



MONASH University

***Are Chinese courts determining the injunction applications of
standard-essential patent owners according to law?***

Julian Garrett Scarff
LLB (Hons), LLM / BA (Hons)

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Abstract

How Chinese courts are assessing the injunction applications of standard-essential patent ('SEP') owners is not well-understood in English language commentaries.

The current regime obliges SEP owners to abide by their commitments to provide licensing on fair, reasonable and non-discriminatory ('FRAND') terms to those requiring their technology to implement technical standards. Yet, Chinese policy makers are yet to issue specific legal standards, procedures and grounds for granting or denying a SEP owner's injunction application. Therefore, drawing from existing Chinese law, the thesis proposes that SEP owners' injunction applications could be assessed according to the principles and doctrine of China's basic law.

The thesis argues that such a legal basis would be consistent with earlier case law and more recent developments in the current regime. The thesis also compares this regulatory model to the FRAND solution-based regimes applied in the United States ('US'), the European Union, South Korea, Japan and the Netherlands. In particular, the thesis examines the common practice of imposing considerable conduct or process obligations on SEP owners in South Korea, Japan, the Netherlands and China.

Finally, the thesis considers recent practice of global licensing and anti-suit injunction determinations as they relate to SEPs and Chinese courts. In global licensing cases, the thesis argues that the national courts imposing multi-jurisdictional licenses on locally infringing parties, are ignoring the different process obligations that should apply and would limit or prohibit the rates being awarded. Also, in two recent anti-suit injunction determinations senior courts in the US and the United Kingdom ('UK') prohibited parties from pursuing injunctive action in Chinese courts. The thesis argues that both decisions were based on profound misunderstandings of the injunction determination processes of Chinese courts – in particular, how they assess SEP owners' compliance with their process obligations.

Declaration

This thesis is an original work of my research and contains no material which has been accepted for the award of any other degree or diploma at any university or equivalent institution and that, to the best of my knowledge and belief, this thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

Signature:

Print Name: ...Julian Scarff...

Date:11/3/20.....

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I would also like to thank Liu Yulu (刘雨露) for the many hours she spent reviewing my English translations of Chinese laws and legal articles since we started working together at Sun Yat-sen University in Guangzhou. I am sure she will excel in completing her PhD thesis in the Australian National Centre for Ocean Resources and Security at the University of Wollongong.

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‘—These questions are very profound, Mr Dedalus, said the dean. It is like looking down from the cliffs of Moher into the depths. Many go down into the depths and never come up. Only the trained diver can go down into those depths and explore them and come to the surface again.’

James Joyce, *A Portrait of the Artist as a Young Man* (B. W. Huebsch, 1916)

‘You gotta stop and think it through, rookie’

Sesame Workshop, *Smart Cookies* (Public Broadcasting Service, 2016)

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Chapter 1: “Incompleteness” in China’s specifically-enacted law and the understanding of English language commentaries

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1 Introduction

This thesis argues that Chinese courts are not determining the injunction applications of standard-essential patent (‘SEP’) owners according to law – meaning the law specifically-enacted for that purpose. Chinese courts are not determining the injunction applications of these SEP owners according to this specifically-enacted law as this law – and the regulatory regime it proposes to implement – is incomplete. This incompleteness is the result of this law apparently failing to define particular components identified in Table 1 and discussed below in section 1.2 of this chapter.

Instead, the thesis proposes that in these determinations, Chinese courts supplement this “specifically-enacted law” (单行法) with doctrine and principles from China’s “basic law” (基本法).¹

However, having established that China’s specifically-enacted law for determining the injunction applications involving SEPs is incomplete, this chapter will assert that the understanding in many English language commentaries of this determination process is also incomplete.

¹ Tong Rou, ‘The General Principles of Civil Law of the PRC: Its Birth, Characteristics, and Role (Jonathon K. Ocko Trans, 1989)’ 52(2) *Law and Contemporary Problems* 151, 151 (‘The “General Principles of Civil Law of the PRC”’).

1.1 An “incomplete” law in need of supplementation

1.1.1 The “incompleteness” of China’s specifically-enacted law

The thesis compares the law applied in China in injunction determinations involving SEPs with similar regulatory regimes implemented in five other jurisdictions. These compared jurisdictions include: South Korea, Japan, the United States (‘US’) and the European Union (‘EU’). The thesis also examines the pioneering response that Dutch courts took to injunction determinations involving SEPs prior to the institution of EU-wide precedent in 2015.² The reasoning for this choice of jurisdictions to compare with China, in its terms of its regulation of injunctions involving SEPs, is explained below in section 1.3.1.

Each of these five jurisdictions determine the injunction applications of SEP owners, in part, based on the SEP owners’ compliance with their commitments to license their SEPs on fair, reasonable and non-discriminatory (‘FRAND’) terms.

In applying this “FRAND solution”, all five of the above jurisdictions outside of China, established a regulatory regime for assessing the compliance of SEP owners with their process obligations under their FRAND commitments.³

In each case, this assessment regime consists of:

- legal standards for assessing SEP owner compliance with their FRAND commitments (e.g. in the EU this includes the obligation to offer a FRAND licensing rate and complete certain tasks prior to filing an injunctive action);⁴

² See section 5.5 of chapter four and section 6 of chapter 6 on a further discussion of *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015).

³ Process obligations refer to requirements or prohibitions that jurisdictions oblige injunction-seeking standard-essential patent owners to abide by in their pre-contractual licensing negotiations with standard implementers. Jorge L Contreras, ‘Form and Variation in FRAND and Other Standards Licensing Commitments1’ in Jorge L Contreras (ed), *The Cambridge Handbook of Technical Standardization Law* (Cambridge University Press, 1st ed, 2017) 170, 170 <https://www.cambridge.org/core/product/identifier/9781316416723%23CN-bp-10/type/book_part>.

⁴ Prior to filing an injunctive action, standard-essential patent (‘SEP’) owners must alert a relevant standard implementer to their alleged infringement, specifying the SEP involved and the way it has been allegedly infringed. If the standard implementer expresses a willingness to license the SEP, the SEP owner must then provide a licensing offer in writing, that includes a proposed royalty rate and the methodology by which this

- a designated law for assessing alleged FRAND duty breaches (e.g. in the EU, FRAND duty-breaching injunctive actions are assessed under the competition law);⁵ and
- legal grounds for authorising the refusal of injunctions (e.g. in the EU: FRAND duty-breaching injunctive actions restrict the access of a SEP owner's competitors to an essential input. Thus, this is an abuse of dominant market position).⁶

All three regulatory components of the process obligations assessment regime, defined in the five other jurisdictions, are absent from China's specifically-enacted law.

The 2016 specifically-enacted law introducing the FRAND solution to China, directs Chinese courts to refuse injunctions to SEP owners in breach of their FRAND duty.⁷ However, this directive did not establish any legal standards or law for assessing such a breach. Likewise, while the 2016 law is an "interpretation" of China's patent law, the patent law does not contain any legal grounds for refusing an injunction once the infringement of a patent has been proved.⁸

Thus, compared to the FRAND solution regimes in the other five jurisdictions, China's specifically-enacted law – in terms of the publicly available versions of legislation and case law concerning its FRAND solution regime – is incomplete.

was calculated. *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 2) [61]; [63].

⁵ *Treaty on the Functioning of the European Union* ('TFEU'), Opened for Signature 7 February 1992, [2009] OJ C 115/199 (Entered into Force 1 November 1993) art 102.

⁶ The Court of Justice of the European Union also recognised that the standard-essential patent ('SEP') owner had raised 'legitimate expectations' on the part of third parties that the SEP owner would provide licensing on fair, reasonable and non-discriminatory ('FRAND') terms. Thus, the CJEU held that for this reason as well as the harm to market competition, a SEP owner's injunctive action in breach of its FRAND duty amounted to abuse of market position under Article 102 of the TFEU. *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 2) [52]-[54].

⁷ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] art 24(2).

⁸ As discussed in section 2.1.4 of chapter 3 of this thesis, grounds for refusing an injunction in China are especially required, as injunction claims are not subject to any equitable or other judicial discretion.

1.1.2 Consequences of the “incompleteness” of China’s specifically-enacted law

General consequences of “incomplete” IP law – Short term

The apparent “incompleteness” of specifically-enacted law on intellectual property (‘IP’) rights in China is most immediately problematic as:

- lacking a full understanding of their rights, may discourage IP owners and users from seeking or contesting injunctive actions in Chinese courts; and
- it invites IP owners and users and other observers to assume that this lack of transparency is to facilitate the political manipulation of IP-related legal decisions in China.

General consequences of “incomplete” IP law – Medium-to-long term

The apparent “incompleteness” of specifically-enacted law on intellectual property (‘IP’) rights in China is problematic over time as:

- IP owners that receive low or no revenue due to widespread IP infringements may be unable or unwilling to continue to invest in innovation or to make their IP available to the wider benefit of local industry and consumers, e.g. by contributing their patents to technical standards;
- IP users may enter into settlements to avoid or end litigation, that include forced and even illegal technology transfers;⁹ and
- foreign governments, administrative agencies and courts may contest the legitimacy of the judicial outcomes of Chinese courts – potentially leading to international disputes and sanctions.¹⁰

⁹ In 2018, a United States attorney reported that, in addition to monetary damages, Chinese standard-essential patent (‘SEP’) owners have also demanded transfers of advanced technologies. It was also noted that the confidentiality clauses of the resulting settlement agreements obscure the extent of these practices and may allow Chinese SEP owners to obtain technologies that are subject to transfer prohibitions. Erick S Robinson, ‘See I Told You So - China Preliminary Injunction and Semiconductor Edition’, *China Patent Blog* (14 July 2018) <<http://www.chinapatentblog.com/1/post/2018/07/see-i-told-you-so-semiconductor-and-preliminary-injunction-edition1990997.html>> (‘See I Told You So - China Preliminary Injunction and Semiconductor Edition’).

¹⁰ In mid-2018, the imposing of an injunction against a United States (‘US’) technology developer, Micron Technology Inc (‘Micron’) was viewed by some as a Chinese court acting in an inherently political way – in this case, in retaliation for US tariffs against China in the trade war against the trading partners. One publication

Particular consequences of “incomplete” law on injunctions involving SEPs in China

In the specific circumstances below, the incompleteness of the specifically-enacted Chinese law on SEP owners’ process obligations led to confusion as to whether SEP owners in China could seek injunctive action against infringements on their SEPs.

