

## *Asia*

# A Review of the Development of SEP-Related Disputes in China and Outlook for the Future Trend

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# A Review of the Development of SEP-Related Disputes in China and Outlook for the Future Trend

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Since the issuance of the judgment of *Huawei v. InterDigital Corporation* (“IDC”) in 2013, disputes concerning standard essential patents (“SEPs”) have been developing for over 10 years in China while China has grown into an important battlefield for international SEP disputes by establishing its own standards of reviewing the substantive and procedural issues.

Particularly, courts in China have granted anti-suit injunctions consecutively in cases such as *Huawei v. Conversant*, *ZTE v. Conversant*, and *Xiaomi v. IDC* since the end of 2020, which on the one hand provided important support for legal actions of enterprises in China, whilst on the other hand also triggered concerns from various competition jurisdictions including the European Union and the United States.

The strategic position of China in the global SEP dispute settlements is becoming more and more important today. Against the background that the 5G standard’s implementation is entering full commercialization with technologies related to IoT developing dynamically, jurisdictions like the US, EU, UK, Japan, and South Korea have actively amended their SEP policies starting from 2021 in response to this industrial development and migration.<sup>1</sup>

All these appear to indicate that a new wave of SEP disputes around the world is arising, as exemplified by the patent infringement lawsuits filed recently by traditional right holders such as Nokia and IDC against OPPO, Vivo, OnePlus, etc. Under this context, an analysis of the development of China’s SEP disputes and future trend is of great significance for both the

right holder’s and the implementer’s commercial success in China.

## I. Overview of SEP-Related Disputes in China

### A. Cases in recent years are centered on jurisdictional issues while standards in reviewing substantive issues do not appear to make material development

Disputes related to SEPs arise from time to time in recent years in China. Regardless, only in early cases did the court and law enforcement authority touch upon substantive issues like whether the terms and conditions under dispute violate antitrust law, and whether they are compliant with the fair, reasonable and non-discriminatory (“FRAND”) licensing commitment made by the SEP holders when they had their relevant patents incorporated into a standard.

The focus of the recent cases is more related to procedural issues, for instance, anti-suit injunction, anti-anti-suit injunction, and whether a national court would have the jurisdiction to determine the licensing terms and conditions of all SEPs held by the right holder, i.e., determination of global licensing terms and conditions despite that the evaluation of patents is closely related to specific stipulations of the patent law of each country and therefore has the so-called territorial characteristics, etc. Illustrative to this is that parties to the disputes have all settled their disputes before the cases could have moved into the substantive phase

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<sup>1</sup> For the US initiative, see USPTO, DOJ, NIST “Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments”, December 6, 2021, <https://www.justice.gov/opa/press-release/file/1453826/download>; for the UK initiative, see “Standard Essential Patents and Innovation: Call for View” which was published on December 7, 2021, <https://www.gov.uk/government/consultations/standard-essential-patents-and-innovation-call-for-views/standard-essential-patents-and-innovation-call-for-views>; for the EU initiative, see “Commission Seeks Views and Input on Fair Licensing of Standard Essential Patents”, <https://www.gov.uk/government/consultations/standard-essential-patents-and-innovation-call-for-views/standard-essential-patents-and-innovation-call-for-views>, and Japan Patent Office, “Guide to Licensing Negotiation Involving Standard Essential Patents”, [https://www.jpo.go.jp/e/support/general/sep\\_portal/document/index/guide-seps-en.pdf](https://www.jpo.go.jp/e/support/general/sep_portal/document/index/guide-seps-en.pdf).

after the bargaining carried out during the procedural phase.

***B. Although the focuses of legal actions filed by the right holder relative to vis-à-vis the implementer are different, the influence of antitrust action is not negligible***

In China, SEP-related disputes generally take the form of three types of legal actions: lawsuits concerning licensing terms and conditions that are centered on FRAND commitment of SEP holders (“FRAND lawsuit”), antitrust actions which focus on whether the licensing terms are compliant with the provisions set forth in the Anti-Monopoly Law (“AML”), and patent actions which are concerned with the determination of infringement.

In practice, there are cases in which the SEP holder or implementer files all three kinds of legal actions simultaneously. For example, Qualcomm had filed an action which merged the FRAND claim and antitrust claim together, along with several patent infringement actions against Meizu.<sup>2</sup> There are also cases where the SEP holder or implementer only chooses to file one type of action. For instance, in its dispute with Apple, IWNCOMM only filed a patent infringement action.<sup>3</sup> Despite that both the right holder and the implementer can take different types of legal actions simultaneously, the focus of their actions would be very different.

