Standard Essential Patents: Chinese Practice

The nature and products in mobile telecoms sector necessitate the standards, which are created by standardization setting organizations ("SSOs") and which are followed by device manufacturers, carrier-operators, and chip manufacturers. Take mobile communication for example, its technical standards have developed through generations, from AMPS analogue to FDMA-based digital (for example, GSM), and to CDMA-based mobile communication (for example, WCDMA, TD-SCDMA, and CDMA2000), then to OFDMA-based mobile (for example, LTE, LTE-A), and now to a 4.5 generation in which the LTE-Advanced Pro technology is developing and standardizing rapidly.

A standard essential patent ("SEP") is a patent that claims an invention that must be used to comply with a technical standard. Investigations and litigation involving SEPs have begun to spring up. In February of this year, Qualcomm announced the resolution of the investigation by China's National Development and Reform Commission (the "NDRC") of Qualcomm's licensing practice for SEPs. In addition to Qualcomm's paying a $975 million fine, the NDRC approved Qualcomm's proposed rectification plan which formulated Qualcomm licensing practices in China.

This short article discusses the basics of SEPs and current practice in China.

SEPs

Consumers rely on standardized technologies. On one hand, a good technical standard should be used broadly in related industry, therefore, technical standards are in essence common social resources associated with public welfare, determining technical standards thus respond to a pursuit for public interest. On the other hand, however, patent rights are an exclusive, monopolistic property existing in a certain region and for a certain time period.

In patent systems of various jurisdictions, claimed technical solutions are protected by law, that means, when a certain technology used in technical standards fall in the scope of claim(s), they may be accused of infringing the related patent rights. The claims needed for determining technical standards are called essential patent claims, and patents including at least one essential patent claim are thus called SEPs. In technical standards and practice thereof, distinctions exist between SEPs which disclose various information and essential patent claims which are object of patent licensing.

Disclosure

The disclosure of SEPs is essential to ensure a good performance of an interest sharing system based on a technical standard platform, and it is a key to facilitate the subsequent patent licensing and technical standard implementing. Many, or most, SSOs, such as ITU (the International Telecommunications Union), ETSI (the European Telecommunications Standards Institute) and 3GPP (the 3rd Generation Partnership Project), have required participating members to disclose SEPs. Though the disclosure policies vary among SSOs, obligations have been posed on participating members who submit a standardization proposal

to disclose SEPs and to commit the SEPs can be licensed to anyone to ensure fair and open access to standards. If such a condition cannot be ensured, SSOs may try their best to seek another technology as a substitute.

Moreover, all organizations for standardization have established a SEP declaring database, which discloses all necessary information of SEPs based on the disclosure by participating members, and provides effective aids for other users to understand the risk and cost and to communicate with each other.

Evaluation

The evaluation of patents and claims of patents potential to be incorporated in technical standards will directly affect patent licensing at an implementing stage of the technical standards.

Normally the evaluation is executed through group discussions by members of SSOs. In view of the professional work and possible conflict of interest, it has been recommended to be evaluated by an independent institute. For example, with respect to patents related to 3G technical standard, it is the 3GPP organization that makes the evaluation from 1999 to 2003. Later, as regulated in a patent licensing protocol of the 3G technical standard, it has been decided that a licensing patent should be an essential patent qualified by PEMA (the Patent Evaluation Mechanism Administration), which is chosen through an open tender by the 3G patent platform. The independent institute is believed to provide a fair, effective evaluation for various patents.

Licensing

SSOs now require, encouraged and/or obliged by competition law, participating members to commit, as a condition of participating in a standard setting process, either royalty-free licensing of any SEPs or, more commonly, their licensing on fair, reasonable and non-discriminatory ("FRAND") terms. At present, there are mainly two modes of SEPs:

(1) Mode of patent pool licensing

A patent pool is a cluster of patents, and it means two or more patentees agree with each other of cross licensing or to commonly license to a third party.

(2) Mode of patent platform licensing

Patent platform is generally used to handle multiple technical standards or a certain standard including multiple SEPs. The object of patent platform is to facilitate the agreement between licensor and licensee, for example, the 3G patent platform.