As discussed in section 2.1 of chapter five of this thesis, the injunction applications of the SEP owner in the 2013 *Huawei Technologies Co Ltd v InterDigital Corp (Huawei v IDC)* decision were found to be an abuse of its dominant market position under China’s *Anti-Monopoly Law* (‘AML’).¹¹ Following the decision – and for more than three years thereafter – English language commentaries demonstrated a concern that this might mean that the SEP owners would not be granted injunctions in China.¹² These commentaries further expressed

portrayed Micron as the ‘first causality’ in the trade conflict. By early 2019, the legal battle between Micron and Fujian Jinhua Integrated Circuit Co Ltd (‘Jinhua’) had been recognised as a sticking point in all attempts to resolve the dispute, reportedly leading trade negotiators to pursue the resolution of the inter-company dispute in the hope of paving the way towards a final bilateral trade agreement.

Micron Technology Inc, *Form 10-K, Annual Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934 for the Fiscal Year Ended August 30, 2018* (United States Securities and Exchange Commission, 15 October 2018)

<http://www.annualreports.com/HostedData/AnnualReports/PDF/NYSE_MU_2018.pdf> (‘2018 Micron Annual Report’); Jacob Schindler, ‘Micron Is Not the First Trade War Casualty in China’s Patent Courts, and Probably Won’t Be the Last’, *Intellectual Asset Management (iam) Media Blog* (9 July 2018)

<<https://www.iam-media.com/law-policy/micron-not-first-trade-war-casualty-chinas-patent-courts-and-probably-wont-be-last>> (‘Micron Is Not the First Trade War Casualty’); Tom Mitchell et al, ‘US and China Look to End Chipmaker Spat as Part of Trade Deal’, *Financial Times (online)* (online at 22 February 2019) <<https://www.ft.com/content/6358e378-3658-11e9-bd3a-8b2a211d90d5>>.

¹¹ 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[*Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case*], 广东省高级人民法院 [Higher People’s Court of Guangdong Province (People’s Republic of China), 粤高法民三终字第306号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 8), 三、关于华为公司指控交互数字滥用市场支配地位实施垄断民事侵权行为是否成立的问题 [3] Whether IDC abused its dominant market position and bears civil liability for its Anti-Monopoly Law violation].

¹² See section 3.1 in chapter five of this thesis.

the fear that if a SEP owner sought injunctive action, it would be accused of abusing its dominant market position, as the SEP owner in the *Huawei v IDC* decision was.¹³

Even when decisions in 2017 and 2018 granted injunctions to SEP owners, English language commentaries demonstrated inability to understand the new regime for determining injunction applications that was formally implemented in 2016.¹⁴

This implementing 2016 regulation directed Chinese courts to refuse to grant injunctions to SEP owners that deliberately contravene their commitments to offer licensing of their SEPs on FRAND terms.¹⁵ Judicial guidelines that the Beijing HPC and the Guangdong HPC issued after the 2017 and 2018 decisions proposed specific conduct by SEP owners that courts in their local jurisdictions should regard as breaching their FRAND commitments.¹⁶ Yet, in making their analysis of these, at best, English language commentaries could only describe this new regime as a “‘fault-based’” conduct-evaluation framework’.¹⁷

1.2 An “incomplete” understanding of the FRAND solution in need of explanation

This thesis argues that the above responses to the incompleteness of China’s specifically-enacted law on injunction determinations involving SEPs, suggest the incompleteness of English language commentaries’ understanding of the FRAND solution.

Together with the incompleteness of the specifically-enacted law, the thesis proposes that this incomplete understanding of the FRAND solution, led to the confusion expressed in contemporary English language commentaries, as noted above.

¹³ See section 3.1 in chapter five of this thesis.

¹⁴ See sections 3.2 to 3.5 in chapter five of this thesis.

¹⁵ See section 3.2 in chapter five of this thesis.

¹⁶ See section 3.5 in chapter five of this thesis.

¹⁷ Yabing Cui and Mark Cohen, ‘Across the Fault Lines: Chinese Judicial Approaches to Injunctions and SEPs’, *China IPR – Intellectual Property Developments in China* (5 June 2018)

<<https://chinaipr.com/2018/06/05/across-the-fault-lines-chinese-judicial-approaches-to-injunctions-and-seps/>>.

Also see sections 3.1 and 3.2 in chapter 5.

1.2.1 “Incompleteness” in the understanding of the applied FRAND solution criteria

The thesis proposes that the FRAND solution for the determination of injunction applications involving SEPs is comprised of the following three elements:

- 1) a content obligations regime that requires FRAND-encumbered SEP owners to offer to license their SEPs to standard implementers on FRAND terms;
- 2) a unwilling licensee test that assesses whether the standard implementers have demonstrated a genuine willingness to license the relevant SEPs; and
- 3) a process obligation regime that requires FRAND-encumbered SEP owners to comply with certain conduct requirements and prohibitions in their licensing negotiations with standard implementers.¹⁸

Nonetheless, the thesis argues that there are grounds for believing that the view expressed in many, if not most, English language commentaries does not recognise a process obligations compliance regime as an essential element of the FRAND solution.

In 2015, the same year that the EU implemented a process obligation regime as the part of its FRAND solution, a prominent contributor to English language commentaries, Jorge L. Contreras recognised process obligations, with content obligations, as the two alternative forms of FRAND commitment.¹⁹ Yet, in his discussion, Contreras does not cite other authors or sources supporting the view that a process obligations regime is a conventional and common third element of the FRAND solution. Likewise, other references to SEP owners’ FRAND commitments in the literature, do not explicitly acknowledge a process obligations regime as an essential component of this widely-applied regulatory model.²⁰

¹⁸ See sections 3.1 to 3.5 in chapter five of this thesis.

¹⁹ Jorge L Contreras, ‘A Market Reliance Theory for FRAND Commitments and Other Patent Pledges’ [2015] *Utah Law Review* 479, 497–8.

²⁰ United States (‘US’) attorney, H. Stephen Harris, in his comments on the the process obligations that Chinese regulators had imposed on a standard-essential patent (‘SEP’) owner, his client, warned of ‘[the] troubling prospect of insoluble conflicts of law conundrums that could arise if ... multiple jurisdictions purport to impose inconsistent worldwide licensing obligations on patent holders.’ Judge Douglas H. Ginsburg, in his 2017 presentation to a competition law roundtable hosted by the Organisation for Economic Co-Operation and Development (‘OECD’), noted the inconsistency between the South Korean regulation of portfolio licensing under process obligations and its regulation elsewhere and in the US: ‘[The South Korean regulator] condemns portfolio licensing as *per se* unlawful even though other jurisdictions do not preclude it and the [US] regards it

Even allowing that the majority of contributors to English language commentaries may implicitly recognise a process obligations regime as a third element of the FRAND solution, this thesis argues that they seem to expect it to take a limited form – as seen in the EU and US as discussed below. Confounding this expectation and revealing the incomplete understanding in these commentaries of developments in China is the Chinese implementation of a more expansive process obligations regime, otherwise applied in South Korea and Japan.

Process obligations – limited and expansive in form

The limited process obligations regime in the EU only requires SEP owners to complete a discrete set of actions. These obligations require a SEP owner to provide willing potential licensees with an offer to enter into a FRAND licensing agreement and the methodology by which its proposed royalty rates were calculated.²¹ In the US, the most commonly used law to identify and assess a SEP owner's process obligations under its FRAND commitment is the contract law as implemented in each individual US state. These state contract laws commonly only recognise process obligations, corresponding to a small number of pre-established prohibitions on the activities of all contracting parties as defined under existing case law precedents.²² The number of prohibitions that SEP owners in the US must avoid is greater

as usually efficient.' H. Stephen Harris, 'An Overview of the NDRC Decision in the Qualcomm Investigation', *CPI Antitrust Chronicle* (24 July 2015) 6 <<https://www.competitionpolicyinternational.com/an-overview-of-the-ndrc-decision-in-the-qualcomm-investigation/>>; Judge Douglas H. Ginsburg, 'Comity in International Competition Law Enforcement' (Presentation Delivered at Extraterritorial Reach of Competition Remedies - Competition Policy Roundtable, Organisation for Economic Co-Operation and Development, 5 December 2017) <<http://www.oecd.org/competition/extraterritorial-reach-of-competition-remedies.htm>>' Slide 7.

²¹ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 2) [63].

²² For example, in assessing the parties' motions for summary judgments in 2013, the *Microsoft v Motorola* court listed six grounds and their defining case law subject to which a court could find a breach of the good faith and fair dealing duty applicable to all parties under Washington state contract law. The first ground for finding a party in breach of this contractual duty is where it has acted contrary to 'the reasonable and justified expectations of other parties to the contract'. The case law defining this breach are the federal and Washington state appellate decisions: *Scribner v Worldcom Inc*, 249 F 3d 902 (9th Cir, 2001) and *Frank Coluccio Construction Company Inc v King County*, 150 P 3d 1147 (Wash Ct App, 2007). *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) 1184–5.

than the actions that SEP owners in the EU must perform, but the form that process obligations can take in the EU and US seem to be similarly limited.

In contrast, the injunction determinations involving SEPs in South Korea and Japan assess the compliance of FRAND-encumbered SEP owners with their process obligations, based on a broad duty to negotiate in good faith with standard implementers.²³ In their respective 2014 and 2016 administrative enforcement guidelines, South Korea and Japan's competition law regulators only cited a few examples of how SEP owners can meet this general duty.²⁴ Otherwise, these regulators have flexibly applied this principle to impose a variety of process obligations on SEP owners and penalties for their breach.²⁵

Likewise, China's 2017 and 2018 judicial guidelines conclude their lists of specific process obligations with "catch-all" provisions that will find SEP owners in breach of their FRAND duty and deny them injunctive relief if they are 'otherwise obviously at fault'.²⁶

Process obligations – limited and expansive in precedent

²³ See sections 3.1.3 and 5.1.3 of chapter six of this thesis.

²⁴ See sections 3.3.3 and 5.2.3 of chapter six of this thesis.

²⁵ See, for example, the extensive application of the FRAND commitment-derived obligation to negotiate in good faith in the determination of the Korea Fair Trade Commission in the 2017 *Qualcomm* case, in section 3.4.3 in chapter six of this thesis.

²⁶ See section 3.5 in chapter five of this thesis.

The EU precedent establishing the set of actions to be completed before a SEP owner seeks injunctive action was a decision of the jurisdiction's high court of appeal, the Court of Justice of the European Union ('CJEU').²⁷ Thus, any judicial initiative attempting to add to or amend this existing set of process obligations on SEP owners in the EU will apparently need to be affirmed by that superior court. Likewise, the process obligations imposed on US SEP owners under the contractual good faith and fair dealing duty are – for example, in Washington state – overwhelming precedents from state or federal appeal courts.²⁸ Thus as in the EU, alterations to these process obligations will require a long climb up the legal hierarchy of local or national courts.