For the right holder, antitrust action is rarely the choice given that in China effective judgment and administrative decision have both found that the relevant SEP holder has the dominant position in the market for licensing relevant SEPs.<sup>4</sup> Such findings have relieved the burden of proof from the implementer in showing the SEP holder’s dominant position when arguing that the SEP holder had engaged in conducts that abused its dominant market position in licensing its IPs. It would be very difficult for the SEP holder intends to argue that it is the implementer who abused its position in the market for products that apply the relevant

SEPs, as the holder needs to prove that the implementer has the dominant position in the relevant product market. Consequently, patent actions and FRAND lawsuits become the primary choices of SEP holders. And as will be explained in the following, since antitrust action is favorable for the SEP implementers, defending antitrust legal action has become the critical focus of SEP holders.

For the SEP implementer, antitrust action is favorable for not only the favorable findings established in prior cases but also the potentially severe penalties to be faced by the SEP holder for AML violations. Such severe penalties would include a [confiscation/disgorgement] of illegal gains and a fine up to 10% of the sales revenue of the previous year of the SEP holder, which will impact the economic incentive of the SEP holder to persist to the disputed licensing terms and conditions.

FRAND lawsuit also plays a critical role as analysis of the licensed SEPs would inevitably be conducted in a FRAND lawsuit. When the licensed SEPs are not of high value, the result of the FRAND lawsuit would probably contrast with the expectation of the SEP holder. In further consideration that the result of such a lawsuit will be published, other SEP implementers may leverage the result in their licensing negotiations with respective SEP holders.

## **II. Development and Outlook of SEP-related Antitrust Action in China**

In recent years, the major antitrust actions concerning SEPs are the *Apple v. Qualcomm* case, the *Hytera v. Motorola System Inc.* case, the *OPPO v. Sharp* case, the *OPPO v. Sisvel* case, and the *Xiaomi v. Sisvel* case. As no judgments on the merits were issued, it would be difficult to estimate how a court will rule on the issues on the merits presented in these cases, which also indicates that studying these SEP-related antitrust cases can be of little help

<sup>2</sup> See the press release published on Qualcomm’s official website: “Qualcomm Files Complaint against Meizu in China”, June, 23, 2016, <https://www.qualcomm.com/news/releases/2016/06/qualcomm-files-complaint-against-meizu-china>.

<sup>3</sup> Xinyi Intellectual Property, “Patent Involved in Case of IWNCOMM Suing Apple for Infringement Upheld by Court”, July 4, 2020, <https://www.ipxinyi.com/newsinfo/559579.html?tmplateld=41085>.

<sup>4</sup> See the reasoning of the abuse of dominance case of Huawei v. IDC provided by the Guangdong Higher Court and the administrative sanction decision against Qualcomm issued by the NDRC.

in predicting future developments in antitrust actions concerning SEPs.

In adjudicating antitrust cases, the Chinese courts do refer to findings from other developed antitrust jurisdictions. Despite the similarities shared in those cases, Chinese courts made different findings in SEP-related antitrust actions from courts in other countries. A comparative study of the different findings in these similar cases seems to provide some help in understanding how the Chinese courts in the future could deal with the issues on the merits in SEP-related antitrust actions.

Additionally, antitrust cases related to the exercise of intellectual property rights (“IPRs”) other than SEPs (“IP-related antitrust cases”) are also increasing in China. As SEPs are a special type of intellectual properties (“IPs”), it would be possible that the findings in IP-related antitrust cases could provide some referential value to antitrust cases concerning SEPs.

Consequently, a feasible approach to predict the trend of the judgments on the merits in SEP-related antitrust cases would be to compare the analyses made by different courts in similar cases and consider the referential value provided by IP-related antitrust cases.

***A. Chinese courts to adopt an approach to define the relevant market which totally contrasts the current approach appears to be unlikely while future market definition could highlight the substitutability and switching costs between technologies.***

**1. Foreign courts have defined the relevant product market as the market only for products using SEPs, which would be more favorable to SEP holders compared with the current relevant product market definition approach adopted in China**

Both the Guangdong Higher Court and the AML enforcement authority have defined the licensing market of the SEP as the relevant product market in cases concerning the licensing behaviors of holders of the relevant

wireless communication SEPs. This market definition at least seems to be contrary to the holdings in *FTC v. Qualcomm* in the US in 2020 and in *IP Bridge v. Huawei* in Germany in 2018.

