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China's Supreme People Court decides FRAND dispute in ACT v Oppo

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In December 2023, the [Supreme People's Court \(SPC\)](#) of China found that Chinese consumer electronics manufacturer Oppo was responsible for infringing six Chinese standard essential patents (SEPs): [99813601.8?00815854.1?99813602.6?99813640.9?01803954.5](#) and [99813641.7](#), all related to the adaptive multi-rate wideband standard (AMR-WB) which includes audio, cellular communication, and broadband technologies.

More importantly, the court established the royalty rate and gave relevant guidelines that both SEPs holders and implementers should comply with when it comes to negotiating licenses in China. This adjudication by the SPC will likely act as a precedent for future licensing and litigation practices in wideband speech/audio technologies.

The patents were initially owned by VoiceAge Corporation and sub-licensed to Saint Lawrence and then to Advanced Codec Technologies, LLC (ACT). While four of these patents [expired](#) in 2019, the remaining ones lapsed in 2020 and 2021. ACT had started infringement cases not only against Oppo (and Vivo) at Nanjing Intermediate People's Court but also against Xiaomi and TCL Electronics at Shanghai Intellectual Property Court. The six contested patents were declared valid by the Patent Examination Board during the ongoing litigation.

In 2018, ACT and Oppo signalled their willingness to enter into global licensing negotiations based on FRAND principles while also preparing for potential litigation. Despite these initial intentions, the parties ultimately failed to come to an agreement. The [table](#) below chronicles the main events during the failed negotiation phase.

Company	Timeline	What happened?	Additional
Advanced Codec Technologies, LLC (ACT)	May 31, 2018	Made an offer of US\$0.26 per unit (with a total price of US\$189 million) and US\$0.39 per unit (with a total price of US\$284 million)	Oppo contested that ACT did not disclose the calculation method.
Advanced Codec Technologies, LLC (ACT)	November 16, 2018	ACT claimed damaged of US\$ 50 million	ACT's damages claims are calculated on a per unit rate of US\$ 0. 26

OPPO Guangdong Mobile Communications Co., Ltd (Oppo)	October 19, 2019	Provided a counteroffer of 3.7 million yuan	Stated that ACT never provided a calculation method for its offer
Advanced Codec Technologies, LLC (ACT)	November 6, 2019	ACT proposed a global licensing fee of US\$ 17 million	Oppo contested that ACT did not elaborate on the calculation method
OPPO Guangdong Mobile Communications Co., Ltd (Oppo)	November 15, 2019		Oppo said the offer was too high and did not conform to FRAND principles
Advanced Codec Technologies, LLC (ACT)	December 30, 2019	Made an offer of US\$ 8 million	Oppo contested that ACT again did not elaborate on the calculation method
OPPO Guangdong Mobile Communications Co., Ltd (Oppo)	January 22, 2020	Provided a counteroffer of US\$ 1 million	
Advanced Codec Technologies, LLC (ACT)	February 3, 2020		ACT declared that the proposal was unreasonable

ACT additionally pointed to Oppo's allegedly deliberate delay in reaching a negotiation and sought compensation for the losses incurred due to the infringement. In November 2021 the first instance Court of Nanjing ordered Oppo to pay an undisclosed licensing fee to ACT. Dissatisfied, both parties appealed to the Supreme People's Court which reached its decision in December 2023 (then published in January 2024). The SPC partially held the lower court's decision and **ordered** Oppo to pay a licensing fee of 15,390,527 Yuan. The amount was significantly lower than the 342 million Yuan (around US\$ 50 million) claimed by ACT. The Court also set a licensing fee at US\$ 0.008 per unit with an average licensing fee of around US\$ 0.0013 per unit for each patent.

The ruling by the SPC **represents** an advancement in the Chinese SEP jurisprudence. It is indeed the first SPC adjudication on a SEP infringement case through the comparable licences approach. As mentioned, it also gives guidelines to delineate appropriate conduct for parties engaged in licensing negotiations. The **guidelines specifically pertain** to (1) determination of SEP infringement, (2) license rate setting, (3) degree of fault between parties, and (4) compensation for SEPs infringement and calculation.

One crucial element in the dispute was assessing the similarity of a license agreement to establish the rate in SEPs disputes. The SPC emphasized that a significant factor to ponder is the likeness between the patented technology covered by the licensed patent and that of the patent in the comparable agreement. The court also noted that the similarities in the license terms should be accounted for (including the rate calculation, the period, type, and scope) to determine whether the prior agreement is comparable or not. Specifically, the SPC **pointed out** that:

- “The prominent advantage of the comparable license approach is that it can reflect market pricing. In a market with fair competition, the final licensing rates of patent licensing agreements are usually the result of genuine negotiations and voluntary consensus reached through business discussions, and the licensing rates determined through negotiation can relatively objectively, fairly, and reasonably reflect the market value of the licensed patent technology at the time of signing of the agreement”.

The SPC also **held** that the comparable “agreement was reached under normal license negotiation circumstances, and can objectively and reasonably reflect the market value of the disputed patents.” Employing the comparable license approach, the SPC considered an agreement between ACT and a company (referred to as company B which is also a Chinese Telecom company with sales volume similar to Oppo’s) as the most comparable agreement based on certain criteria: (1) negotiation circumstances, (2) parties’ similarity, (3) patents’ similarity, and (4) license terms’ similarity. Other conditions were also considered in the comparable agreement – (i) whether the licensing territorial scope similarly involved China, (ii) whether the number of mobile phones that utilize the six patents by Company B and Oppo have crossed 100 million, and (iii) whether the agreement was concluded through the process of standard licensing negotiations and represented the market value of the patents in question.

The SPC relied on Chinese law provisions to **establish** the FRAND rate, drawing from Articles 41 and 49 of the Law of the People’s Republic of China on Application of Law in Foreign-related Civil Relations. These articles emphasize the obligation for both the SEP holder and the implementer to negotiate and finalize a license agreement in good faith under Article 7 of the Civil Code of the People’s Republic of China. Under the same law, the parties are also required to comply with other provisions such as Article 132 which prohibits the abuse of civil rights, and Article 500 which concerns liability for pre-contractual faults.

In the end, the court determined that both parties were responsible for their failure to reach a **licensing agreement**, highlighting the importance of efficiency and predictability in SEP licensing in China. While it was found that Oppo infringed ACT’s patents, as mentioned, the court eventually ordered the Chinese implementer to pay an overall fee that was **lower** than what requested by the patent owner. This may have an impact on future SEPs litigation in China, potentially making Chinese courts more attractive to implementers.

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