

ORDER
of the Court of Appeal of the Unified Patent Court
issued on 29 November 2024
security for costs (R.158 RoP)

HEADNOTE

When deciding on a request for security for costs

- failing any guarantees or other special circumstances, it is not relevant whether the claimant belongs to a - financially sound - group of companies. It is only the financial position of the claimant itself that is relevant;
- it is not relevant whether a claimant is willing to reimburse the defendant if a cost order would be issued in favour of the defendant;
- It is also irrelevant whether a cost order in favour of the defendant is to be expected. The Court should not engage in evaluating the likelihood of the outcome of the case;
- it is not required that it is proven that enforcement is impossible. It is sufficient for a defendant to establish that enforcement of a cost order is unduly burdensome. The burden of showing this is on the applicant of an order for security for costs. To this end, the applicant shall not only provide evidence as to the foreign law applicable in the territory where the order shall be enforced, but also its application.

KEYWORDS

Security for costs (R.158 RoP), relevant criteria

APPELLANT (AND DEFENDANT BEFORE THE COURT OF FIRST INSTANCE)

Aarke AB, Stockholm, Sweden
(hereinafter 'Aarke')

represented by: Jens Olsson, Magnus Dahlman and Emelie Rexelius, attorneys-at-law (Advokatbyrå Gulliksson AB, Malmö, Sweden)

RESPONDENT (AND CLAIMANT BEFORE THE COURT OF FIRST INSTANCE)

SodaStream Industries Ltd., Kfar Saba, Israel
(hereinafter 'Sodastream')

represented by: Dr. Andreas von Falck, Dr. Alexander Klicznik, Diana Rodriguez and Lea Groblinghoff, attorneys-at-law (Hogan Lovells International LLP, Düsseldorf, Germany)

PANEL AND DECIDING JUDGES

This order has been adopted by the 2nd panel:
Rian Kalden, Presiding judge and judge-rapporteur
Ingeborg Simonsson, legally qualified judge
Patricia Rombach, legally qualified judge

IMPUGNED ORDER OF THE COURT OF FIRST INSTANCE

Local Division Düsseldorf, 6 September 2024.
Reference numbers: ORD_48181/2024; App_47922/2024; ACT_580849/2023, UPC_CFI_373/2023

PATENT AT ISSUE

EP 1 793 917

LANGUAGE OF THE PROCEEDINGS

English

ORAL HEARING

After being summoned to the oral hearing scheduled to take place (online) on 14 November 2024, Aarke informed the Court that it did not wish to be represented at the oral hearing (R. 116.1 and R.116.3 RoP). Sodastream subsequently agreed that the oral hearing be cancelled and that the Court decide based on the written documents in the proceedings.

SUMMARY OF FACTS AND PARTIES' REQUESTS

1. In its Statement of defence, Aarke requested the CFI, LD Düsseldorf to order that Sodastream provide an adequate security for the costs of the proceedings pursuant to R.158 RoP (App_35905/2024). It suggested an amount of € 400,000 orientated at the decision on scale of ceilings for recoverable costs.
2. After having heard Sodastream, who requested that the application be dismissed, the judge-rapporteur dismissed the request by order dated 5 August 2024.
3. Aarke then asked for a panel review of this order pursuant to R.333 RoP. The panel dismissed this application. Leave to appeal was granted in the order.
4. In summary the panel considered as follows:
 - 4.1 The Court has the discretion to order a security for legal costs and other expenses. Factors to be considered when ordering a security order include the financial position of the other party that may give rise to a legitimate and real concern that a possible cost order might not be recoverable and/or the likelihood that a possible cost order by the UPC may not, or in an unduly burdensome way, be enforceable.
 - 4.2 It is not sufficiently contested that Sodastream, as part of the PepsiCo group, is financially able to comply with a decision on costs. The fact that the PepsiCo group is not a party to these proceedings does not mean that the Claimant is unable to comply with a possible decision on costs.
 - 4.3 The fact that Sodastream sued Aarke without prior notice or correspondence does not make the proceedings abusive per se. No further substantiation has been provided by Aarke as to the alleged abusive behaviour or the intent to evade the enforcement of a judgement by Aarke.

4.4 Even if it were to be assumed that it might take a long time to enforce a UPC judgement in Israel, this is not a sufficient ground to order a security.

4.5 It is by no means certain that a possible judgment of this Court would have to be enforced in court at all, let alone in an Israeli court.

5. Aarke requests that the impugned order is set aside and that Sodastream is ordered to provide security for Aarke's costs, together with related orders, pursuant to R.158 RoP.
6. Sodastream requests that the appeal be rejected.

POINTS AT ISSUE

Security for legal costs pursuant to R.158 RoP

SUBMISSIONS OF THE PARTIES

Aarke submitted, in summary and insofar as relevant, the following.