In South Korea and Japan, the leading decisions on the application of the FRAND solution in injunction determination proceedings were respectively a mid-level trial court and a senior appellate court.²⁹ Nevertheless, as both are subject to regular civil law jurisdiction, neither are especially restrictive on subsequent applications of their findings. For example, see the broad applications that administrative regulators have made of these judicial findings cited above.³⁰

Under the Chinese judicial guidelines, the senior Beijing and Guangdong courts explicitly delegate powers to lower courts in their respective jurisdictions to identify and assess the process obligations of SEP owners in China.³¹

²⁷ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 2).

²⁸ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 22) 1184–5.

²⁹ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil trial panel 39552], 24 August 2012 [Supreme Court Library of Korea trans, 2012]

<http://library.scourt.go.kr/SCLIB_data/decision/Seoul%20Central%20Disctrict%20Court%20Decision%202011GaHap39552.htm> (accessed 20 November 2019); 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014.

³⁰ See sections 3.3.3 and 5.2.3 in chapter six of this thesis.

³¹ See section 3.5 in chapter five of this thesis.

Process obligations – limited and expansive in degree of intervention

The 2015 *Huawei v ZTE* decision gave no explanation why it imposed the process obligations it did on? SEP owners in the EU. However, in 2017, the European Commission ('EC') observed that in applying the decision, many courts sought to ensure that standard implementers received enough information 'to determine the relevance of the SEP portfolio and compliance with FRAND'.³² Thus, if this EC view of the 2015 CJEU decision is accurate, this suggests that the *Huawei v ZTE* advisory decision was seeking to implement an enhanced level of transactional transparency into SEP licensing negotiations in the EU. However, this appears to be the full extent of the EU process obligations regime's intervention in the interactions between SEP owners and standard implementers.

US courts are even more reluctant to encroach on the freedom of contract of SEP licensing negotiations. Precedent under US state law – most recently affirmed in 2015 – holds that applications of the contractual good faith and fair dealing duty 'may not ... be invoked to create rights and duties not otherwise provided for in the existing contractual relationship'.³³ Thus, the process obligations of SEP owners in the US simply reflect their duty to 'march ... toward a FRAND license' and not any other higher purpose or principle.³⁴

At odds with these EU and US approaches, South Korean and Japanese courts and administrative agencies have imposed process obligations on SEP owners that would seem to directly intervene in their licensing negotiation strategies. For example, the leading South Korean decision held that a SEP owner's failure to respond to the counter-offers of a standard implementer amounted to a breach of its good faith negotiation obligation and so its FRAND

³² European Commission, 'Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Setting Out the EU Approach to Standard Essential Patents, COM (2017) 712, 29 November 2017 <<https://ec.europa.eu/docsroom/documents/26583>>' 10. The European Commission cites two German cases as affirming this concern with transactional transparency: OLG Düsseldorf, *Case I-15 U 66/15*, Order of 17 November 2016 and OLG Karlsruhe, *Case 6 U 58/16*, Order of 8 September 2016. Ibid, fn 40.

³³ *Uno Restaurants Inc v Boston Kenmore Realty Corporation* 441 Mass 376, 385 (2004) followed in *Weiler v PortfolioScope Inc*, 469 Mass 75 (2014); *James Foundation v Meyers*, 87 Mass App Ct 85 (2015). See section 4.2.3 of chapter six of the thesis for further discussion.

³⁴ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 187) 1190; *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 24 September 2013) slip op (n 151) 16.

duty.³⁵ Similarly, Japanese SEP owner's delay in responding to a counter-offer was likewise held to be grounds for denying injunctive relief.³⁶ Courts in both jurisdictions have also found that, in principle, a refusal to disclose terms granted to other licensees could be a breach of a SEP owner's FRAND duty.³⁷ The leading Japanese case also proposed that a SEP owner that insists on licensing its SEPs in portfolios a SEP owner could be denied injunctive relief unless these activities was consistent with industry practice.³⁸

The Chinese judicial guidelines follow these South Korean and Japanese precedents in the extent to which intervene in SEP licensing negotiations. The Chinese guidelines propose to

³⁵ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20Disctrict%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 29) 178.

³⁶ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 126.

³⁷ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20Disctrict%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 29) 178; 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 127.

³⁸ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 127.

deny injunctions to SEP owners that ‘hinder negotiations without reasonable cause’, make ‘clearly unreasonable’ offers or do not disclose adequate patent information to standard implementers.³⁹

Substantial influence of expansive process obligations regimes in China

Table 1 demonstrates the extent to which the other East Asian jurisdictions’ process obligations regimes have influenced that proposed in China under the Chinese judicial guidelines. In both the 2017 and 2018 Beijing and Guangdong HPC guidelines, four of the six process obligations-related provisions are remarkably similar to the precedents applied in South Korea and Japan applied between 2012 to 2017.⁴⁰

i) Hindering active negotiations

Both of the 2017 and 2018 Beijing and Guangdong HPC Guidelines prohibit SEP owners from hindering the progress of negotiations without reasonable excuse under Article 152(4) and Article 13(5) respectively.⁴¹ Articles 152(3) and Article 13(4) of the respective Chinese guidelines also oblige SEP owners to provide standard implementers with a deadline for their response to their licensing offers and not to delay their responses to standard implementers’ counter-offers.⁴²

TABLE 1: FOREIGN INFLUENCES ON CHINESE JUDICIAL GUIDELINES

³⁹ See Tables 1 and 2 in section 3.5 in chapter five of this thesis.

⁴⁰ See section 3 in chapter six of this thesis.

⁴¹ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 art 152(4) and 《关于审理标准必要专利纠纷案件的工作指引(试行)》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> art 13(5).

⁴² 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 art 152(3) and 《关于审理标准必要专利纠纷案件的工作指引(试行)》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> art 13(4).

Article 152 of 2017 <i>Beijing HPC Guidelines</i>		Article 13 of 2018 <i>Guangdong HPC Guidelines</i>	
1) Provide notice and nature of infringement		1) Provide notice and nature of infringement	
2) Provide licensing terms & pricing methodology	EU	2) Provide patent information	SK / J
3) Provide response deadline	SK / J	3) Provision of licensing terms & pricing methodology	EU
4) No hindering negotiations	SK / J	4) No delaying responses	SK / J
5) No excessive offers	J	5) No hindering negotiations	SK / J
6) Other obvious faults	SK / J	6) Other obvious faults	SK / J
Legend: EU: European Union SK: South Korea J: Japan			

As discussed in 2.2.1 of chapter seven, the thesis argues that all four of these provisions have the common purpose of obliging SEP owners in China to practise and permit the active negotiation of licensing terms. As such, they all reflect the respective 2012 and 2014 South Korean and Japanese judicial decisions that found that SEP owners acted in bad faith if they did not respond or delayed their response to the counter-offers of standard implementers.⁴³

ii) Making of excessive offers

⁴³ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012]

<http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20Disctrict%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 29) 178; 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第10043号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 126.

The 2017 Beijing HPC Guidelines prohibition against the making of excessive offers also finds its precedent in the 2014 Japanese decision making a similar order.⁴⁴ As noted above, the 2012 and 2014 South Korean and Japanese decisions both found in principle that SEP owners should provide standard implementers with details of licensing terms previously offered.⁴⁵ This, in turn, provides a rationale for the 2018 Guangdong HPC Guidelines to insist the SEP owners disclose a sufficient level of patent information disclosure.⁴⁶

iii) “Catch-all” provisions

Finally, the broad principle that SEP owners owe standard implementers an obligation to negotiate in good faith, is both applied in the KFTC and JFTC guidelines and emulated in the cover-all provisions concluding each of the Chinese judicial guidelines.⁴⁷

⁴⁴ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》[Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 126.

⁴⁵ 《서울중앙지법] 삼성과 애플 특허소송 판결문》[Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제 11 민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20District%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 29) 178; 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》[Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 127.

⁴⁶ 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> art 13(2).

⁴⁷ 《서울중앙지법] 삼성과 애플 특허소송 판결문》[Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제 11 민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20District%20Court%20Decision%20

Minor influence of limited process obligations regimes in China

By contrast, the influence of the EU and US limited process obligations regimes are only apparent in one of the two remaining provisions of the Chinese 2017 and 2018 judicial guidelines.

Under Article 152(2) of the Beijing HPC Guidelines and Articles 13(3) of the Guangdong HPC Guidelines respectively SEP owners in China are to provide standard implementers with licensing terms and the methodology by which the proposed royalty rate was calculated.⁴⁸ This is also a requirement of SEP owners in the EU under the *Huawei v ZTE* decision.⁴⁹

2011GaHap39552.Htm> (Accessed 20 November 2019) (n 29) 177; 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》[*Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations*], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第10043号 [2013 Civil Case No 10043], 16 May 2014 (n 29) 126; 《지식재산권의 부당한 행사에 대한 심사지침》[*Review Guidelines on Unfair Exercise of Intellectual Property Rights*] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (*The Korea Fair Trade Commission (KFTC) Did Not Issue an English Translation of 2016 Revision of Review Guidelines. Commentary on the 2016 Review Guidelines Is Based on the KFTC English Translation of the 2014 Review Guidelines and a 2016 KFTC Press Release Issued with 2016 Revision of Review Guidelines*) 5B [Note 1]; 《知的財産の利用に関する独占禁止法上の指針》[*Guidelines for the Use of Intellectual Property under the Antimonopoly Act*], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frاند.Pdf> Pt 3(1)(i)(e); 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 art 152(6); 《关于审理标准必要专利纠纷案件的工作指引 (试行)》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 45) art 13(6).

⁴⁸ 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 46) art 152(2); 《关于审理标准必要专利纠纷案件的工作指引 (试行)》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 45) art 13(3).

⁴⁹ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 2) [63].

Despite this disparity, English language commentaries at the time only noted the consistency of the Chinese judicial guidelines with the approach taken in the EU regime.⁵⁰ Thus, this response suggests that English language commentaries have an incomplete understanding of how the FRAND solution has been applied globally, which in turn has restricted their ability to make sense of, and to clearly assess the legitimacy of, the Chinese regime.

1.2.2 Examining whether China’s FRAND solution is “going along” or “going rogue”

In light of these observations, this thesis begins with the assumptions that the inclusion of the process obligations regime in the FRAND solution is contested. The thesis also allows that even where these English language commentaries do recognise process obligations regimes as the third element of the FRAND solution, they do so based on a limited and so incomplete view of what constitutes a legitimate process obligations regime.