*FTC v. Qualcomm* is concerned with the licensing behaviors of wireless communication SEPs. The FTC, however, defined only the downstream cellular modem chip markets, i.e., the market for the code division multiple access (“CDMA”) modem chips and the market for premium long-term evolution (“LTE”) modem chips, without defining the upstream market concerning the licensing of wireless communication SEPs which are owned by Qualcomm and implemented by chip manufacturers.<sup>5</sup> In *IP Bridge v. Huawei*, the SEPs are related to H.264, a video decoding standard. The German court held that the relevant market is not the market for licensing the relevant H.264 SEPs but rather the market for smartphones implementing the H.264 standard.<sup>6</sup> The reason for the German court to define such a relevant market was that unless the implementer is able to prove that the SEPs concerned are very important for the implementer to provide a competitive product, the proprietary right of a patent itself cannot enable the patent holder to foreclose competition in the downstream market.<sup>7</sup>

If the relevant market was defined as the market for products using the relevant SEPs, as in *FTC v. Qualcomm* and *IP Bridge v. Huawei*, as the SEP holder could not be a producer of the product, there would be no basis for the argument that the SEP holder abuses market power in this product market. In addition, since a market for licensing the SEP is not the relevant market, a foundation for arguing that the SEP holder engages in abusive licensing conduct in violation of the AML seems non-existent, too. Therefore, defining the relevant market as that of *FTC v. Qualcomm* and *IP Bridge v. Huawei* would be much more favorable to SEP holder compared with defining a market for licensing the SEPs.

<sup>5</sup> See *FTC v. Qualcomm Incorporated*, No. 19-16122, D.C. No. 5:17-cv-00220-LHK.

<sup>6</sup> See the judgment issued by the Dusseldorf Regional Court on December 12, 2018, at 52, 53.

<sup>7</sup> *Id.*



## **2. The findings of the Chinese courts in the recent IP-related antitrust cases indicate however, that defining market only for product using SEPs seems unlikely in SEP-related antitrust action in China**

As explained, one feature of SEP disputes is the intertwined legal actions between the SEP holder and implementer. It is very likely that the relevant SEP holder would argue for an approach to market definition different from that of the Chinese jurisprudence to attain favorable results in its actions against the implementer. The issue, therefore, would be whether and how likely the Chinese court or enforcement authority would accept the alternate market definition approach in other jurisdictions that focuses only on the downstream market.

Based on other IP-related antitrust cases in China which are concerned with the licensing behaviors of patentees, we have noticed that the relevant product markets defined in these cases never only consist of the products that implement the relevant IPs. Rather, the upstream market for licensing the relevant IPs is also defined as the relevant product market. For example, in *Ketian Magnet et al. v. Hitachi Metals* concerning abuse of dominance, one critical issue in the appeal is whether the court drew the relevant market too narrowly for the licensing of the essential patents related to sintered NdFeB (a rare-earth magnet alloy widely used in parts for planes, autos, and other products) owned by Hitachi Metals.<sup>8</sup> This, nevertheless, does not challenge the lower court's approach to define the upstream market for licensing the relevant technologies.

During the hearing of the appeal organized by the Supreme People's Court ("SPC"), the parties were required to provide supplementary explanations regarding the substitutability between different technologies after the hearing.<sup>9</sup> This requirement appears to indicate that the SPC does take into consideration the

substitutability between essential patents related to sintered NdFeB and other sintered NdFeB-related technologies.

It seems highly unlikely that courts in China would skip defining the upstream market for licensing IPs in antitrust cases concerning the licensing behaviors of the right holder. Consequently, in antitrust cases concerning the licensing of SEPs, the critical issues in market definition in the future could be analysis of the substitutability of different standards, the switching costs faced by implementers when the standards are interchangeable, etc.

### ***B. The critical issue in determining whether the patentee has dominant market position could be that whether implementers engaged in hold-out behaviors based on patentees' FRAND commitment***

When the relevant market was defined as the market for licensing the relevant SEPs and conducted analysis according to the factors stipulated by the AML for considering market dominance,<sup>10</sup> the SEP holder to have dominant market position seemed to be a necessary conclusion. This is because, in this market the SEP holder would have 100% market share. The concept of SEP already implies its indispensability to implementers' production of standard-compliant products. Furthermore, for the stability of the standard, even though technologically feasible, it is almost impossible that other undertakings can enter into the market by introducing technologies competing with the concerned SEPs.

However, "market dominance" under the AML refers to "the market position of the undertaking which has the ability to control the product price, quantity or other trading conditions in the relevant market". According to this definition, if the trading conditions, that is, the licensing terms and conditions of SEPs concerned, were not determined unilaterally by the SEP holder, or the SEP implementer as the trade counter-

<sup>8</sup> Parr, "Hitachi Metals antitrust appeal: 'Essential facility' concept in focus; judge proposes in-court mediation" 26 November 2021

<sup>9</sup> Id.

