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New Developments on SEP-Related Disputes in China

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One of the most controversial issues relating to Standard-Essential Patent (“SEP”) is to determine whether injunctive relief is available to SEP holders. Undoubtedly, in negotiation with a standard implementer, injunction is the most powerful weapon for an SEP holder, and will exert significant influence on the final license terms. Consequently, the court’s attitude towards SEP holder’s injunction claim is an important leverage in a fair, reasonable, and non-discriminatory (“FRAND”) license negotiation. The court’s attitude will also have an influence on whether and how hold-up or reverse hold-up may happen.

SEP and FRAND-related judicial practice is not adequate in China, but related cases and issues have drawn much public attention and discussion. In 2013, in a high-profile anti-trust case between Huawei and InterDigital Corporation (“IDC”), the SEP holder IDC was found to have abused its dominant position in the licensing market during its unsuccessful negotiation with the potential licensee, Huawei, and in its subsequent patent infringement actions against Huawei in overseas jurisdictions. The Chinese court held that IDC acted unlawfully when it sought injunctive relief against Huawei, in circumstances where Huawei had expressed its willingness to obtain a FRAND license and had acted in good-faith during their license negotiation. The *Huawei v. IDC* case left the impression that Chinese courts constrained injunctive relief to narrow circumstances, and warned SEP holders to be very cautious before seeking injunction, to avoid raising any competition law issues.

Such pro-licensee tendency was altered in a recent case. The Beijing IP Court granted an injunction in *Iwncomm v. Sony* in March 2017. Meanwhile, the Supreme People’s Court and the Beijing High People’s Court released judicial interpretations and guidelines on the application of injunctions in SEP-related infringement cases. This essay aims to introduce these new developments and provide some suggestions on SEP litigations in China.

New Guidelines and Judicial Practice related to SEP Injunction

With regard to patent infringement actions involving SEP, the Supreme People’s Court (“SPC”) clarified that injunctive claims may be denied under limited circumstances. Article 24 of the *Interpretations (II) of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases* (effective as of April 1, 2016, hereinafter the “SPC Interpretation (II)”), provides that in an SEP licensing negotiation process, if the SEP holder deliberately avoids its FRAND obligations, causing failure to reach licensing agreement, AND the accused infringer has no apparent fault for that failure, the court shall not uphold an

injunction claim. In brief, the SPC Interpretation (II) provides that, injunctive relief is unavailable for an unwilling licensor against a willing licensee.

However, the SPC Interpretation (II) does not address the availability of injunction under other circumstances, such as where both parties were negotiating in good faith, or both had fault, or the patent holder was acting in good faith and the implementer was acting in bad faith. Moreover, the SPC Interpretation (II) specifically refers to recommended national and industrial standards, without mentioning compulsory standards or international standards such as LTE and IEEE. According to the clarifications made by the SPC spokesman for publicizing the SPC Interpretation (II), there were controversial issues relating to SEP; only provisions without dissenting opinions were included in the SPC Interpretation (II), and the remaining issues were left open to be resolved through judicial practices.

On March 22, 2017, the Beijing IP Court handed down a landmark decision for *Iwncomm v. Sony*, concerning an SEP of a national standard of wireless communication. In this case, the Beijing IP Court set forth its views on the availability of injunction for SEP holders under three circumstances not provided by the SPC Interpretation (II). The court stated that an injunction could be granted to prevent a reserve hold-up when the SEP holder had no fault and the implementer (i.e., the accused infringer) was acting in bad faith. The court also held that no injunction would be granted if both parties were in good faith, and in the case of both parties having fault to cause a failed license negotiation, it would assess and weigh the degree of each party's fault to determine whether to grant an injunction. The Beijing IP Court found Sony liable for not reaching FRAND license and being an unwilling licensee, and then granted the first FRAND-encumbered injunction in favor of an SEP holder in China. This judgment was made by a five-member collegial panel, presided over by the president of the Beijing IP Court, Justice Su Chi.

On April 20, 2017, the Beijing High People's Court issued the *Guidelines for Patent Infringement Determination (2017)* (hereinafter the "2017 Guidelines"). Article 149-153 are SEP-related provisions under the headline of Non-infringement Defense. Among the five, Article 152-153 specifically set forth how injunctive relief is applicable where neither party has fault, or both parties have fault during SEP licensing negotiation.

The 2017 Guidelines suggest that the Beijing High People's Court is generally affirmative to the Beijing IP Court's approach in *Iwncomm v. Sony*. The 2017 Guidelines provide further that in the case neither party has fault, to avoid an injunction, the implementer shall deposit to the court an amount of its proposed royalty.

We understand that this additional deposit requirement upon potential licensees was a result of intensive advocacy of some influential SEP owners. One prominent concern from SEP owners is that if injunctive relief is generally barred without any limitation as long as implementers had no fault in negotiations, it would ultimately harm further FRAND negotiations by increasing the bargaining power of the implementers.

The availability of SEP injunction under four specific circumstances is listed below.