Thus, chapter four of the thesis presents prominent cases in which the other five jurisdictions have applied the FRAND solution consistent with a view that limits this to its first two criteria. Chapter five then asks to what extent China’s application of the FRAND solution is “going along” with this – meaning to what extent China’s regulation and case law can be explained according to these two criteria or a limited process obligations regime. To the extent that this regulation and case law is inconsistent with such interpretations of the FRAND solution, chapter five refers to them as “going rogue”.

However, chapter six demonstrates that all five of the other jurisdictions are, like China, assessing the process obligations compliance of SEP owners. Also, if applying a measure other than a limited form of the process obligations regime is “going rogue”, then the expansive regimes of the Netherlands, South Korea and Japan are all also in breach of the FRAND solution.

⁵⁰ Yin Li, Hui Zhang and James Yang, ‘New Developments on SEP-Related Disputes in China’, Wolters Kluwer, Kluwer Patent Blog (3 July 2017) <<http://Patentblog.Kluweriplaw.Com/2017/07/03/New-Developments-Sep-Related-Disputes-China/>> Jacob Schindler, ‘With over 20 SEP Cases Now on Beijing IP Court’s Docket, Practitioners Study Sony Injunction Ruling for Clues’ on Globe Business Media Group, IAM Media Blog (30 March 2017) <<http://www.iam-media.com/blog/detail.aspx?g=bb5b2215-7a1b-4f48-888f-6214c61c4ea1>>; Cui and Cohen (n 17).

Yet, as chapter six and seven show, the different jurisdictions seem to have produced different process obligations in applying the FRAND solution, not because they are either “going along” or “going rogue”, but because the FRAND solution itself “going native”.

Chapters five and six of the thesis reveals that in China and the other five jurisdictions, courts have applied local legal principles and doctrine as the legal standards by which the process obligations of SEP owners are identified and assessed. However, applying established theory on the transfer of laws between jurisdictions, the thesis proposes that this transformation of the FRAND solution may be an inevitable and perhaps necessary result of its efforts to transform local laws.

1.3 Choice of jurisdictions, cases and interviewees

The thesis has chosen to compare China’s process obligations regime to a limited number of regional and national jurisdictions through a discussion of specific judicial and administrative cases and by drawing on interviews with certain classes of interviewees. The reasons for this choice of jurisdictions, cases and interviewees are set out in the sub-sections below.

1.3.1 Choice of jurisdictions

The jurisdictions with which the thesis compares China’s process obligations regime were chosen due to their ability to assist with explaining the incomplete nature of understanding of the Chinese application of the FRAND solution contained in English language commentaries.

The jurisdictions of South Korea and Japan assist with understanding Chinese courts’ assessment of SEP owners’ process obligations compliance as, like China, they apply civil law principles and the abuse of rights doctrine to make this assessment.⁵¹

The jurisdiction of the Netherlands is also useful in gaining such an understanding of China’s process obligations regime on account of a 2012 Dutch decision that applied civil law principles and the abuse of rights doctrine to similar effect.⁵²

Since 2015, Dutch courts have alternatively followed a decision of the Court of Justice of the European Union (‘CJEU’), the EU’s highest court of appeal, that assesses SEP owners’ process obligations compliance under EU competition law. Nonetheless, the 2012 Dutch decision is noteworthy as it precedes the earliest decisions in South Korea, Japan as well as

⁵¹ See sections 3.1.3, 3.2.3, 3.3.3, 3.4.3, 5.1.3 and 5.2.3 in chapter six of this thesis.

⁵² See section 2.1.3 in chapter six of this thesis.

China, and so may have influenced the East Asian jurisdictions' common application of civil law principles and the abuse of rights doctrine.

This possible preceding Dutch influence also challenges assumptions that the three East Asian jurisdictions have adopted a similar approach in respect to the process obligations of SEP owners solely on the basis of their shared legal-ethical heritage in Confucianism. Instead, future research will also have to consider the Dutch and East Asian jurisdictions common civil law heritage.

The thesis also examines the application of the FRAND solution in the EU and US as the most likely point of reference for contributors to English language commentaries confused by Chinese legal developments. Further, the EU and US are essential jurisdictions to include in the thesis discussion due to the prominence and influence of their case law and judicial and administrative guidelines on how other jurisdictions do or could assess the process obligations of local SEP owners.

1.3.2 Choice of cases

While this thesis seeks to understand China's process obligations regime as applied in its injunction application determinations – and its misunderstanding – not all of the cases examined in the thesis involved an injunction application determination.

In most of the cases discussed in this thesis, courts and administrative agencies are most explicitly taking aim at a SEP owner that is seen to have abused its right to seek injunctive action. Nevertheless, implicitly, the actual focus of this enforcement action is on the SEP owner's attempt to manipulate the negotiation process.

In the majority of the decisions examined, where the SEP owner was found to have violated its process obligations under its FRAND commitment, this was done by bringing injunctive action against a standard implementer in the attempt to manipulate the negotiation process. However, in other cases, an injunctive action was never filed, or it was instead the standard implementer that initiated the legal action.

The 2017 Korea Fair Trade Commission administrative prosecution against Qualcomm Inc ('Qualcomm') is an example of the former kind of case.⁵³ The 2013 *Motorola v Microsoft*

⁵³ 퀄컴의 시장지배적지위남용 행위 등에 대한 건 [In re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-

decision in the US State of Washington is an example of the latter kind of case.⁵⁴ Both decisions are discussed in chapters four and six of the thesis in sections 5.2.4 and 5.3.2, and 3.4 and 4.2 respectively.

Neither case is any less relevant to this thesis because they did not involve the SEP owner seeking injunctive action. Instead, both cases are relevant to the thesis topic as they both apply process obligations on the respective SEP owners involved in response to the SEP owners' conduct that was held to unlawfully manipulate the licensing negotiation process. The thesis topic specifically refers to Chinese courts' determination of injunction applications. However, having argued that Chinese courts are responding to the perceived abuse of injunctive action by imposing process obligations on SEP owners, the thesis next ask how these Chinese process obligations compare with those imposed in other jurisdictions. To answer that question, the thesis examines cases in the other five identified jurisdictions that have imposed significant process obligations on SEP owners. In most cases, these process obligations were imposed in actions where the SEP owners also sought an injunction. However, in other cases – such as in the US *Motorola v Microsoft* decision and the South Korean *Qualcomm* determination – process obligations were imposed where the SEP owner did not seek injunctive action. Nonetheless, as the thesis argues, the imposition of process obligations in these cases – and especially the nature of obligations they imposed – provide a critical comparisons to those imposed in China, regardless of the fact that no injunctive action was involved.

1.3.3 Choice of interviewees

The choice of interviewees for the thesis was dictated by the development of theories in the thesis research as to the basis for the Guangdong court's condemnation of the SEP owner's injunction application in the 2013 *Huawei v IDC* decision.

Initially, consistent with the views expressed in English language commentaries, it was assumed that the decision was solely an application of China's competition law, the AML. Therefore, interviews were undertaken with Chinese academics in 2014 and early 2015 with

025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.pdf> (accessed 20 November 2019).

⁵⁴ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 22).

Beijing and Shanghai that had contributed to prominent commentaries on the regulation of intellectual property in China under the AML.

However, as the research theories of the thesis developed, the research began to focus on the *Huawei v IDC* court's discussion of China's civil law principles and how violations of these principles could amount to a breach of a SEP owner's FRAND commitments. Thus, in the second half of 2015 and 2016, the subjects for the thesis interviews shifted to focus on how court officials understood the meaning and role of these civil law principles in opposition to the rights of SEP owners. As the understanding of these principles and their relationship to patent rights appeared to be specific to China's specific sub-national jurisdictions, interviewees were predominantly sought in Guangdong province where the *Huawei v IDC* case had been decided in 2013. In fact, in following this approach, interviews were had with the judicial president of the court in the *Huawei v IDC* and one of the attorneys that represented Huawei, the standard implementer in the case.

Ultimately, this focus of the thesis on court officials in Guangdong, appeared to have been the most appropriate approach.

In 2017, following the completion of the thesis' interviews, a decision and judicial guidelines were issued in the municipal jurisdiction of Beijing. This Beijing decision and guidelines corrected the misunderstanding that had arisen from the 2013 Guangdong *Huawei v IDC* decision that suggested that SEP owners in China would be denied the right to seek an injunction.⁵⁵ Nevertheless, early in 2018, the Guangdong jurisdiction issued its own decision confirming the right of SEP owners to seek injunctive action.⁵⁶ Whereas the Beijing case concerned a SEP that were essential to a national standard, the Guangdong jurisdiction

⁵⁵ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第 1194 号 [First Instance Decision No 1194], 22 March 2017; 《专利侵权判定指南》 [Guidelines for Patent Infringement Determination] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 46).

⁵⁶ 《华为技术有限公司与三星（中国）投资有限公司》 [Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People's Court], 粤 03 民初 816 号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans).

decided a case involving a SEP for an international standard. In that same year, the Guangdong jurisdiction issued judicial guidelines that were more detailed and comprehensive in their coverage of SEP licensing issues.⁵⁷

Neither the 2017 nor the 2018 Beijing and Guangdong cases and guidelines adequately dealt with critical issues concerning the assessment of SEP owners' compliance with their process obligations in China. However, the more comprehensive and cohesive nature of the Guangdong case and guidelines suggest that they may be the most influential outside their provincial jurisdiction which, in turn, may validate the latter focus of the thesis interviews in that province.

2 Thesis methodology

2.1 Research tasks

The thesis seeks to answer the thesis topic question by:

- 1) examining whether Chinese courts can make injunction determinations involving SEPs by supplementing the incomplete law specifically-enacted for this purpose with other existing Chinese law;
- 2) comparing whether such a supplemented regulatory regime regulatory would be consistent with the approaches being taken to determining injunctions involving SEPs in five other jurisdictions examined in this thesis;
- 3) assessing the veracity and fairness of criticisms and dismissals made by English language commentaries and foreign court determinations of China's determination process; and
- 4) developing a theoretical framework to consider:
 - a) the significance of changes to the FRAND solution following its adoption ("legal transfer") into Chinese law; and
 - b) how Chinese courts can be seen as making determinations according to law while they remain vulnerable to political intrusions into their decision-making processes.

⁵⁷ 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 45).