<sup>10</sup> The factors are provided in Article 18 of the AML, which include: 1) the market share of the undertaking and the competition status in the relevant market, 2) the power of the undertaking to control the sales market or the market for purchasing the raw material, 3) the financial and technical strength of the undertaking, 4) the degree of reliance by other undertakings on the undertaking in terms of the trade, 5) the level of difficulty face by other undertakings to enter into the relevant market, and 6) other factors relevant to the determining dominance of the undertaking.

party had sufficient countervailing power, the SEP holder would not necessarily have dominant market position.

For the determination of the licensing terms and conditions of SEPs in practice, as the standard-setting organization (SSO) generally requires the patentee to make a FRAND commitment, a guarantee in the system appears to exist for the SEP implementers to countervail SEP holders in licensing negotiation. Meanwhile, in recent years, discussions concerning FRAND hold-out are on the rise as SEP implementers do make use of the FRAND commitment in license negotiation to lower royalties to SEP holders.

In reality, it is undeniable that for a SEP holder to finalize a license, several rounds of negotiations with the SEP implementer are normally required. Accordingly, although it is possible that a patentee may somehow lock the implementer in a standard by incorporating its patent into the standard that the implementer needs to use, it is equally possible that such SEP implementer can make good use of the FRAND commitment to fight for licensing terms and conditions in its favor.

In *Unwired Planet v. Huawei*, the UK High Court held that “the market is covered by the FRAND undertaking which does weaken the SEP owner’s position. It is a market in which licensees can engage in holding out and there is some evidence that they do, particularly given the relative weakness of *Unwired Planet*.”<sup>11</sup> However, as *Unwired Planet* failed to provide economic analysis to repudiate the issue of its market dominance, the UK High Court held that *Unwired Planet*, as the holder of relevant SEPs, had the dominant position in the market for licensing the SEPs.

In other IP-related antitrust cases handled by the SPC in China, IPR holders already argued from the perspective of buyers’ power that they

did not hold dominant market positions. The SPC did not outright reject this argument simply because the AML does not consider the buyer’s power for determining market dominance.

On June 27, 2022, following the amendment of the AML, the State Administration of Market Regulation (SAMR), which is the Antitrust Enforcement Agency under the State Council, also issued the *Provision on Prohibition of Conducts Abusing Intellectual Property Rights to Exclude and Eliminate Competition (Draft for Public Comments)*.<sup>12</sup> Compared with the currently enforced version, Paragraph 3 of Article 6 clearly stipulates the countervailing power of the counterparty as one factor to be considered for determining the market dominance of undertakings in the IPR area.

Consequently, when the relevant market is defined narrowly to be the market for licensing relevant SEPs, to what extent can the right holder argue that the FRAND commitment has weakened its bargaining power, that the implementer has buyer’s power, and that the implementer has engaged in holding out, would probably become the most critical issues in market dominance determination.

### ***C. Debate on licensing at chip level could revive if SEP was considered as essential facility***

When the *Provision on Prohibition of Conducts Abusing Intellectual Property Rights to Exclude and Eliminate Competition* was issued in 2015, the Provision’s stipulation on abuse of IPR which is related to refusal to deal already provided that: “when the IPRs constitute the essential facility for production and operation, the undertaking which has dominant market position shall not refuse to license other undertakings under reasonable terms for the use of the IPR to eliminate or restrict competition.”<sup>13</sup> This has made it possible from

<sup>11</sup> See *Unwired Planet v. Huawei*, HP-2014000005, decided on April 5, 2017, at para.670. Although this case was appealed to the Supreme Court, the finding of the High Court regarding market dominance issue was upheld.

<sup>12</sup> See the SAMR, “Provisions on Prohibition of Conducts Abusing Intellectual Property Rights to Exclude and Eliminate Competition (Draft for Comment)”, published for comment on June 27, 2022, online available at: <https://www.samr.gov.cn/jzxts/tzqg/zqyj/202206/P020220627392766952008.pdf>.