7. Although Aarke has not asserted any financial risk, it is incorrect that it is undisputed between the parties that Sodastream, as part of the PepsiCo group, is financially able to comply with a decision on costs. Sodastream has not alleged that any other company within the PepsiCo group would bear the costs of these proceedings. The fact that Sodastream is part of the PepsiCo group is thus irrelevant.
8. The infringement proceedings have been brought without prior notice, which is an expression of litigation strategy from Sodastream, and an indication that it may try to avoid enforcement to harm Aarke.
9. A defendant shall not have to prove that an order for costs is impossible to enforce. It is sufficient that enforcing a cost order is unduly burdensome. Israeli law on enforcement of foreign judgements entails the risk of unenforceability or at least an unduly burden.
10. The enforcement of a judgement by the UPC in Israel is regulated by the Foreign Judgements Enforcement law (1958). Section 4 thereof provides that a foreign judgement shall not be declared enforceable if it was given in a state the laws of which do not provide for enforcement of judgements of Israeli courts. This condition is likely not met.
11. The existence of a bilateral enforcement convention between Israel and the foreign country assumingly satisfies this requirement, but that is not the case in relation to the UPC, the EU nor all concerned Contracting Member States in these main proceeding. Sweden does not recognize foreign judgements if there is no legal basis, and there is no convention or bilateral treaty that can serve as the basis for the enforcement of an Israeli judgement in Sweden.
12. In Israel, if the enforcement is disputed by the party against which enforcement is sought, the enforcement proceedings may take two to three years before a decision in first instance is delivered.
13. Aarke is an SME. The UPC proceedings are likely to incur significant legal costs. The dismissal of its request will affect Aarke's ability to defend itself. The CFI has not properly considered the principles of fairness, equity, flexibility and proportionality, particularly as Aarke is an SME and Sodastream a solvent market dominant. Sodastream has not argued that an order to provide security of costs in this matter would interfere with its right to an effective remedy.

Sodastream has, in summary and insofar as relevant, argued as follows:

14. Sodastream never argued that the PepsiCo Group was responsible for the cost nor a party to the proceedings. Rather Sodastream itself is financially strong.
15. There is no evidence that Sodastream has ever evaded enforcement of a foreign judgement in its own jurisdiction.

16. Aarke has not presented any exceptional circumstances that could be considered to cause an undue burden of enforcement. Foreign judgements from countries that do not maintain bilateral conventions with Israel are regularly enforced in Israel. The Israeli Supreme Court ruled in its judgement of 27 March 2014, AA 3081/12, that the reciprocity requirement for the enforcement of a foreign judgement in Section 4(a) is fulfilled when there is in parallel a reasonable potential for the enforcement of Israeli judgements in the country that issued the judgement. This potential also applies without having positive examples in practice for the foreign country having enforced Israeli judgements.
17. There is reasonable potential according to this standard that the UPC member states will enforce an Israeli judgement and thus the requirement of reciprocity is met.
18. The enforceability can be challenged in Israel if there are reasonable grounds such as fraud, violation of the right to be heard or contradiction with another judgement rendered in the same matter between the same parties. None of the grounds for non-enforceability result in an undue burden or undue uncertainty in the enforcement of a potential cost judgement in Israel.
19. The fact that Sodastream is financially strong is insufficient reason to order a security for costs. An unjustified order against Sodastream to provide security for costs, has the potential to damage its reputation and its trustworthiness in public.

GROUNDS FOR THE ORDER

20. The CFI has stated the correct legal standard to be applied when an application for an order to provide security for costs is made. The criteria that were actually applied by the CFI are, however, not always in conformity therewith.
21. As Aarke rightly pointed out, failing any guarantees or other special circumstances, which did not arise in the present case, it is not relevant whether the claimant belongs to a - financially sound - group of companies. It is only the financial position of the claimant itself that is relevant. Applying this to the present case does not lead to a different outcome. It is not disputed that Sodastream itself has sufficient financial means to reimburse Aarke upon a cost order to that effect.
22. Equally, whether a claimant is willing to reimburse the defendant if a cost order would be issued in favour of the defendant is not relevant either. Statements by Aarke that Sodastream may try to avoid enforcement, even if true, cannot lead to another outcome. The relevant criterion is whether, if that were the case, enforcement would be possible without undue burden.
23. It is also irrelevant whether a cost order in favour of the defendant is to be expected. The Court should not engage in evaluating the likelihood of the outcome of the case when deciding on a request for security for costs.
24. Finally, Aarke rightly points out that it is not required that it is proven that enforcement is impossible. It is sufficient for a defendant to establish that enforcement of a cost order is unduly burdensome. The burden of showing this is on the applicant of an order for security for costs. To this end, the applicant shall not only provide evidence as to the foreign law applicable in the territory where the order shall be enforced, but also its application.
25. Applying this criterion does not lead to another outcome in this matter either. Aarke failed to provide sufficient evidence in relation to the application of the applicable law by the courts in Israel. Sodastream on the other hand has, with reference to case law from the Supreme Court, sufficiently substantiated that a cost order issued by the Unified Patent Court is likely to be enforceable in Israel without undue burden. Aarke has not sufficiently disputed this.

26. It follows from the above that under the application of the proper criteria, there is no ground to order Sodastream to provide security for a possible cost order in favour of Aarke. The mere fact that Aarke is an SME, as it states, doesn't alter that.
27. The appeal must be rejected.

ORDER

The Court of Appeal rejects the appeal.

Issued on 29 November 2024

Rian Kalden, presiding judge and judge-rapporteur

Ingeborg Simonsson, legally qualified judge

Patricia Rombach, legally qualified judge