2.1.1 How Chinese courts could make determinations according to law

The thesis proposes how Chinese courts could determine injunction applications involving SEPs based on a model for such a process that two Chinese academics, He Huaiwen and Chen Ruwen presented in a 2014 Chinese language article published in the mainland Chinese legal journal, *Intellectual Property* (‘知识产权’).⁵⁸

The thesis adds to He and Chen’s proposed regulatory model, initially with a new analysis of the 2013 *Huawei Technologies Co Ltd* (‘Huawei’) v *InterDigital Corp* (‘IDC’) decision that preceded their publication.⁵⁹ He and Chen refer briefly to this decision but make no mention of the application in the written judgment of the abuse of rights-based solution that they propose Chinese courts could use to make injunction determinations involving SEPs. One explanation for this lack of comment is that He and Chen may not have had access to the judgment text making this application, as this was redacted from the public version of the decision.

The thesis further adds to He and Chen’s proposal by demonstrating how the 2013 *Huawei v IDC* findings and the Chinese academics’ 2014 process design, fill in the gaps in the 2016-implemented, incomplete injunction determination regime.

2.1.2 Determination processes in China and five other jurisdictions compared

The thesis compares examples of the other five jurisdictions assessing the compliance of SEP owners with their process obligations in injunction determinations with those made and proposed in Chinese cases and guidelines.

⁵⁸ 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen], ‘《技术标准制定参与人违反 FRAND 许可承诺的法律后果》 [Liability for the Violation of Standard-Essential Patent FRAND Commitments] (2014), 10 《知识产权》 [Intellectual Property] 45’.

⁵⁹ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People’s Court, People’s Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted version, on file with author); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People’s Court of Guangdong Province (People’s Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 11).

Likewise, the foreign jurisdictions assess and propose how the compliance of SEP owners with their process obligations should be considered in injunction determinations in judicial and administrative cases and administrative enforcement guidelines.

2.1.3 English language commentaries and foreign court views assessed

The thesis assesses the veracity of English language criticisms of elements of China's determination process for injunction involving SEPs in foreign law association submissions, academic articles and legal professional publications. It also analyses the view taken of this Chinese process in foreign courts' global licensing and anti-suit injunction determinations in the issued court judgments and as discussed in academic and professional articles and blogs.

2.1.4 Legal transfers and political intrusions considered

The thesis also sets out a theoretical framework to respond to specific circumstances affecting the thesis research and its conclusions.

The first of these circumstances is the fact that the FRAND solution is a regulatory solution that is foreign to China's pre-existing law and legal culture. Therefore, in addition to questions as to whether it will be successfully adopted, there are also issues as to what extent the regulatory model might be changed on its entry into Chinese and to what extent these changes indicate an incompetence or corruption in its transfer.

Secondly, the theoretical framework in chapter two proposes a position that the thesis will take in response to the actual or perceived influence of political intrusions on the determinations of Chinese courts. Preceding that discussion, it should be understood that, in arguing that Chinese courts can make injunction determination involving SEPs according to existing Chinese law, the thesis is not suggesting that Chinese courts are currently doing so. The thesis only means to offer a regulatory model as the likely form of the injunction determination process that Chinese courts could use if they are not required to make their decision to satisfy non-legal criteria. If the thesis is accurate, if only about the doctrine and principles applied, litigants may be able to apply these in court proceedings or in reviewing written judgements to hold Chinese courts accountable for their determinations.

It is also possible that the thesis' proposed regulatory model could be shown to be very different from the final, fully implemented form of China's process for the determination of injunctions involving SEPs. Nevertheless, having demonstrated how Chinese courts can make such determinations according to law, the thesis has achieved all that the thesis topic requires.

2.2 Research sources

Thus, the thesis research draws on:

- 1) primary materials in the form of law and regulations and judicial and administrative decisions – the majority of which Chinese language texts;
- 2) secondary materials including media reporting and academic and professional commentary on legal developments; conference presentations and panels; and
- 3) semi-structured interviews with over 30 lawyers and judges (both retired and sitting) and academics – with the majority of these interviews being Chinese.

2.2.1 Chinese-English translations

None of the Chinese judicial cases or academic articles discussed in this thesis are publicly available in English. Nor is all of the Chinese legislation referred to herein. Therefore, the researcher was required to translate most of these Chinese legal texts with the assistance of a Chinese graduate student.

2.2.2 In-country conferences

The researcher also found that attending conferences hosted by Chinese universities and law societies – as well as by foreign business representative and government organisations – were both a good source of information on legal developments but also of potential interviewees. The niche nature of the thesis topic required the researcher to work through individual contacts made, in order to locate lawyers and judges with direct experience of cases involving the relevant research issues.

2.2.3 Interviews

The researcher engaged in over thirty interviews with Chinese lawyers, academics and judges (both retired and sitting) in Beijing, Shanghai and Guangzhou in 2015-16. These discussions proved to be invaluable to the outcomes of the research.

While the thesis contains only a few direct quotes from these interviews, they orientated the approach taken to the research both during that period and since. The perspectives and insights gained from these interviews were particularly helpful in assisting the common law jurisdiction-trained researcher to understand how general principles apply to specifically-enacted law in civil law jurisdictions and specifically in China.

3 Thesis findings

3.1 Main findings

The main findings of the thesis are that the injunction determination processes of Chinese courts involving SEPs:

- 1) can be made according to law if Chinese courts supplement the incomplete specifically-enacted law with elements from China's basic law;
- 2) are comparable to the FRAND solution of the five other jurisdictions, if so supplemented; and
- 3) have largely been mischaracterised in some English language commentaries and foreign court global licensing and anti-suit injunction determinations.

3.2 Ancillary findings

Ancillary findings of the thesis are:

- 1) four previous regimes for the determination of injunctions involving SEPs have failed since 2008; and
- 2) the current incomplete regime potentially also risks regulatory failure prior to it being comprehensively and coherently implemented.

4 Contribution of the thesis to existing English language literature

The thesis contributes to the existing English language literature on the regulation of SEPs in China in:

- proposing a regulatory model for how Chinese courts are determining injunction determinations involving SEPs according to existing Chinese law – that:
 - both applies to the assessment of SEP owners' content obligations and process obligations in injunction determinations involving SEPs⁶⁰
- examining the assessment of process obligations in injunction determinations involving SEPs – that:
 - are critical to understanding past injunction determinations in Chinese cases, including the 2013 *Huawei v IDC* decision⁶¹

⁶⁰ See section 4.3 of chapter 5.

⁶¹ 《华为技术有限公司与IDC公司标准必要专利使用费纠纷上诉案》[*Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case*], 广东省高级人民法院 [*Guangdong*

- applied, in varying degrees, in all five jurisdictions examined in the thesis⁶²
- interrogating the responses to the Chinese injunction determination regime involving SEPs in English language commentaries – that:
 - is largely unjustified in its criticisms
 - is ineffective in failing to target elements of the current regime that do require greater rigour, clarification and reform⁶³
- identifying the mischaracterisations of foreign courts in certain global licensing and anti-suit injunction determinations that indicates the need for these foreign courts to take account of the different process obligations in jurisdictions in international actions – that:
 - impose royalty rates across borders; or
 - determine whether a party can engage in parallel actions in different jurisdictions⁶⁴

5 Overview of chapters

5.1 Chapter two

Chapter two establishes a theoretical framework for the analysis to follow in the latter chapters. This framework recognises that the FRAND solution implemented in China in the form of the 2016-implemented injunction determination process for SEPs is a wholesale introduction of a new regulatory regime from outside of the pre-existing Chinese legal system.

Such a legal transfer can be problematic as it may not be clear why the introduced regulatory regime is altered on entry to the recipient jurisdiction, in this case, the entry of FRAND solution into China. It may also be apparent why the legal transfer continues to change after its entry into the recipient jurisdiction and why it seems to irritate changes also in the pre-existing legal culture.

Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 69).

⁶² See chapter 6.

⁶³ See sections 3.1 and 3.2 of chapter 7.

⁶⁴ See section 4 in chapter 7.

This aspect of the theoretical framework is necessary in response to the initial and ongoing changes to, and as a result of, the FRAND solution's entry into Chinese law. This theory suggests that the perceived changes to the FRAND solution after its introduction into Chinese law may be innate to the legal transfer process – as opposed to being seen as indicative of incompetence or corruption in the recipient jurisdiction.

Chapter two also proposes a theoretical approach to conceptualising legality in China's legal system. This theory suggests that a duality exists in which the CCP resolves 'politically sensitive matters through substantively extra-legal methods', while a semi-autonomous 'normal legal system' co-exists though is always vulnerable to political intrusion.

5.2 Chapter three

Chapter three of the thesis outlines the Chinese laws and legal institutions that are relevant to the development of a regulatory model for the determination of the injunction applications of SEP owners in China.

The chapter also gives an account of the four regulatory regimes implemented in China since 2010 with the intention of regulating the injunctive actions of SEP owners. In each case, these past regimes failed, in part because they were not comprehensively and coherent, leading to SEP owners' concerns that they might be used to impose sub-market royalties or even compulsory licensing. The discussion of the AML-based regime notes how this has also failed Chinese firms seeking private actions and so most likely further encouraged the development of the 2016-implemented regime.

5.3 Chapter four

Chapter four explains the technical terms used throughout the thesis and explains the abusive licensing practices that led to the development of the FRAND solution.

The chapter then demonstrates how the five other jurisdictions have determined injunction applications involving SEPs. Consistent with preoccupation of the literature on applications of the FRAND solution in English, the chapter focusses on the compliance of the SEP owners with their content obligations – specifically, the royalty rate offered.

5.4 Chapter five

Chapter five of the thesis assesses whether Chinese courts are applying the FRAND solution similarly to the five other jurisdictions were seen to do in chapter four.

The chapter demonstrates that assessing SEP owners' compliance with their content obligations is insufficient to explain the injunction determinations of courts in China

involving SEPs. Instead, it is apparent that Chinese courts are assessing the compliance of SEP owners with their process obligations. Therefore, the chapter proposes a regulatory model for the injunction determinations of Chinese courts involving SEPs that includes an assessment of the SEP owner with its process obligations.

5.5 Chapter six

Chapter six attempts to compare how similar the injunction determinations of Chinese courts involving SEPs are to practices in the five foreign jurisdictions. In light of the finding of chapter five, this chapter six assesses whether these foreign jurisdictions are also assessing the process obligations of SEP owners.

Chapter six demonstrates that, as in China, each of these other jurisdictions have assessed the process obligations of SEP owners.

5.6 Chapter seven

Chapter seven further compares the respective process obligations imposed on SEP owners in China with those imposed in the other five jurisdictions. The chapter finds that the Chinese process obligations are neither the greatest in number nor the most interventionist, and most closely resemble the process obligation profile imposed in South Korea and Japan.