<sup>13</sup> See the SAMR, “Provisions on Prohibition of Conducts Abusing Intellectual Property Rights to Exclude and Eliminate Competition”, promulgated on April 7, 2015, effective on August 1, 2015, Article 7. On June 24, 2022, the AML Amendment was passed by the Standing Committee of the National People’s Congress and as a result, the Provision will be amended accordingly. A Draft for Comment of the Provision was published on June 27, 2022, and its stipulation on essential facility is substantially the same with the current enforced stipulation.

the legislative perspective to regard IPRs as essential facility in China. In the first-instance judgment of *Ketian Magnet et al. v. Hitachi Metals*, the Ningbo Intermediate Court held that the relevant essential patents owned by Hitachi Metals constituted an essential facility and that Hitachi Metals' refusal to license the patents constituted refusal to deal that abused its market dominance.

Compared with Hitachi Metals' patents which are essential but not related to any standard, the possibility for SEPs to constitute essential facilities is even higher because of the commercial success of the standard and the lock-in effect resulting from the patents being incorporated into the standard. As a result, if the SPC upholds the finding of the Ningbo Intermediate Court in the judgment, it is likely that SEPs would be deemed as essential facilities in SEP-related antitrust cases.

One important issue in the essential facility doctrine is to explain, against the common understanding that enterprises are free to choose with whom to deal, why the undertaking needs to deal with a counterparty, even its rivals. Applying this doctrine in antitrust disputes relating to SEPs would, therefore, trigger another issue that used to be heatedly debated, that is, when the relevant SEPs are deemed as essential facility, whether the SEP holder would accordingly have the obligations to license to component manufacturers such as chip makers?

For this issue, it is interesting to note that on 28 February 2022, the Fifth Circuit in *Continental Group v. Avanci* dismissed the plaintiff's claim, which argued that "refusal to directly sell [Continental Group] a license on FRAND terms constituted not only a contractual breach but also anticompetitive conduct in violation of the Sherman Antitrust Act of 1890."<sup>14</sup> The dismissal was on the ground that Continental Group failed to meet its burden of proof, i.e. Continental Group suffered a cognizable injury in fact.

Therefore, although the claim was dismissed, this does not indicate that the court would reject considering licensing at the component level in future when evidence on injury is sufficient.

Court in the US is one of the most important forums for SEP-related disputes settlement in the world, and its judgment provides referential value for China's AML enforcement. Courts and enforcement authorities in China may feel less stressed to re-consider the licensing level issue when court in the US does not reject considering the idea of licensing at the component level. While the essential facility doctrine provides a theoretical basis for arguing that component makers should be licensed, when an SEP is deemed as an essential facility, the long-debated topic of licensing at the chip level could revive, which again may break the peace reached as a result of the U.S. Court of Appeals for Ninth Circuit's finding in *FTC v. Qualcomm*.

### III. Development and Outlook of FRAND Lawsuits in China

#### ***A. The world competition for jurisdiction over FRAND lawsuits is turning fierce, and anti-suit injunctions become the implementers' important counter measure adopted in China actions***

Since the issuance of the first anti-suit injunction in *Huawei v. Conversant* on the basis of Article 103 of China's *Civil Litigation Law* by the SPC on 28 March 2020, the Chinese courts granted anti-suit injunctions consecutively in *ZTE v. Conversant*, *Xiaomi v. IDC*, *Samsung v. Ericsson*, and *OPPO v. Sharp*.<sup>15</sup> Among the anti-suit injunctions, some enjoined the relevant SEP holder from enforcing the injunction issued by the foreign court prohibiting the sale of relevant products,<sup>16</sup> whereas some enjoined the filing of both the patent infringement lawsuit and FRAND lawsuit when the Chinese court was

<sup>14</sup> *Continental Automotive Systems v. Avanci, LLC*, No. 20-11032 (5<sup>th</sup> Cir. 2022), at 5.

<sup>15</sup> Article 103 of the Civil Litigation Law provides that: "The people's court may, according to the parties' request, to rule property preservation or order one party to conduct or not conduct a certain behavior, when for the conduct of this party or other reasons, the judgment will be difficult to enforce or causes damages to the other party. The people's court can also grant to adopt preservation measures when it deems necessary.

<sup>16</sup> For instance, the SPC in *Huawei v. Conversant* Case only ordered to enjoin the application for enforcing the injunction granted by the German court.

adjudicating the relevant FRAND dispute.<sup>17</sup> In some rare circumstances, the anti-suit injunctions also ordered the relevant SEP holder to withdraw its legal action filed to courts in other jurisdictions.<sup>18</sup>

The important function anti-suit injunction is to prevent the impact of foreign actions on the Chinese jurisdiction over cases. The anti-suit injunctions granted, therefore, serve a purpose of reinforcing the jurisdiction of the Chinese courts over FRAND lawsuits. Responding to the Chinese courts' actions, the EU submitted a negotiation request to China through WTO, alleging that the relevant anti-suit injunctions granted, and their publishing, are not in line with the Agreement on Trade-related Aspects of Intellectual Property Rights.<sup>19</sup>