From the mode and principle discussed above, although FRAND commitments are important to ensure the success of standards and to minimize the risk of hold-up, it is well-known that they have not precluded problems from arising in practice. Many SSO rules currently leave open the answer to a number of complex questions including what a FRAND royalty should be.

China's Practice Involving SEPs

Regulations

On December 19, 2013, the Standardization Administration of China (the "SAC") and the State Intellectual Property Office (the "SIPO") published "Interim Regulations on National Standards Involving Patents," which went into effect on January 1, 2014. The Regulations require: (1) the disclosure of essential patents owned or known about; (2) that patents included in national standards [1] must be licensed on

[1] A national standard, which shall be different from the the "technical standard" discussed above, is a standard approved and published by ministries of the Chinese

FRAND terms; and (3) that, for mandatory national standards, if an essential patent holder does not agree to license on FRAND terms, the SAC, the SIPO, and relevant authorities must negotiate with the SEP holder regarding a method for the holder to divest the relevant patents.

SEPs and China Anti-Monopoly Law

The Chinese Anti-Monopoly Law ("AML") puts on restrictions on abusive intellectual property practices.

In April 2014, the Guangdong High People's Court published its October 28, 2013 decisions in *Huawei v. IDC*, affirming the lower court decisions in related disputes between Huawei and IDC. The case provides an example of the fact that asserting SEPs in China is subject to anti-monopoly examination. Specifically, the court held that IDC violated China's AML by: (1) making excessive royalty proposals to Huawei for IDC's 2G, 3G, and 4G Chinese SEPs; (2) tying-in sales of non-SEPs; (3) seeking grant-backs from Huawei; and (4) seeking an exclusion order in the U.S. ITC against Huawei while negotiations were still in progress regarding IDC's Chinese SEPs. Further, the court concluded that IDC's offers to Huawei did not comply with FRAND where the court determined that the royalties to be paid by Huawei for IDC's Chinese SEPs should not exceed 0.019% of the actual sales price of each Huawei product.

To the *Qualcomm* case discussed at the beginning of this article, the NDRC determined that Qualcomm held a dominant market position for its SEPs relating to CDMA, WCDMA and LTE wireless communications, found that the company abused its market position by, for example, charging excessive royalties and unreasonably bundling the sales of non-SEPs with SEPs.

Chinese Practice on SEPs

In 2008, the Supreme People's Court issued an Advisory Opinion regarding SEPs stating that: (1) where a patentee engages in standard setting or agrees that its patent be incorporated into an industrial standard, the patentee is "deemed to have permitted others to exploit the patent while implementing the standard," and thus exploitation of the patent "does not constitute patent infringement" under Chinese law; and (2) SEPs must be licensed at an amount "significantly lower than the normal license fee." Here, the industrial standard refers to a standard approved and published by ministries of the Chinese central government, which, however, differs from a technical standard which is released by a SSO rather than a Chinese central government ministry. Accordingly, SEP holders cannot assert SEPs in infringement suits and are only entitled to royalties at a much reduced rate.

For intellectual property licensing practices involving SEPs, the above-discussed *Huawei v. IDC* and *Qualcomm* cases provide useful guidance with respect to a court's and the NDRC's views. In summary, unlike in the United States and in Europe, in China it appears that SEP holders are required to license at least Chinese SEPs on FRAND terms even in the absence of an explicit commitment to do so, and more, to avoid abuse of any dominant positions, the SEP holders are prohibited from misconducts like over pricing, discriminatory pricing, tie-in sales of non-SEPs, free grant-backs and the like.

In conclusion, investigations and litigation involving SEPs have begun to emerge across the globe. Chinese practice relating to SEPs, unlike in the United States and in Europe, focuses more on

central government, which in later discussions is referred to as "an industrial standard" by the Supreme People's Court.

matters such as the charging of "excessive" or discriminatory royalties and the suitability of litigating SEPs.

The newsletter is not intended to constitute legal advice. Special legal advice should be taken before acting on any of the topics addressed here. For further information, please contact one of the attorneys listed below. General e-mail messages may be sent using ltbj@lungtin.com which also can be found at www.lungtin.com.

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