The remainder of chapter seven examines the criticisms of the Chinese injunction determination regime in English language commentary and the responses to this Chinese regime in foreign courts making global licensing or anti-suit injunction determinations. This examination finds that the understanding of the Chinese regime in English commentaries and by foreign courts is limited and mostly unjustified.

5.7 Chapter eight

Chapter eight concludes the thesis, finding that Chinese courts can make injunction determinations according to law that combines the incomplete regulation specifically-enacted to make such determinations with basic principles and doctrines of Chinese civil law.

The chapter also finds that this combined Chinese regulation is consistent with regulation in the other five jurisdictions in its assessment of SEP owners' compliance with their content and process obligations. Finally, English language commentaries and foreign courts making global licensing and anti-suit determinations little understand and largely unjustly criticise this Chinese regulation.

Chapter 2: Theoretical framework

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1 Introduction

1.1. Aims of this chapter

The aims of this chapter are to:

- i) examine alternative theoretical positions on whether jurisdictions can wholesale adopt regulatory solutions from foreign jurisdictions. If these adoptions of foreign laws or “legal transfer” are possible, the chapter asks whether changes to these legal transfers on entry into a recipient jurisdiction are legitimate or indicative of incompetence or corruption in the receiving jurisdiction;
- ii) propose a theoretical position that allows for changes to legal transfers on their entry into recipient jurisdictions. This a theoretical position is then applied to the foreign regulatory solution implemented in China’s 2016 specifically-enacted law for determining the injunction applications of standard-essential patent (‘SEP’) owners; and
- iii) propose a further theoretical position that allows for the possibility that Chinese courts can make determinations according to law despite their intense vulnerability to political intrusion from the Chinese Communist Party (‘CCP’).

1.2. How the aims of this chapter address the thesis topic

This early chapter addresses two fundamental issues that the thesis topic both raises and is challenged by.

These issues are:

- a) that the vulnerability of Chinese courts to the political intrusions of the CCP makes it impossible to claim with certainty that any judicial decision in China is solely determined according to law; and
- b) that evidence of Chinese courts applying the 2016-implemented foreign legal transfer differently to courts in other jurisdictions could be seen as China's non-compliance with and corruption of this widely-adopted regulatory solution.

This chapter does not attempt to refute these assumptions but proposes a theoretical framework that suggests that the conclusions flowing from these assumptions be provisionally suspended while the thesis makes its arguments.

Thus, this chapter fully acknowledges that the CCP's political intrusions may not allow any Chinese courts to make an injunction determinations involving SEPs solely according to law. However, this chapter offers a theoretical model of the legal system in China that suggests how Chinese courts could practise some autonomy if that is possible. This view thus allows for the proposal in section 4.3 of chapter five of the thesis of a legal path that a provisionally autonomous Chinese court could follow to make such a determination involving SEPs according to existing Chinese law.

Similarly, this chapter draws on theory that allows for and – in fact expects – changes in legal transfers as they enter and engage intensely with the legal cultures of recipient jurisdictions. Thus, this view permits some degree of difference between the Chinese version of the FRAND solution and its conventionally-cited elements and applications in the other five jurisdictions examined in section 5 of chapter four of the thesis. Furthermore, sections 2 to 6 of chapter six reveals that all of these five other jurisdictions differ in their application of the FRAND solution in the same way that China does – but based on their own distinct domestic law. Thus, these innate differences in each of the jurisdiction's application of the FRAND solution – that are explored further in section 2 of chapter seven of the thesis – support the inevitability of change proposed in the legal transfer theory explained below.

2 Legal evolution theory

Legal evolution theory assumes that all legal development in modern societies is irresistibly and inevitably towards a Western legal model.

Traditionally, legal evolutionists have associated the spread of Western law as coterminous with the perceived universalism of rational (Western) thought.¹ Western law is seen as the most mature and systematised application of reason to law and so is expected to be the highest natural order to which all other legal societies aspire.²

More recent manifestations of legal evolution posit the superiority of Western law, based on its strict adherence to the pursuit of economic efficiency.³ The elimination of waste from unnecessary costs in decision-making is assumed to be the common goal of all jurisdictions. Therefore, Western law stands in for international best practice.

Another driver of contemporary legal evolution is the adoption of international legal standards in the form of international trade law – usually based on domestic Western law.⁴ An example of this in the intellectual property (‘IP’) area, is that of how ‘[United States (US)] standards of intellectual property protection’ were installed in the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (‘TRIPs agreement’) to become binding on all World Trade Organisation (‘WTO’) members.⁵

A legal evolution theory orientation can be seen in the approaches that certain commentators have taken in international debates on the regulation of FRAND-encumbered SEPs. A prominent example of an economic efficiency advocate of legal evolution theory on SEP-related regulation issues is the US George Mason University-based, Global Antitrust Institute

¹ Peter Stein, *Legal Evolution: The Story of an Idea* (Cambridge University Press, 1980) 23–9.

² John Gillespie, ‘Towards a Discursive Analysis of Legal Transfers into Developing East Asia’ (2007-2008), 40 *New York University Journal of International Law & Politics* 657, 667.

³ This approach draws on neo-liberal economics and political philosophy whose basic units are individuals making rational self-interested decisions according to prevailing circumstances and available information. This philosophy is discussed in the context of legal development, in Elizabeth Landes & Richard A. Posner (1978), ‘The Economics of the Baby Shortage’, 7 *Journal of Legal Studies* 323; Robert Cooter (1996), ‘The Theory of Market Modernization of Law’, 16 *International Review of Law and Economics* 141, 142-149, cited in Gillespie, ‘Towards a Discursive Analysis of Legal Transfers into Developing East Asia’ above n 2, fn 32.

⁴ Gillespie, ‘Towards a Discursive Analysis of Legal Transfers into Developing East Asia’ above n 2, p 668.

⁵ Scott Burris, Peter Drahos and Clifford Shearing, ‘Nodal Governance’ (2005) 30 *Australian Journal of Legal Philosophy* 30, 41–2; ‘Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C (‘Agreement on Trade-Related Aspects of Intellectual Property Rights’)’ (‘TRIPs Agreement’).

(‘GAI’).⁶ With a mission ‘to promote economically-informed decision making and policy’, since 2014, members of the GAI have released a wide range of publications on international developments in SEP-related regulation – including in China, South Korea and Japan.

A common practice in these GAI publications has been to eschew all reference to: cultural and legal differences; relative stages of economic development; and pre-existing regulatory settings, and to advocate for what is perceived to be the most economically efficient outcome. This approach has led GAI members to argue at length against elements that are already well-established in the regulatory approach taken in foreign jurisdictions.

One example is the 2015 submission of GAI members to a public consultation on draft amendments that the Japan Fair Trade Commission (‘JFTC’) proposed to make to a set of its non-binding enforcement guidelines. These draft amendments to the guidelines, formally referred to in English as the *Guidelines for the Use of Intellectual Property under the Antimonopoly Act* (‘JFTC IP Guidelines’), included proposals to change how the JFTC regulated SEPs.⁷

⁶ Established in 2014, the Global Antitrust Institute (‘GAI’) is located in the Antonin Scalia Law School, George Mason University, in Virginia, United State of America (‘USA’). With a mission ‘to promote economically-informed decision making and policy’, the institute is assisted in its educational and advocacy programs by a board of over 40 international advisors. Global Antitrust Institute, About the GAI (22 July 2019) <<https://gai.gmu.edu/about/>>. It should be noted that existing and past GAI members advise and are directly employed by the standard-essential patent owner, Qualcomm Inc (‘Qualcomm’) that has been prosecuted in China, South Korea, Taiwan, the European and United States for its licensing practices. See the admissions of GAI members Joshua D. Wright and Douglas H. Ginsberg concerning their counselling advice to Qualcomm and a 2017 report on Koren Wong-Ervin, the former director of GAI, leaving the institute to take up the position of Director of Antitrust Policy & Litigation at Qualcomm. These members are also well-known and vocal advocates of pro-patent owner positions. Douglas H Ginsburg and Joshua D Wright, ‘A Bargaining Model v. Reality in FTC v. Qualcomm: A Reply to Kattan & Muris’, *Truth on the Market* (15 May 2019) <<https://truthonthemarket.com/author/ginsburgwright/>>; Gabe Friedman, ‘Qualcomm Hires Antitrust Legal Scholar’, *Bloomberg Law* (online at 12 September 2017) <<https://news.bloomberglaw.com/business-and-practice/qualcomm-hires-antitrust-legal-scholar>>.

⁷ These draft amendments would be incorporated into the Anti-Monopoly IPR Guidelines in early 2016. Japan Fair Trade Commission, ‘Request for Public Comments on Partial Amendment of “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” (Draft)’ (8 July 2015) <<https://www.jftc.go.jp/en/pressreleases/yearly-2015/July/150708.html>>; 《私的独占の禁止及び公正取引の確保に関する法律》 [Act on Prohibition of Private Monopolization and Maintenance of Fair Trade] (State of

In response to the JFTC proposed amendments, GAI members, Joshua D. Wright and Judge Douglas H. Ginsburg dedicated their submission to just two arguments.⁸ The first of these arguments was that contract law and not competition law, should regulate FRAND-encumbered SEP owner injunctive actions. The second argument that Wright and Ginsburg made was to dispute that patent hold-up was a prevalent licensing abuse that caused anti-competitive effects.⁹

The regulation of injunctive actions and the abusive practice of patent hold-up are discussed in detail in section 3.1 of chapter four of this thesis. Nonetheless, at this stage, it can still be appreciated that Wright and Ginsburg were seeking to make their arguments, without directly engaging or even referring to legal developments in Japan and elsewhere that made the reception of their views, unlikely.

The unacknowledged local and international developments in conflict with the GAI position included the judicial decision of Japan's highest specialist IP court, in 2014, the previous year, that had rejected a contracts-based approach to the assessment of FRAND-encumbered SEP owner injunction applications. International developments, also discussed later in this thesis, are 2012 and 2013 judicial decisions in South Korea and China that similarly held that the FRAND commitments of a SEP owner could not be enforced under the contract law. Furthermore, during the 2015 JFTC consultation period in which Wright and Ginsburg would

Japan), *National Diet, Act No 54, 14 April 1947*; 'Japan Fair Trade Commission, "Partial Amendment of 'Guidelines for the Use of Intellectual Property under the Antimonopoly Act'" (Media Release, 21 January 2016) <<http://Www.Jftc.Go.Jp/En/Pressreleases/Yearly-2016/January/160121.Html>>' ('2016 JFTC Anti-Monopoly IPR Guidelines - Media Release'); 《知的財産の利用に関する独占禁止法上の指針》 [*Guidelines for the Use of Intellectual Property under the Antimonopoly Act*], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/lpgl_frاند.Pdf>.