Aside from whether the EU's request for negotiation is well-founded, the request itself indicates that competition for jurisdiction over FRAND lawsuits in the world is rising. While China began to enforce the *Law Against Foreign Sanctions* on 10 June 2021, which on the level of national legislation clearly supports countermeasures against actions taken by foreign countries, organizations, and individuals which are to the detriment of the development benefits of China, China will unlikely change its stance to jurisdiction matters over FRAND lawsuits in the short run, as China's economic development is necessitated by sectors that typically need to implement relevant SEPs such as consumer electronics and automobiles.

Although foreign jurisdictions including India, Germany, US, and UK granted anti-anti-suit injunctions in response to the Chinese courts, SEP holders such as Conversant eventually settled with Chinese implementers, which indicates that the Chinese anti-suit injunctions have some effects in limiting the proceedings filed by SEP holders in jurisdictions abroad.

Particularly, the fines imposed by the Chinese courts for violating the anti-suit injunctions can

be as high as 1 million Chinese Yuan per day without cap. The fine will seriously affect the economic interests of SEP holders, which pushes them to carefully consider the cost efficiency to continue their foreign actions. Anti-suit injunctions have become one of the most important measures for SEP implementers in China to counter SEP holders' actions oversea.

***B. The SPC for the first time clarified the nature of FRAND lawsuit and the standard for ascertaining whether the Chinese courts would have jurisdiction, whereas the legal basis for determining the substantive issues of the FRAND lawsuit is yet to be further developed***

### **1. Chinese courts' jurisdiction over FRAND cases and the standards for deciding jurisdiction are well-established**

Under the Chinese law, the court often determine jurisdiction according to the nature of cases, and therefore, the nature of FRAND lawsuit directly affects how courts in China decide whether they have jurisdiction over the case. For instance, if the FRAND lawsuit is considered to be tortious, the appropriate court, according to China's *Civil Litigation Law*, should be the court where the defendant is domiciled, or the jurisdiction of the tortious acts.<sup>20</sup> On the flipside, to consider the FRAND lawsuit as possessing a contractual nature, the appropriate courts should be the court where the contract is performed in addition to the court where the defendant is domiciled.<sup>21</sup>

Nonetheless, for a long time, a consensus had not been reached on the nature of FRAND lawsuit, as some court opinions considered it as contractual while some courts consider such lawsuit involves the determination of patent infringement and violations of FRAND commitment as an infringement on rights held by implementers of relevant SEPs. It was not until in the second-instance jurisdictional

<sup>17</sup> See e.g., the Ruling of Shenzhen Intermediate Court in *OPPO v. Sharp*, Civil Ruling of (2020) Yue 03 Min Chu No. 689.

<sup>18</sup> See e.g., the Ruling of Wuhan Intermediate Court in *Xiaomi v. IDC*, Civil Ruling of (2020) E 01 Zhi Min Chu No. 743.

<sup>19</sup> World Trade Organization, "China-Enforcement of Intellectual Property Rights, Request for Consultations by the European Union", WT/DS611/1/IP/D/43/G/L/1427, 22 February 2022, online available <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/DS/611-1.pdf&Open=True>.

<sup>20</sup> See Article 29 of the *Civil Litigation Law*.

<sup>21</sup> See Article 24 of the *Civil Litigation Law*.



objection ruling of the *ZTE v. Conversant* case dated 21 August 2021 that the SPC made this issue clear:

*The FRAND lawsuit has the characteristics of both the features of contractual dispute and patent infringement lawsuit and thus is a special type of dispute. When dispute arise as to the licensed IP or the licensing terms and conditions, the competent court should probably consider the legal effects of the licensed patents, whether the patent at issue is essential for implementing the standard, the situation of the implementer to use the standard and the SEP concerned, the specific contents of the license agreement, etc. Having considered all these, the determination of which Chinese courts should exercise the jurisdiction of the SEP dispute could take into account such nexuses as the places where the licensed IP is located, where the patent is implemented, where the contract is executed, where the contract is performed, etc.*<sup>22</sup>

## **2. The legal basis for determining FRAND licensing terms and conditions is still to be developed**

Having determined the jurisdiction of the Chinese courts over the FRAND lawsuit and the standards for deciding which of the Chinese courts would have the jurisdiction, the procedural trial of the FRAND lawsuit would end and commence the merit trial. At the merit trial, the unavoidable issue would be the legal basis for the court to decide whether the terms and conditions of licensing the relevant SEPs are FRAND, and if not, what terms and conditions should be FRAND.

