreement as follows:

“(ii) all being made in accordance with specifications and/or working drawings owned by Company and/or its Affiliates”

By “Company” was meant Onda under a separate definition in the agreements. Onda had not provided specifications or working drawings for the production of ZTE's cellular phones. ZTE was in no way an affiliate of Onda. Further, the definition of Company Products in both agreements required that Onda or an affiliate would offer warranties for the sold products. No such representations or warranties were offered with respect to the ZTE products. Moreover, the GSM Agreement provided a separate technical requirement that Company Products were not to be compatible with so-called CDMA applications. As a result, from the precise definitions in the agreements it follows that the ZTE products did not fall within the scope of the Company Products definition. Thus, they fell outside the scope of the

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license grant of the agreements. Any dispute for royalties on ZTE products does not fall within the scope of the arbitration clauses.

Both license agreements contained a so-called merger clause, meaning that the agreements should replace and supersede any other agreements or arrangements between the parties, and that amendments and addenda should be made in writing. Any wish of a party that has not been made in writing can as a consequence not be taken into consideration. Consequently, there was no room for the arbitral tribunal by way of interpretation to grant the license agreement a wider scope than what follows from the wording thereof.

Because there was an ongoing investigation into possible abuse of dominant position carried out by the Italian Competition Authority, Onda motioned for a stay of the proceedings. This motion was rejected by the arbitral tribunal based upon insufficient background information. The investigation of the Competition Authority was large and complex and Ericsson did not submit a response within a year and a half. Despite the importance of that investigation, the arbitral tribunal rendered its decision hastily and without any investigation of its own into the competition law aspect. Hereby, the arbitral tribunal committed a procedural error. The error likely affected the outcome of the case. The right to rely on the error has not lapsed, because Onda made its position clear in the case by moving for a stay in the proceedings.

Ericsson

Ericsson has based its objection on the ground that there is a valid arbitration clause for the relevant dispute and that, as a result, there was no excess of jurisdiction. With respect to Onda's second ground, Ericsson has disputed that any procedural error was committed. In the event that the Court of Appeal would find that a procedural error has been committed, Ericsson has maintained that it did not affect the outcome of the case. In any event, Onda's right to rely on any procedural error has lapsed, because it partook in the arbitration proceedings without objections following the decision to reject the motion for a stay in the proceedings.

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Ericsson has provided the following details to clarify its position. Ericsson is one of the world's leading companies in cellular phone technology. The parent company holds a number of so-called standard blocking patents in this field. When it was discovered that Onda sold cellular phones using technology falling within the scope of Ericsson's patents, Ericsson contacted Onda in the beginning of 2005 and explained that those sales required a license agreement, unless Onda's suppliers held valid licenses. Since it was established that no license had been issued earlier in the distributor chain, there was no right to free reselling based on the intellectual property law principle on exhaustion of rights. Therefore, the companies entered into negotiations which led to the entry into of the two license agreements. Through these, Ericsson granted a license to all of the company's standard blocking patents in consideration for a turn-over based royalty fee. Onda was obliged to report its sales to Ericsson to facilitate the calculation of the fee. When the first report was submitted, it did not include any information on sales of so-called dual mode products. Ericsson requested information from Onda if the company had sold also these products, to which Onda responded in the affirmative, but claimed that ZTE held a license. In other words, Onda maintained that Ericsson's rights in this respect had been exhausted based on the intellectual property law principle on exhaustion of rights. Ericsson refuted this claim in the ensuing discussions. Onda maintained its position for a couple of years but later, in 2009, changed its position to instead claim that the license agreements only governed Onda's own production line of cellular phones and not ZTE products. In October 2009, Ericsson requested arbitration in order to receive payment of the outstanding royalty fee for Onda's sales of ZTE products. In the arbitration proceedings, Ericsson maintained that those sales were governed by the license agreement. Onda objected thereto. Moreover, Onda maintained that the license agreements were invalid on grounds of competition law. Onda's position on the scope of the license agreements was extended to include a procedural objection, but the validity of the arbitration clauses was not challenged.

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At the conference call with the arbitral tribunal on 14 April 2010, Onda informed that it had brought a competition law matter to the Italian Competition Authority and moved for a stay in the arbitration proceedings awaiting the decision of the Competition Authority. Onda was awarded the opportunity to provide the grounds for its motion in writing, which Onda did extensively, prior to the arbitral tribunal's decision of 15 May 2010 to reject the motion for a stay in the proceedings. Accordingly, the decision was not made in haste nor was it made based on incomplete background material. Onda did not present any objections to the decision.

When the arbitral tribunal rendered the arbitral award, the competition law aspects were dealt with in detail, considering information provided by, amongst others, expert witnesses. That the proceedings were not stayed did not entail that the competition law aspects were disregarded. These matters were dealt with in detail, and there are consequently no grounds to assume that the decision to not stay the proceedings could have affected the outcome of the case.

On the merits, Ericsson maintained that, even if the wording of the agreement did not upon a superficial reading include ZTE products, there was a mutual understanding between the parties that it had a wider scope. Alternatively, Ericsson maintained that the scope of the license grant should be interpreted using the so-called *dolus* principle.