⁸ At the time that they made their submission was Wright was a commissioner of the United States ('US') Federal Trade Commission, while Judge Ginsburg is a former member of the US Court of Appeals for the District of Columbia. Joshua D Wright and Douglas H Ginsburg, *Comment of United States Federal Trade Commissioner Joshua D. Wright and Judge Douglas H. Ginsburg on the Japan Fair Trade Commission's Draft Partial Amendment to the Guidelines for the Use of Intellectual Property under the Antimonopoly Act 1* <https://www.ftc.gov/system/files/documents/public_statements/693631/150803japantradecomments.pdf>.

⁹ Ibid.

have writing, the highest court of appeal in the European Union ('EU') determined that such injunction applications should be assessed under EU competition law.

Likewise, as discussed in section 3.1 of chapter four, patent hold-up was one of the two recognized abusive practices – the other being “patent hold-out”, also known as “patent reverse hold-up” – cited in the above jurisdictions to justify the regulation of FRAND-encumbered SEP licensing. Wright and Ginsburg dispute the prevalence of patent hold-up, arguing that ‘market mechanisms’ mitigate against its occurrence, including the deterrence of ‘reputational and business costs’.¹⁰ Yet, even in reference to such a culturally-informed element as business reputation, Wright and Ginsburg make no reference to any Japanese experience and draw exclusively from US or European sources – in that case, a US regulator’s testimony to US Congress.¹¹

Thus again, Wright and Ginsburg refuse to contextualise their arguments to local conditions. Instead, they presuppose that economic efficiency-based solutions that may have had some success in Western jurisdictions, will inevitably be the best choice for other jurisdictions regardless of the different cultural or developmental factors that may there apply.

Generally, it might be expected that, taking an approach or arguing from a theoretical position that disregards the circumstances of those that you seek to persuade, will struggle to succeed. However, this especially seems to be the case in Asia, where a thirty-five-year study found strong evidence of path-dependence in the legal development that occurred in those

¹⁰ *Prepared Statement of the Federal Trade Commission Before the U.S. Senate Committee on the Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights Concerning “Standard Essential Patent Disputes and Antitrust Law”* at 6 (30 July, 2013),

<https://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-concerning-standard-essential-patent-disputes-and/130730standardessentialpatents.pdf> Ibid fn 14.

¹¹ Ibid.

jurisdictions over this period.¹² This suggests that culture, in the form of local tradition and practices, plays a consistently influential role.¹³

The 1999-published study contests the economic evolutionist assumptions seemingly informing the GAI arguments above that – however culturally-distinct – all societies will benefit by responding to common economic problems with the same, common “rational” solutions. In contrast, the 1999 study found that each of the nations surveyed had taken its own distinctive path to development, largely based on individual historically-determined economic, social and political conditions.

3 Three legal transfer theories

If culture is recognized as an important factor in legal development generally – and especially in Asia – then it is particularly necessary to account for its influence in developments that involve legal transfers.

A defining difference between two of the below theories of legal transfer, is to what extent law is bound to the social circumstances of its originating “donor” jurisdiction, as opposed to being readily detached and connected to the different social characteristics of a recipient jurisdiction.

Those who believe that law is largely autonomous from its originating society and so is changed little by its legal transfer, are known as legal autonomy theorists.¹⁴ Alternatively, those that see law as fundamentally a product of the social conditions in its home jurisdiction, are referred to as limited legal autonomy theorists. This latter group regard legal transfers as

¹² See Katharina Pistor, Philip Wellons & Jeffrey Sachs, *The Role of Law and Legal Institutions in Asian Economic Development: 1960-1995*, (New York: Oxford University Press, 1999) at 272-73, 278-86 (1999), cited in Gillespie, Gillespie, ‘Towards a Discursive Analysis of Legal Transfers into Developing East Asia’ above n 2, p 669.

¹³ See Katharina Pistor, Philip Wellons & Jeffrey Sachs, *The Role of Law and Legal Institutions In Asian Economic Development: 1960-1995*, (New York: Oxford University Press, 1999) at 272-73, 278-86 (1999), cited in Gillespie, Gillespie, ‘Towards a Discursive Analysis of Legal Transfers into Developing East Asia’ above n 2, p 669.

¹⁴ See an application of legal autonomy theory in the work of Alan Watson, discussed below in section 3.1.

deeply fraught and problematic, due to their view of the close bond between local social conditions and developments in local law.¹⁵

With their common focus and disagreement on the interrelationship between law and society, Gunther Teubner has described these theories as being commonly obsessed with:

the somewhat sterile alternative of cultural dependency versus legal insulation, of social context versus legal autonomy.¹⁶

3.1 Legal autonomy theory

When the assumptions of legal evolutionary theory are applied, legal autonomy theory is the obvious choice of legal transfer theory. Just as legal evolutionary theory universalizes Western legal models, legal autonomy theory expects that these models can be unproblematically installed in foreign jurisdictions – regardless of the social or cultural differences between the donor and recipient jurisdictions.

Accordingly, Alan Watson, a prominent exponent of legal autonomy theory, fails to see in donor jurisdictions:

(any) extremely close, natural or inevitable relationship between law, legal structures, instruments and rules on the one hand and the needs and desires and political economy of the ruling elite or of members of the particular society on the other hand.¹⁷

Likewise, Watson presents the transfer of foreign laws into recipient jurisdictions as an uncomplicated matter, in which:

the foreign rule was known to those with control over law making and they observed the (apparent) benefits which could be derived from it.¹⁸

¹⁵ See an application of limited legal autonomy theory in the work of Pierre Legrand, discussed below in section 3.2.

¹⁶ Gunther Teubner, 'Legal Irritants: Good Faith in British Law or How Unifying Law Ends Up in New Divergences', 61 *Modern Law Review* 11, 17.

¹⁷ Alan Watson, 'Comparative Law and Legal Change' (1978) 37 *Cambridge Law Journal* 313; 314–5.

¹⁸ *Ibid*, 315.

Thus, when a legal transfer fails – either not occurring or only occurring in a changed form – the obvious conclusion from a legal autonomy theory standpoint, is that those in the recipient jurisdiction are either incompetent or corrupt.

This thesis argues that China and the other five jurisdictions examined all fundamentally alter the FRAND solution legal transfer in the course of incorporating into their respective domestic law. In China's case, such a finding would seem to condemn its implementation of the FRAND solution legal transfer from a legal autonomy theory point of view.

If non-compliance with the legal transfer model signifies severe neglect or unlawful intent, then the application of legal autonomy theory may have already answered the question of this thesis. This question asks whether China's determination of the injunction applications of FRAND-encumbered SEP owner are lawful.

However, if legal transfers can legitimately undergo changes on entering into a recipient jurisdiction, then it is possible that the transformations of the FRAND solution – as seen in China and elsewhere – do not necessarily signify unlawful practices.

Nevertheless, an alternative legal transfer theory – distinct from legal autonomy theory and its informing legal evolution theory viewpoint – is required. This alternative theory needs to allow for, and preferably explain, the variations that occur in legal transfers on their entry into recipient jurisdictions.

3.2 Limited legal autonomy theory

Limited legal autonomy theory does offer an alternative view to legal autonomy theory.

Whereas Watson portrayed legal transfers as following a straightforward and unmediated process, Pierre Legrand sees them as inherently fraught and effectively 'impossible'.¹⁹ While Legrand recognizes that some legal convergence can occur between jurisdictions at the level of rules and institutions, he challenges the view that legal transfers can be affected at the deeper levels of legal culture.

Legrand argues that this is the case as:

¹⁹ Pierre Legrand (1997), 'The Impossibility of Legal Transplants' 4 *Maastricht Journal of European & Comparative Law* 111, 114.

cultures are spiritual creations of their relevant communities, and products of their unique historical experience as distilled and interpreted over centuries by their unique imagination.²⁰

Consequently, he concludes:

a crucial element of the ruleness [sic] of the rule – its meaning – does not survive the journey from one legal culture to another.²¹

Legrand's limited legal autonomy theory is a better fit for this thesis than Watson's legal autonomy theory, in that it registers the effect of local conditions on the legal transfer process without assuming that this will result in the transfer's catastrophic corruption.

Yet, limited legal autonomy theory does not seem to advance the analysis of the differences that occur as an outcome of the legal transfer process. In addition to determining that the close connection between law and society makes legal transfers all but superficially not possible, it further suggests that legal cultures are themselves monolithic and incapable of change.

This thesis argues that the good faith principle plays a significant role in how the FRAND solution legal transfer is interpreted in China.²² Chunlin Leonard, in her comparison of the applications of the good faith principle in US and Chinese law, attempts to explain why the principle has developed 'so differently' in the two jurisdictions.²³ In doing so, Leonard offers a view that seems similar to Legrand's, in concluding that law is inevitably and inescapably determined by social factors:

China and the US have distinct cultural traditions. China has a strongly collectivistic culture, while the US primarily values individualism. The two

²⁰ Bhikou Parekh, 1994 cited by Legrand, 'Comparatists-at-Law and the Contrarian Challenge', Inaugural Lecture, Tilburg, 10 cited by Teubner, 'Legal Irritants', above note 15, 14.

²¹ Legrand, 'The Impossibility of Legal Transplants', 117.

²² [Link to Chapter five](#)

²³ Chunlin Leonhard, 'A Legal Chameleon: An Examination of the Doctrine of Good Faith in Chinese and American Contract Law' (2010) 25(305) *Connecticut Journal of International Law* 323 <<http://papers.ssrn.com/abstract=1959630>> ('A Legal Chameleon').

countries also have different political systems. Although China has adopted certain market economy principles, it is still a socialist country where the Communist Party is in firm control of all branches of government. The US, on the other hand, has a democratic, federal government with three separate, but equal branches. The two countries also have different legal traditions. These differences have resulted in different contract jurisprudence and have shaped the development of the doctrine of good faith in the two countries.²⁴

3.3 Systems theory

A third view that offers to explain how legal transfers change in the course of their entry into recipient jurisdictions, is systems theory.

Systems theory does not disregard the relevance of social circumstances to law nor does it struggle to extract law from these social circumstances, as the theories of legal autonomy and limited legal autonomy respectively do. Instead, systems theory proposes a radical re-imagining of the relationship between law and society, in which law is “open” to receiving new information about society but is “closed” in terms of how it processes this information.