This is particularly difficult as the concept of FRAND is vague without clarification from either an SSO which introduced this concept or law of any country. In China, the two documents that provide the basis for the courts to determine FRAND licensing terms and conditions are the Interpretation Concerning Several Issues of Law Application in Adjudication of Patent Infringement II and the Working Guideline for the Adjudication of SEP cases of the Guangdong Higher Court (“Working Guideline of Guangdong Higher Court”). Nevertheless, each document has its respective limitations.

For the former, the precondition for the court to determine the FRAND-compliance of licensing terms and conditions of SEPs is that the patentee has filed the patent infringement lawsuit against the alleged infringer.<sup>23</sup> A court does not have jurisdiction when the claim in the FRAND lawsuit does not involve any patent infringement issue. That perhaps explains why in the case filed by Huawei against Conversant before Nanjing Intermediate Court, Huawei did not simply petition the court to determine the FRAND licensing terms and conditions of all the Chinese SEPs held by Conversant but also included a claim that Huawei did not infringe upon the relevant SEPs held by Conversant.<sup>24</sup>

For the latter, although the determination of FRAND terms and conditions is not preconditioned with filing a patent infringement claim, which rather generally allows a determination of FRAND terms and conditions when the right holder and implementer cannot

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<sup>22</sup> The Ruling of Supreme People’s Court in *ZTE v. Conversant*, Civil Ruling of (2019) Zui Gao Fa Zhi Min Xia Zhong No. 157.

<sup>23</sup> Article 24(3) of the *Interpretation Concerning Several Issues of Law Application in Adjudication of Patent Infringement II* provides that: “Licensing terms referred to in the second paragraph of this Article shall be negotiated and determined by the patentee and the accused infringer. Where the patentee and the accused infringer are unable to reach consensus after full negotiation, they may request a people’s court to determine. In the determination, the people’s court shall base on the principle of FRAND and take into account the factors such as the innovativeness of the patent its function in the standard...” This stipulation is subject to the “second paragraph” limitation. While the second paragraph provides for the standard deciding whether an injunction enjoining the implementation of standard in patent infringement lawsuit should be granted per the request of the patentee against the accused infringer, it is clear that the condition for the court to determine in accordance with the FRAND principle the licensing terms of SEPs is that there is a patent infringement claim.

<sup>24</sup> The claims of Huawei in the lawsuits are that: a) request the court to declare that the conducts of the three plaintiffs to manufacture, sell and offer to sell mobile terminals do not infringe upon the proprietary rights of the three patents held by Conversant, and b) request the court to determine the licensing terms that are compliant with the FRAND principle for all the Chinese SEPs practically mapping with the standard or technical specifications which in fact are implemented by the plaintiffs that Conversant owns or is authorized to license. For detail, see (2018) Su 01 Min Chu No. 232, 233, 234 Civil Awards.

reach a consensus after full negotiation,<sup>25</sup> this *Working Guideline of Guangdong Higher Court* is only an internal document within the court system of Guangdong Province, so its legal effect as well as jurisprudence is relatively limited. As a consequence, if a court outside the Guangdong Province needs to try a FRAND case on the merits, it would be inappropriate for it to refer to the Working Guideline of Guangdong Higher Court.

Consequently, even though seven years have passed since the issuance of the judgment in *Huawei v. IDC*, the substantial basis for deciding FRAND licensing terms and conditions has not materially developed in China.

### **C. Development of approaches to calculate FRAND royalties**

The smallest salable patent practicing unit (“SSPPU”) approach was used as a damage calculation method in several U.S. patent infringement cases. When this approach was most popular, implementers also used it when negotiating FRAND royalty with patentees. In China, this approach once gained some popularities, too, partly because China’s antitrust law enforcement authority stated in the decision against Qualcomm that although Qualcomm’s SEPs were not implemented in the mobile terminal’s screen, camera, battery, operation system, etc., Qualcomm nevertheless charged royalties of these SEPs based on the price of the entire product.<sup>26</sup>

However, the U.S. Court of Appeals for the Ninth Circuit in *FTC v. Qualcomm* supported Qualcomm’s model of not licensing at the chip level and held that Qualcomm is not obliged to license to chip manufacturers. As a result, although a chip is the smallest salable patent practicing unit, its sale price does not comprise of the licensing royalty for implementing relevant SEPs by the chip manufacturers, which is to say, the price itself does not reflect the value

contribution of relevant SEPs. Therefore, applying the SSPPU approach to calculate the reasonable royalty would clearly lead to a detachment of the royalty from the value contribution of SEPs to products, which would be a fundamental departure from the logic underlying the calculation of a reasonable royalty.

