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## **Top Chinese Court Issues Guidelines for Standard Essential Patent Dispute Trials**

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On April 26, the Guangdong Higher People's Court issued *Guidelines for Trial of Dispute Cases Involving Standard Essential Patents (for Trial Implementation)* (the "Guidelines"). The Guidelines includes 32 articles and focuses on the following four aspects: 1. General issues regarding standard essential patent (SEP) dispute cases; 2. Issues on civil liability for ceasing implementation of an SEP; 3. Issues for determining SEP license fees; and 4. Issues for anti-trust dispute trial involving SEP.

### **Summary of the Guidelines**

#### **1. General issues regarding SEP dispute cases**

This section listed the good faith principle, FRAND commitments, patent ownership, customary business practices, standards developing organizations (SDOs) commitments, and jurisdiction.

#### **2. Issues on civil liability for ceasing implementation of SEP**

Three steps to determine SEP infringement:

- i. Confirm the content of the standard and determine whether the disputed patent is an SEP;
- ii. Where evidence shows the alleged infringing product matches the standard, that product is presumed to fall within the scope of protection of the disputed patent; and
- iii. Where the alleged infringer denies the alleged infringing product falls into the scope of protection of the disputed SEP, the alleged infringer has the burden of proof to show non-infringement.

The court provides factors to determine whether to support a request for injunction:

- i. Where an SEP owner breaches the FRAND commitments and the implementer is not at fault, a request for injunction should not be granted;
- ii. Where an SEP owner satisfies the FRAND obligation and the implementer is at fault, a request for injunction should be granted;
- iii. Where an SEP owner satisfies the FRAND commitments, the implementer is

not at fault and timely posts a reasonable bond, a request for injunction should not be granted; and

- iv. Where both an SEP owner and the implementer are at fault, the court will consider each party's acts during negotiations in order to assess whether a request for injunction should be granted.

The court provides factors to determine whether an SEP owner fails to satisfy the FRAND commitments:

- i. Fails to send negotiation letter, or send negotiation letter without identifying the patents;
- ii. Fails to provide patent list, claim charts, or other patent information when the implementer expressly agrees to enter into a patent licensing negotiation;
- iii. Fails to provide license terms and allege method to calculate royalty fee, or offers explicitly unreasonable license terms that negatively affect parties from reaching a license agreement;
- iv. Fails to respond within a reasonable time;
- v. Disrupts or terminates negotiation without justified reasons; and
- vi. Other explicit faults.

Factors to determine explicit faults of an SEP implementer:

- i. Refuses to accept an SEP owner's invitation to negotiate, or fails to respond within a reasonable time after receiving the negotiation letter;
- ii. Refuses to sign a confidentiality agreement without justified reasons and halts negotiation;
- iii. Fails to respond substantially to an SEP owner's representative patent list, claim charts, and other patent information provided within a reasonable time;
- iv. Fails to timely provide substantial response after receiving an SEP owner's license terms;
- v. Offers explicitly unreasonable implementing terms that contribute negatively in reaching a patent license agreement;
- vi. Delays or refuses to enter into licensing negotiation without justified reasons; and
- vii. Other explicit faults.

### **3. Issues for determining SEP license fees**

The court points out that once an SEP owner has fully discussed its license terms with the implementer but still fails to reach an agreeable license fee, that SEP owner may bring a lawsuit. The court states that where an SEP owner or an implementer requests

a court to determine SEP license fees outside of the court's jurisdiction, such court may do so on its discretion given that no other rejection is raised by the other party.

The court lists the following methods for determining SEP license fee:

- i. Comparable licenses.
- ii. A top down analysis based on the value of SEP on the market;
- iii. Comparable license rates in relevant patent pool.

In addition, the court states that if one party has evidence to proof that the other party holds critical information on SEP license fees, that party may ask court to order the other party to provide such information. If the other party fails to provide such information, court may render a decision based on available evidence and alleged license fees.

#### **4. Issues for anti-trust dispute trial involving an SEP**

The court lays out some important issues to be considered when trying an anti-trust case that involves an SEP.

- i. Whether an entity has a dominant position in the relevant market should be determined in a case-by-case fashion.
- ii. Market share is not the only factor in determining whether an entity has a dominant position. Other factors such as other competitions and FRAND commitments should also be considered.
- iii. Breach of the FRAND commitments does not necessarily constitute abuse of the dominant market position. Actions of the breaching party should be considered according to the Chinese Anti-Trust Law.
- iv. An SEP owner's petition to ceasing infringement does not necessarily constitute abuse of the dominant market position. Courts should look into other factors such as the good faith principle in seeking non-litigation solutions, and whether the license terms are fair.

These guidelines, though mimic part of the guidelines issued by the Beijing High Court last year, provide more detail look into Chinese court's perspective on SEP disputes, such as, first, to make sure that Guangdong courts follow the guidelines in render decisions on SEP disputes, because Guangdong is home to dozens of major Chinese handset and high-tech manufacturers, where SEP disputes are most likely to be brought. Second, these guidelines confirm Chinese courts' ambition on taking a lead in adjudicating worldwide SEP disputes in China. Third, these guidelines also show Chinese courts' willingness to take the challenge in determining royalty rates in a global scale.