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SEP-based Injunctions: Down But Not Out

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We discussed when an IP owner might become an IP abuser previously (<http://kluwerpatentblog.com/2016/03/08/crossing-the-rubicon-when-does-ip-owner-become-ip-ab-user/>). For standard essential patent (“SEP”) holders, one lingering question is whether they can still seek and enforce injunctions. Some take the view that the act of seeking injunctive relief is inherently inconsistent with an SEP holder’s commitments to license SEPs on fair, reasonable and non-discriminatory (“FRAND”) terms. However, there is no *per se* rule prohibiting injunctive relief based on SEPs. This appears to be the settled law in Europe and the U.S., and China is no exception.

Article 55 of the Chinese Anti-Monopoly Law (“AML”) states:

This Law is not applicable to undertakings which exercise intellectual property rights according to relevant laws and regulations; but it is applicable to conduct by undertakings which abuse IP and eliminate or restrict market competition.

It appears that Article 55 implies that IP laws and regulations are equivalent in status to the AML and provides IP holders with a safe harbour for exercising their IP rights. As such, it does not limit the general availability of injunctions. After all, the right to exclude is a fundamental IP right.

If competition laws are to scrutinize an SEP holder’s act of seeking injunctive relief, under what circumstances does this act amount to abusive conduct? Should licensee’s willingness to negotiate be the main consideration? Or is it excessive pricing? It appears that the world is converging on both, although the emphasis may differ. To some extent, willingness to offer or accept a license is intertwined with pricing. As such, the two factors are related. A threshold question is whether SEP-based injunctions are out. The answer is a resounding no.

Chinese Supreme Court confirms availability of SEP-based injunctions

In a 2014 decision, *Zhang Jingting v. Hengshui Ziyahe Construction Co., Ltd.*, the Chinese Supreme Court alluded to the availability of SEP-based injunctive relief. The plaintiff in that case sued on a patent that was incorporated into a recommended provincial construction standard. One issue on appeal is whether by virtue of participating in standard setting, a patentee is deemed to

have authorized standard implementers to practice its patent that is incorporated into the standard. In a judicial reply issued in 2008, the Supreme Court espoused the view that in such circumstances an implementer commits no patent infringement.

In the *Zhang* case, the Supreme Court distinguished its 2008 reply, noting that the plaintiff as the patentee fulfilled its patent disclosure obligation. Specifically, the standard at issue recites the information regarding the patent-in-suit and the patentee in its preface. According to the Court, an implementer of the standard thus cannot possibly infer that the plaintiff's essential patent is intended to be used on a royalty-free basis. The Court held that:

“Implementing the standard requires obtaining a license from the patentee, and paying license fees according to the fair, reasonable and non-discriminatory principle. **As a general rule, remedies against patent infringement should not be limited where an implementer who has used [the technology] without the patentee's authorization refuses to pay the license fees.**” (Emphasis added)

The *Zhang* case seems to indicate that an SEP holder can seek injunctive relief against an infringer who refuses to pay FRAND license fees.

Huawei v. InterDigital – seeking injunction can be abusive if to coerce excessive pricing.

Before the above Supreme Court case, the Guangdong High Court decided *Huawei v. InterDigital* in 2013. There, the Guangdong High Court found InterDigital in violation of the AML due to its practices of bundling and excessive pricing. As regards the injunctive relief InterDigital sought against Huawei in the U.S., the Guangdong court considered it as one of the factors demonstrating InterDigital's abuse in forcing excessive pricing. The court stated that:

“...InterDigital failed to fulfill its fair, reasonable and non-discriminatory licensing obligations without regard to Huawei's good faith and willingness during negotiations. It did not adjust its offer [to a reasonable pricing]; instead, it initiated a suit in the U.S. based on the essential patents. While InterDigital seemingly was exercising its legitimate litigation rights, it intended to coerce Huawei, through means of litigation, to accept excessive pricing and to pay consideration on top of the essential patents. This act lacks legitimacy and should be remedied.”

In addition, the court concluded that Huawei was a willing licensee without any reasoning and that InterDigital's offer to Huawei was not FRAND because it was non-negotiable. All these factors contributed to a finding of patent abuse.

The Guangdong court did not rule on whether the act of seeking injunction, in and of itself, is abusive or not. **Reading the *Huawei* decision in its entirety, one can conclude that seeking an SEP-based injunction is likely to be abusive where the injunction was sought by the SEP holder with market dominance, for the purpose of forcing a willing licensee to accept terms of excessive pricing.**

NDRC draft guidelines – willingness and pricing both considered

The National Development and Reform Commission (“NDRC”) is one of the three antitrust regulators in China. In the draft IPR abuse guidelines the NDRC released on December 31, 2015, there is a whole section dedicated to injunctive relief. In accordance with Article 55 of the AML, the draft first states that injunctive relief is the remedy to which an SEP holder is entitled. It then discusses when such act may rise to the level of abuse, i.e., an SEP holder with market dominance forces implementers to accept unfairly high pricing or other unreasonable licensing terms by seeking injunctive relief.

The NDRC proposes the following factors in assessing potential abuse:

- (1) The behaviors and the actual willingness demonstrated by the SEP holder and the implementer during negotiations;
- (2) Any commitment regarding injunctive relief that has been made in respect of the relevant SEP(s);
- (3) The licensing terms proposed by the parties; and
- (4) The impact the injunction would have on licensing negotiation, the relevant market, as well as downstream competition and consumer interests.