Injunction effected by Subjective Fault

SEP Holder	Implementer	Availability of Injunction
No fault	At fault	Yes
At fault	No fault	No

No fault	No fault	No, if the implementer has deposited its proposed royalty.
At fault	At fault	Depending on which party's fault prevails.

The abovementioned *Huawei v. IDC* decision falls within the second scenario, seemingly consistent to the general rules. The SEP holder at fault (IDC) was found to violate the anti-trust law, and barred from seeking for injunction against Huawei.

Identification of Subjective Fault of Both Parties

The key issue for evaluating the availability of injunctive relief for SEP owners is how to identify the fault of each party. From *Iwncomm v. Sony* and the 2017 Guidelines, the Beijing courts will assess whether the failure to reach a FRAND license was caused by the SEP holder through, for instance, requesting non-FRAND royalty fee, or by the implementer who, for example, attempted to delay or hinder the negotiation process while implementing the SEP without a proper license.

According to the provisions of the 2017 Guidelines, an SEP holder is supposed to fulfill the following FRAND commitment, and a violation of any of the requirements may lead to being recognized as a bad faith or unwilling licensor.

1. To notify the implementer in writing of alleged patent infringement, including the asserted SEP and how the SEP has been infringed by the implementer.
2. To provide information of SEP and propose FRAND terms after the implementer has expressed willingness to take a FRAND license, and allow the implementer to respond within a reasonable period conforming to business or trading practice.
3. To act in good faith in negotiating with the implementer, including not to offer unreasonable license terms and not to hinder or discontinue negotiation without justifiable grounds.

On the other hand, an implementer shall satisfy the following requirements to be treated as a good faith or willing licensee:

1. To timely respond to the SEP holder's infringement notice within a reasonable period.
2. Within a reasonable period upon receipt of the SEP holder's license proposal, to either accept the proposal or reject the proposal with a counter-offer.
3. To act in good faith in negotiating with the SEP holder, including not to offer unreasonable license terms and not to hinder or discontinue negotiation without justifiable grounds.

Following *Iwncomm v. Sony* case, claim charts are not necessary to be included in the infringement notice if the implementer is deemed to be able to self-evaluate with materials at hand.

The SEP provisions of the 2017 Guidelines are generally consistent to the ruling of the European Court of Justice in *Huawei v. ZTE*, as summarized below:

1. SEP holders seeking injunctive relief should be subject to restrictive conditions;
2. SEP holders should fulfill obligations of, firstly, alerting implementers of its infringing acts, and, secondly, presenting a written offer for a license on FRAND terms (including particularly specific royalty and how a royalty is calculated); and
3. Implementers shall fulfill obligations of diligently responding after receiving the offer in good faith, and without delaying tactics.

In essence, Chinese courts also require both parties “to propose a clearly reasonable condition during negotiation.” If the licensing terms are found unreasonable, Chinese courts would determine which party was at fault during negotiations. However, Chinese courts have not given a clear guideline on the examination standard of “reasonable conditions”.

Suggestions

An analytical framework to resolve SEP-related disputes has been primarily built up through the SPC Interpretation (II), the 2017 Guidelines and the abovementioned court practices. Even though the 2017 Guidelines are not an authority of law, and *Iwncomm v. Sony* was decided by a Beijing court, they are quite influential sources and may likely be followed throughout China, unless the SPC will provide otherwise in future judicial interpretations. For international standards, similar rules would be applied as provided in Article 149 of the 2017 Guidelines.

The developments suggest that the court in China will find out whose fault has led to the failure of FRAND negotiations in dealing with SEP disputes. The *Huawei v. IDC* and the *Iwncomm v. Sony* cases were brought to Chinese courts under anti-trust and patent infringement causes of action. The SPC Interpretation (II) and the 2017 Guidelines provide SEP-related provisions in the context of adjudicating patent infringement. When such an infringement case is brought to a court, the court is supposed to determine whether the defendant is liable for infringement and whether to grant an injunction. For this purpose, the recognition of fault is very crucial in the legal proceedings. Nevertheless, a determination of infringement and an injunction are not the ultimate goal for SEP-related disputes; the goal is to reach a FRAND license agreement between the SEP holder and the implementer.

Mediation is a statutory stage of a civil action in China and can serve the purpose of helping parties to reach an agreement on FRAND terms. In this regard, a decision issued by the High Court of Justice of UK in *Unwired Planet International v. Huawei* provides an insightful method. In this case, the Justice paid more attention to what the FRAND terms should be rather than the respective fault of both parties during negotiation. First, the Justice affirmed what the FRAND terms should be. Second, the SEP holder, Unwired Planet International, was required to produce a licensing agreement according to the FRAND terms affirmed by the court. After that, the implementer, Huawei, had to consider whether to accept the licensing terms. If it did not, the court might grant a permanent injunction within the UK. In this way, the UK court played an important role in the negotiation process and pushed both parties to reach a FRAND license. This UK approach builds up a model for Chinese judges in mediating SEP disputes.

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