Based on the actions of the parties during the negotiations, at the time of the execution of the agreement and thereafter, the arbitral tribunal held that the license agreements should be interpreted to include more than explicitly provided by the actual wording. Further, the arbitral tribunal did not find grounds to hold the agreements invalid on competition law grounds.

The dispute for which Ericsson requested arbitration dealt with the actual scope of the two license agreements. In this dispute, Ericsson maintained that, based on the license agreements, Onda was obliged to pay royalty fees for the reselling of ZTE products. Thus, the disagreement involved the interpretation of the agreements and whether they implied that obligation. The arbitral

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tribunal held this to be the case. This issue is entirely separate from the procedural implications of the arbitration clauses.

GROUND OF THE COURT OF APPEAL

Michaela Brundin and José Merino have been heard as witnesses. Further, documentary evidence has been referenced.

On the issue of whether the dispute is governed by a valid arbitration clause, the Court of Appeal finds as follows.

The review of jurisdictional issues, whether they concern arbitration proceedings or court trials, shall under Swedish law be based on the so-called reference doctrine (see NJA 2012 p. 183 and references therein). This doctrine entails that the review shall be based on the circumstances referenced by the claimant, and the claimant's legal framing of factual circumstances.

As noted by the Swedish Supreme Court in NJA 2008 p. 406, some uncertainty has clouded the review of jurisdictional issues in arbitration proceedings with respect to the content of the reference doctrine and its scope. The core of the doctrine was in said case law formulated such that the arbitral tribunal should not decide on the existence of the circumstances referenced by the claimant to be included in the legal relationship covered by the arbitration clause. In the jurisdictional review, the arbitral tribunal shall assume that they do exist. In jurisprudence it has been maintained that there is an exception to the reference doctrine in cases where the claimant's case is obviously unfounded. Also for this review, it is only the circumstances referenced by the claimant that can be taken into consideration (see Heuman, *Skiljemannarätt*, p. 76 and Schöldström in *Juridisk Tidskrift* 2008-09 p. 140, cf. Lindskog, *Skiljeförfarande*, second edition, p. 186, footnote 436).

In the case of 2008, the Supreme Court further noted that "...the legal relationship relied on by the claimant in support of its claims shall fall within the scope of the arbitration clause, either by it not being disputed or that it has been so determined through court decision or the like". This ought to imply

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that the reference doctrine cannot be relied upon to decide whether a referenced legal relationship is actually governed by the arbitration clause.

Extrapolated to the present case, this means that the reference doctrine is applicable only if it between the parties is not disputed that a valid arbitration clause is at hand *and* that the arbitration clause governs disputes with respect to Ericsson's claims for royalty fees based on Onda's sales of products in reliance on the license granted through the agreements. That this is the case has, however, not been disputed by Onda. The disputed matter is whether a license has in fact been granted – and as a result if a valid claim for royalty fees can be made – for a certain kind of products that Onda has resold. This issue of dispute does not relate to whether a referenced circumstance is governed by the arbitration clause, but rather if the circumstance exists.

That the interpretation of the license agreements maintained by Ericsson is difficult to reconcile with the wording of the license agreements – which under a so-called merger clause supersedes all other arrangements between the parties – could affect the jurisdiction issue only for the review of whether Ericsson's claim is obviously unfounded. Ericsson has maintained, based on principles of interpretation of agreements, that there are grounds that the scope of the license agreements is wider than as explicitly provided by their wording. The mere fact that the wording of the agreement is difficult to reconcile with interpretation presented by Ericsson cannot, in light of the foregoing, entail that the claim is obviously unfounded. This is supported by the fact that the arbitral tribunal, upon the review of the merits, concluded that the agreements should be interpreted in the way maintained by Ericsson.

Thus, the arbitral tribunal had jurisdiction to try the case. As a consequence, Onda's claim cannot be granted on the first referenced ground.

With respect to the second ground, the Court of Appeal notes that there is nothing to prevent an arbitral tribunal to stay proceedings. This possibility is however limited, having regard to the requirement for expediency of proceedings (see Lindskog, *op. cit.*, p. 604). The arbitral tribunal rendered its decision after granting Onda the opportunity to explain its request. In the

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opinion of the Court of Appeal, nothing has been presented that would indicate that the arbitral tribunal thereby has committed any procedural error. Thus, there are no grounds to annul the arbitral award based on item 6 of the first paragraph of Section 34 of the LSF. Having reached this conclusion, there is no reason to try whether the rights in this respect have lapsed in the meaning provided in the second paragraph of said Section.

In sum, the Court of Appeal finds that the claimant's claims shall be rejected.

Upon this conclusion, Onda shall be ordered to compensate Ericsson's litigation costs. The claimed amount is not disputed.

The judgment of the Court of Appeal may not be appealed (second paragraph of Section 43 of the LSF)

[ILLEGIBLE SIGNATURES]

The decision has been made by: Senior Judge of Appeal C.R., and Judges of Appeal U.I. (reporting Judge of Appeal) and A.K. Unanimous.