

Recent development on SEP disputes in China — anti-suit injunction

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A recent dispute over standard essential patent (SEP) between Inter Digital, Inc. and its affiliates (collectively "**IDC**") and Xiaomi Communication Technology Co., Ltd. and its affiliates (collectively "**Xiaomi**") before the Wuhan Intermediate People's Court ("**WIPC China**") has drawn wide public attention. The concerned technologies involve SEPs related to 3G and 4G standards. It is a significant case that reflects the current position of PRC courts in SEP global disputes. In this article, we will analyze this case and provide our thoughts on China SEP dispute resolution.

Xiaomi v. IDC case

After nearly five years of negotiations, Xiaomi filed a lawsuit before the WIPC China to request for the conclusion of a **global royalty rate** for IDC's relevant SEPs. WIPC China formally docketed the case and arranged delivery of the pleading documents to IDC on June 9, 2020. Before IDC was properly served by the court, Xiaomi relayed the lawsuit information to IDC in private on July 28, 2020. The following day, IDC filed applications for both preliminary and permanent injunctions with the Delhi High Court ("**DHC India**") in India, based on the infringement of the concerned patents. Being aware of IDC's legal actions in India, Xiaomi filed an application for anti-suit injunction before WIPC China on August 4, 2020.

On September 23, 2020, WIPC China granted an anti-suit injunction requested by Xiaomi after Xiaomi paid a bond of RMB 10 million (approximately USD 1.5 million), ordering that during the case proceedings in PRC: 1) IDC shall immediately withdraw or suspend any preliminary and/or permanent injunction(s) filed before DHC India; 2) IDC shall not file any application for preliminary and/or permanent injunction(s) before courts in China and/or other jurisdictions; 3) IDC shall not file requests to enforce any injunction granted or likely to be granted in any jurisdiction; 4) IDC shall not file any lawsuit against Xiaomi in any jurisdiction for concluding the relevant global royalty rate; and 5) if IDC fails to comply with this court order, it will be fined RMB 1 million (approximately USD 150,000) per day.

On October 9, 2020, DHC India granted an anti-enforcement injunction requested by IDC, in which DHC India ordered that Xiaomi shall not enforce the anti-suit injunction granted by WIPC China during the case proceeding in India. Justice C. Hari Shankar at DHC India criticized WIPC China's anti-suit injunction in its ruling as "*directly negates the jurisdiction of this Court, and infringes the authority of this Court to exercise jurisdiction in accordance with the laws of this country.*"

Apparently, neither country is willing to compromise with respect to its own jurisdiction and the possibility of enforcement of its own rulings/decisions.

Akin to the *Xiaomi v. IDC* case not long ago, the first anti-suit injunction in China is granted by the Supreme People's Court's IP Tribunal of PRC ("**China SPC IP Tribunal**") in *Huawei v. Conversant*. This is a typical SEP parallel lawsuit case as well.

Huawei v. Conversant case

On January 25, 2018, Huawei Technologies Co., Ltd. and its affiliates (collectively "**Huawei**") filed three lawsuits before the Nanjing Intermediate People's Court ("**NIPC China**") for: 1) declaration of non-infringement of three SEPs owned by Conversant Wireless Licensing S.a r.l. ("**Conversant**"); and 2) concluding the royalty rate of such SEPs in China. On September 16, 2019, NIPC issued judgements concluding a royalty rate of 0.00225% for single-mode 4G mobile terminal products; 0.0018% for multi-mode 2G/3G/4G mobile terminal products in China; and 0% royalty rate for single-mode 2G or 3G mobile terminal products in China, which Conversant appealed before the SPC IP Tribunal.

On the other hand, Conversant filed an SEP infringement lawsuit before the Dusseldorf District Court ("**DDC Germany**") in Germany on April 20, 2018. Later, on August 27, 2020, DDC Germany issued a judgement confirming Huawei's infringement upon Conversant's EP1797659 and allowed Conversant to file a request to enforce the judgement with a bond of EUR 2.4 million.

However, EP1797659's counterpart Chinese patent ZL200580038621.8 was invalidated by CNIPA in China. On August 28, 2020, the SPC granted an anti-suit injunction under Huawei's bond of RMB 19.7 million (approximately USD 3 million), ordering that Conversant shall not file an application for enforcing the judgement issued by DDC until the three appeal cases related to the China royalty rate are closed in SPC IP Tribunal; otherwise, Conversant will be fined RMB 1 million (approximately USD 150,000) per day.

Our comments

The two cases above reflect a clear trend that PRC courts are more willing to be involved in and try SEP disputes. In particular, noting that: 1) PRC courts may be willing to grant an anti-suit injunction to concentrate the disputes within China; and 2) PRC courts tend to grant a relatively low royalty rate, it would enlighten SEP implementers to choose PRC courts as a preferable forum for concluding a global SEP royalty rate. Nevertheless, we should point out that in PRC practice, especially pursuant to Guang Dong High Court's Guideline, either the SEP owner or the implementer is entitled to request a PRC court to conclude a global royalty rate, **only if** the other party does not explicitly raise an objection in the proceeding, or if the objection is unreasonable.

Meanwhile, PRC courts do not hesitate to grant permanent injunctions in support of the SEP owners in SEP infringement cases either, such as in the *IWNCOMM v. Sony* and *Huawei v. Samsung* cases, which reveal that PRC courts intend to utilize injunctions to balance the bargaining power of each side and push parties to re-negotiate under the FRAND principle.

However, it is questionable whether an anti-suit or anti-enforcement suit injunction could effectively achieve the expected fair result as both parties are put in a difficult position to move forward in the lawsuits. Both sides have limited choices to resolve the disputes— either settle or focus on the litigation in one country. It would be challenging for the parties to consider and balance their interests, from a commercial point of view, and decide if it is worth battling to the end. Another issue is conflicting court orders make it impossible to enforce such court orders locally. Especially, anti-enforcement injunction could be practically hard to achieve its purpose, as the party restrained by such injunction may not need to file an application for the enforcement of the anti-suit injunction. For example, in *Xiaomi v. IDC*, IDC is ordered to withdraw or suspend its application for injunctions, and a fine will be automatically be applied if it refuses to do so. So Xiaomi therefore does not need to ask the court to enforce its order.

In addition to the above, a more serious issue is the violation of international comity caused by battles among courts in different jurisdictions. Currently, courts in the UK, Germany, China and India have joined this battle. It may drag SEP disputes to a dangerous direction, in which SEP disputes become political and rule of law and integrity of justice may be compromised by the irritation of a party's violation of international comity.

In addition to royalty rate and injunction issues, SEP disputes may also involve potential anti-trust and IP abuse issues. For example, in an earlier SEP dispute *Huawei v. IDC* in 2013, the Shenzhen Intermediate People's Court recognized IDC's abuse of its dominant market position upon its SEP. This requires SEP owners to take extra caution in the course of FRAND negotiations, as anti-trust and IP abuse is a powerful weapon for kill.

In any case, SEP cases would become even more popular at the heels of increased digitalization. Recent case like *Sharp Corporation v. Daimler AG* is a perfect demonstration that SEP disputes have started to spread from the telecommunication industry to other industrial sectors.

It is worth closely following the development of the *Xiaomi v. IDC* and *Huawei v. Conversant* cases, as they may introduce some game-changing rules to both sides in the realm of SEP disputes.