This looks like a case-by-case inquiry which requires the balancing of various competing interests.

SAIC draft guidelines – “abuse of injunctive relief” elevated to abuse of dominance

Following the footsteps of the NDRC, another antitrust regulator in China, the State Administration for Industry and Commerce (“SAIC”) also released its draft IPR abuse guidelines for public comments on February 2, 2016. The SAIC frames the issue more broadly and vaguely. It proposes that after a patent becomes standard-essential, abuse of injunctive relief by an SEP holder to coerce its licensee to accept unreasonable commercial terms constitutes restricting or eliminating competition. But it does not define what “abuse of injunctive relief” is.

Supreme Court’s new judicial interpretation – silent on patent abuse

On March 21, 2016, the Chinese Supreme Court published a new judicial interpretation on patent infringement litigation. It is effective as of April 1, 2016. Article 24 relates to patents and standards and reads as follows.

1. If an accused infringer asserts a non-infringement defense on the ground that he does not need the patentee’s authorization because the patent-in-suit is an essential patent for a non-compulsory national, industry or local standard which expressly incorporates the patent, such defense generally will be rejected by the people’s court.
2. With regard to an essential patent for a non-compulsory national, industry or local standard which expressly incorporates the patent, the people’s court will generally deny an injunction

request (based on such patent) where (1) the patentee intentionally violated the fair, reasonable and non-discriminatory obligations when negotiating with the accused infringer for licensing terms such that no agreement is reached; and (2) the accused infringer is patently not at fault during the negotiations.

3. The licensing terms referred to in Paragraph 2 shall be negotiated and agreed on by the patentee and the accused infringer. If they are unable to agree on such terms after sufficient negotiations, the parties may request the people's court to set the licensing terms. The people's court shall set such licensing terms based on the fair, reasonable and non-discriminatory principle, and taking into consideration the degree of innovation of the patent and its role in the standard, the technical field, nature and the scope of application of the standard, relevant licensing terms, etc.

4. If applicable laws or administrative regulations provide otherwise in respect of the implementation of patents incorporated into a standard, those laws or regulations shall prevail.

Paragraph 1 codifies the *Zhang* case. Paragraph 2 does not address the issue of abuse; it merely states that an SEP holder's injunction request will be denied under certain circumstances, e.g., when the SEP holder negotiated in bad faith. Paragraph 3 gives the courts power to determine FRAND rates. Paragraph 4 tacitly punts the abuse determination to other laws and regulations.

While the Supreme Court has not expressed its official views, some judges have done so in public speeches or published articles. For example, one justice is of the view that an injunction is the most effective in addressing reverse hold-up (i.e., royalties below the fair rate). Another justice believes that a denial of an injunction request and antitrust remedies are warranted in case of patent hold-up (i.e., royalties above the fair rate). In commenting on *Huawei v. InterDigital*, he notes that the lower courts found antitrust violations where InterDigital, being dominant in the relevant market, proposed rates to Huawei that were 20 to 100 times higher than those offered to other manufacturers.

Concluding Thoughts

In China (like everywhere else), SEP-based injunctions are down but not out – there is no per se rule against seeking them, but aggressive enforcement of SEPs can run afoul of the antitrust law.

Courts and regulators around the world are struggling to delineate the proper limits of competition law in this context. Specifically, they grapple with hold-up and reverse hold-up situations and how they affect competition. For example, under the FRAND licensing framework set out in *Huawei v. ZTE* by the European Court of Justice (“ECJ”), an SEP holder and an implementer bear their respective obligations to behave in a FRAND manner. The ECJ recognizes that an SEP holder and an implementer often dispute the amount of FRAND royalties. Therefore, the ECJ channels the parties in disagreement to third-party determination.

The NDRC appears to like the approach of third-party determination for FRAND rates. In the settlement agreement with InterDigital, one of the commitments required by the NDRC is that InterDigital offers Chinese manufactures the option to enter into expedited binding arbitration under fair and reasonable procedures to resolve disagreement on royalty rates and other terms of a license. What remains unclear is whether making such an offer to arbitrate meets an SEP holder's obligations and thus legitimatizes a follow-on injunction request against an implementer.

Nonetheless, forcing excessive pricing by way of seeking injunctions is likely to gain traction in

Chinese courts and before regulatory agencies. The reasonableness of pricing inevitably will be examined in China.

Finally, it is encouraging to see that the NDRC proposes to evaluate implementers' conduct, alongside that of SEP holders, in determining abuse. This is certainly the correct approach. Potential licensees should not be allowed to use the antitrust law as a shield to evade payment of licensing fees (i.e., reverse hold-up), just as SEP holders should not be allowed to use IP laws as a sword to extort unfairly high licensing fees (i.e., hold-up). The tricky part is to strike a proper balance.

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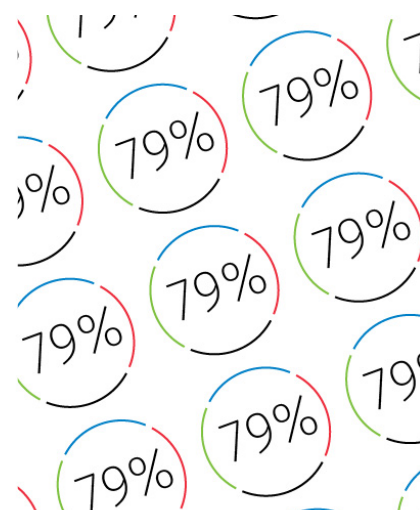
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