SSPPU was never truly accepted by courts in China. From earlier cases like *Huawei v. Samsung*, *IWNCOMM v. Sony (China)*, to the more recent ones like *Huawei v. Conversant*, no Chinese court adopted the SSPPU approach to calculate FRAND royalty. According to the judgments of *Huawei v. Samsung* and *Huawei v. Conversant*, the main approaches of royalty calculation used in China are the top-down approach and the comparable license approach, which is similar to the approaches used in *TCL v. Ericsson* in the U.S.

For the top-down approach, the underlying logic of the courts inside and outside China are somehow similar, which basically would calculate the upper limit of FRAND royalties to be borne by a product for all the SEPs implemented, and apportion the royalty per the number, essentiality ratio, geographic strength, etc., of the SEPs held by the patentee.<sup>27</sup> This approach largely relies on counting the number of patents rather than delving into a very nuanced and specific evaluation of the value of the SEPs under dispute, which drew some skepticism.<sup>28</sup>

For the comparable license approach, because the subject matters of the licenses are different, and the royalty structure agreed between the parties also varied, the agreements provided by the patentee and the implementer are often not necessarily comparable and need to be “unpacked” accordingly. Judging from the current judicial practice in China, the courts have gradually gone into the phase of

<sup>25</sup> Article 15 of the Working Guideline of Guangdong Higher Court provides that: “The dispute between the SEP holder and implementer in determining the royalty during the negotiation of the SEP license is an SEP license royalty dispute. If the SEP holder and the implementer have fully negotiated but still cannot agree on the royalty, they may file a lawsuit according to law.”

<sup>26</sup> See the Administrative Sanction Decision of Fa Gai Ban Jia Jian Chufa [2015] No. 1

<sup>27</sup> Please be noted that this is a very simplified way to describe what the basic issue for using the top-down approach for calculating FRAND royalty would be. The application of this method in practice needs to take into account many factors according to the circumstances of each case.

<sup>28</sup> See e.g. Keith Mallinson “Unreasonably-low Royalties in Top-down FRAND-rate Determination for *TCL v. Ericsson*” <https://www.wisefharbor.com/wp-content/uploads/2018/04/Mallinson-Critique-of-TCL-Ericsson-Decision-30-April-2018.pdf>.

developing relevant factors and standards for qualitative analysis of whether the licenses are comparable. However, so far there has not yet been any case that a license was unpacked for evaluation. Further development of this approach remains to be observed in the future.

#### **IV. Conclusions**

SEP-related disputes would keep on rising in China and in other countries in the world. While in other countries, antitrust action seems no longer a real issue in SEP-related disputes settlement, it always plays an important role in China given the potential leverage that it may provide to the Chinese SEP implementers for attaining favorable licensing terms and conditions.

However, for the past nine years, substantive findings of SEP-related antitrust actions were not developed by the Chinese courts and the AML enforcement authorities. Even though, referring to the findings of the Chinese courts in IP-related antitrust cases, it is very unlikely that the approach to the definition of relevant market in SEP-related antitrust action would significantly depart from the currently adopted method. SEP holders still face a high risk of being deemed as having the dominant market position, and the key point for lowering such risk could be proving that it is the SEP implementers that made use of the FRAND commitments of

the relevant SEP holders and engaged in hold-out. In the context that a legislative basis for applying the essential facility doctrine in the area of exercising IPRs is in place, it is always possible that an SEP constitutes essential facility for producing standard-compliant products. Further considering that the Chinese courts already applied the essential facility doctrine in IP-related antitrust cases, when an SEP is deemed as an essential facility, the long-debated topic concerning the level at which SEP holders license their SEPs could revive.

For SEP-related FRAND lawsuits, behind the rising of anti-suit injunctions granted by the Chinese courts is the fierce world competition for the jurisdiction over FRAND lawsuits. The relevant areas that currently emerge the disputes concerning SEP licensing terms and conditions in China are important for China's economic development. Under this context, it is unlikely that China changes its stances to jurisdiction matters at least in the short run. Against this background, the standard for determining jurisdiction over FRAND cases is clarified by the SPC. However, since all the FRAND cases other than *Huawei v. Conversant* ended with settlement reached prior to the closing of merit trial for first instance, the criteria for substantive matters, i.e. the legal basis for deciding FRAND terms and conditions, the methods for calculating FRAND royalties, need further observation.