Originally conceived by Niklas Luhmann, systems theory proposes that law, like other modern disciplines or ‘social sub-systems’, including economics and science, functions to make meaning out of the complexity of modern society’s ‘social communications.’ These sub-systems are “open” to new information in the sense that they can process all forms of social communications, but they are operationally “closed” in terms of their inability to draw meaning from these communications, outside of a previously-established binary coding. Thus, an economics sub-system determines whether a communication proposes an efficient or inefficient way to manage scarce resources and a science sub-system decides what communications are empirically true and which should be declared false.²⁵ The legal sub-

²⁴ Ibid 323–4.

²⁵ Niklas Luhmann, *Die Wissenschaft der Gesellschaft* (Frankfurt: Suhrkamp, 1990), 64-5 cited in Michael King and Chris Thornhill, *Niklas Luhmann's Theory of Politics and Law* (Palgrave Macmillan UK, 2003) 11.

system has the unique role of selecting those communications that establish ‘normative expectations in the face of actions that contradict such expectations’.²⁶

Where a social communication is relevant to a particular sub-system’s function, the sub-system will accept it and code it, based on a binary opposition of values unique to its sub-system. For example, the economic sub-system codes its selections as either payment or debt; the science sub-system as true or false; and the law sub-system as legal or illegal.²⁷ Where a social communication is not relevant to a sub-system’s function, it will be treated as mere “noise” and rejected.

Beyond this, so-called “third value” marking outside the binary range of each sub-system is not permitted. Such a practice would disorient a sub-system away from its specific social function and reason for being, also known as it ‘functional difference’.²⁸

4 Applying Systems theory to the FRAND solution legal transfer

The basic elements of system theory as set out above: the sub-system; coding; and risk of “third value” marking, provide a framework for thinking through some of the conceptual issues relating to the legal transfer of the FRAND solution into Chinese law.

These issues include:

- 1) Transformation of the FRAND solution legal transfer: the expedient but confusing association of the FRAND solution legal transfer with pre-existing Chinese legal concepts on its entry into Chinese law;
- 2) “Irritation” of the FRAND solution legal transfer: Changes that the legal transfer and Chinese legal culture cause to one another in an ongoing mutual reaction to their respective differences; and
- 3) Political interference to the rule of law in China: A perennial risk to the legal institutions implementing the FRAND solution in China

²⁶ Niklas Luhmann, *Das Recht der Gesellschaft* (Frankfurt am Main: Suhrkamp, 1993), Ch. 3, cited in Ibid.

²⁷ Ibid, 25-26.

²⁸ Ibid.

4.1 Transformation of the FRAND solution legal transfer

In order for new information, including legal transfers, to be accepted by the strict binary coding of the legal sub-system, it must be recognised as law.

It is not enough for this new information, that systems theory refers to as “variety”, to have a generic legal form or set of characteristics. Instead, the legal sub-system has to be able to recognise this variety as “belonging to itself”; in other words, as information that the sub-system has previously recognised and coded as law.

The only way that legal transfers and other new variety information can be so recognized is for it to be paired with information that has already been admitted by the relevant sub-system and accepted as law. Luhmann refers to this previously processed information as “redundancy”.

An example of the application of redundancy, is a lawyer citing of legal precedent (already established law, i.e. redundancy) in an attempt to persuade a court to accept a new interpretation of case law or a statute (i.e. variety) as law.

Thus, this pairing of variety and redundancy information suggests the route that the FRAND solution legal transfer has had to take to enter into Chinese law. By necessity, those seeking to adopt the FRAND solution legal transfer into China – like the lawyer citing established precedent in the example above – have to find a pre-existing body of law or set of legal principles with which to pair this new variety information.

Section 4.2.1 of chapter five of this thesis argues that general principles and rules of China’s basic law provisions (‘BLPs’), has served as the redundancy information for the legal transfer of the FRAND solution into China. Consistent with existing Chinese law, section 4.2.1 of chapter five also proposes that the variety FRAND solution legal transfers is applied through these redundancy BLPs and the well-established Chinese doctrine of pre-contractual liability.²⁹

Yet, while the pairing of variety and redundancy information eases the way for the former’s entry into law in the recipient jurisdiction, it is an arrangement that has its limitations.

²⁹ Section 4.3 of chapter 2.

Critically, at its most basic, this pairing of variety with redundancy is an expedient form of match-making. If the very best redundancy available in a recipient jurisdiction has only a passing resemblance to the variety information it is to be processed with, then the reception of that variety will be arduous and potentially even harmful to its intended meaning.³⁰

As Luhmann warned, the relationship between redundancy and the variety with which it is paired, can be deceptive and a source of misunderstanding:

Redundancy is not a quality that can be found with the means of logic.

According to Hegel it does not belong to the realm of necessity but to the realm of chance, because the definition of one piece of information does not determine the definition of another.³¹

Also, the more often redundancy information is re-processed with incoming variety, the greater authority attributed to it and the more likely the redundancy will be applied more expansively elsewhere. This process can lead to a reading down of the differences between this redundancy and the variety information that it carries into law:

[R]e-use confirms [the redundancy] as being suitable for use in other decisions and gives it a generalized and enriched meaning ... [but says] nothing about the original differences.³²

4.1.1 Variety-redundancy pairing as a source of confusion

As noted above, this thesis argues that the redundancy of China's BLPs and doctrine of pre-contractual liability offered an opportune form of redundancy for the variety FRAND solution to entry into Chinese law. Yet, in making use of that pairing, the FRAND solution has had to accept certain connotations to its meaning in China that were not part of its pre-transfer definition. Systems theory suggests that the source of these added connotations are the FRAND solution's BLP and pre-contractual liability transfer partners.

³⁰ Niklas Luhmann, *Law as a Social System*, ed Kastner, Fatima et al, tr Ziegert, Klaus A. (Oxford University Press, 2004) 320.

³¹ Ibid 323–324.

³² Ibid, 328.

The most obvious “misunderstanding” resulting from the pairing of the FRAND solution with China’s BLPs and pre-contractual liability doctrine is the recognition of a FRAND conduct duty in China. As is discussed in section 4 of chapter four of the thesis, a conventional definition of the FRAND solution only applies its obligations to the contents of the licensing agreements that FRAND-encumbered SEP owners offer to standard implementers. However, the China’s BLPs and pre-contractual liability doctrine impose duties on all legal persons in its jurisdiction that extend to their conduct in contractual negotiations preceding the signing of any agreement.

Thus, systems theory may explain how the variety-redundancy pairing of the FRAND solution with China’s BLPs and pre-contractual liability doctrine led to the “misunderstanding” that the former applied also to negotiations conduct.

In contrast to the theories of legal evolution and legal autonomy discussed above, local differences created in the course of the legal transfer are not necessarily indicative of incompetence or corruption in the recipient jurisdiction. Instead, systems theory proposes that misunderstandings in legal transfers – such as that which has led Chinese courts to impose a conduct duty on FRAND-encumbered SEP owners seeking injunctive action – is almost an unavoidable consequence of the process.

The findings in sections 2 to 6 of chapter six that the other jurisdictions examined of the thesis assess the conduct of injunction-seeking FRAND-encumbered SEP owners, may further confirm that the unconventional FRAND solution applications in China are not necessarily unlawful.

4.1.2 High rotation redundancy may over-determine meaning

Luhmann’s warning about the consequences of excessive re-use of redundancy requires consideration due to the variety FRAND solution’s pairing with the redundancy of China’s BLPs and pre-contractual duty.

As quoted above, Luhmann recognizes that the frequent re-use of existing law as redundancy expands its possible meanings. Section 4.2.1 of chapter five of this thesis notes the 2017 *General Rules of the Civil Law* (‘GRCL’) re-defined each of the BLPs in anticipation of China’s adoption of a unified civil law code in 2020. However, section 4.2.1 of chapter five also argues that the Chinese good faith principle that has played a pivotal role in the legal transfer and application of the FRAND solution in China has been subject to more comprehensive changes. This includes the development of an abuse of rights prohibition as

part of the broader good faith principle, and the inclusion of elements in this newly-defined abuse of rights regime received through legal transfers from other jurisdictions.

While, this thesis argues, these developments have enabled the legal transfer and implementation of the FRAND solution in China, as Luhmann cautions, such developments are also not bound to follow any blueprint of the pre-transfer FRAND solution. Therefore, in light of the essential regulatory role that BLPs play in China, as discussed in section 4.2.1 of chapter five, the richness and depth of their meaning may have a significance that conflicts with the intended application of the FRAND solution or the interests of some SEP owners.

The thesis will return to the issues discussed above and below in its concluding chapter eight.

4.2 “Irritation” of the FRAND solution legal transfer

As set out above, systems theory offers to explain the entry of legal transfers into recipient jurisdictions as the result of the pairing of its variety with the redundancy of previously-accepted law. As discussed, systems theory proposes to account for the differences between the form of sent and received regulation as a result of the happenstance nature of the matching of variety legal transfer with redundancy previously-accepted law.

However, whereas the variety and redundancy pairing suggest how a legal transfer is changed as it enters into a legal sub-system, Gunther Teubner proposes to explain how the legal transfer will be further transformed after it gains admission. Also, not only is process inside the legal sub-system proposed to transform the legal transfer, but also to transform the constitution of the legal sub-system itself.

4.2.1 Co-evolution as a profoundly irritating process

The operational closure of sub-systems extends to their interaction with one another. The sub-systems of the various disciplines can observe each other’s activities, but they cannot communicate directly. However, they can assign meaning to the activities of another sub-systems and to the extent that they react to the activities of another sub-system, sub-systems are referred to as being ‘structurally coupled’.

Through prolonged structural coupling some sub-systems are seen to co-evolve to produce shared social instruments and institutions. Luhmann gives the example of the economic and legal sub-systems that

are and remain separate, and both operate under the condition of operational closure; but this needs a specific mechanism of structural coupling, above all in the form of property and contract.³³

However, Teubner rejects this view and argues that structural coupling

do not create a new unity of law and society, unified socio-legal operations, or common socio-legal structures.³⁴

Instead, Teubner can only see these couplings creating ‘Janus-faced’ irritations’,³⁵ that do not develop

in one single historical trajectory but in two separate and qualitatively different evolutionary paths of the two sides which are re-connected via co-evolution.³⁶

To the degree that the structurally coupled sub-systems do interact, Teubner insists that they have the effect of only perturbing and provoking one another’s coding activities as an “irritation”.

In the case of legal transfers, Teubner theorizes the existence of a “double irritation”.

On the legal side of the binding institution, the imported law can expect to be re-contextualized by a new network of legal distinctions. On the social side of the binding institution however, Teubner proposes that, if not ignored altogether, the alien normative aspects of the legal transfer will trigger a process that profoundly changes the imported law’s own constitution and that of recipient sub-system.

Once the imported law’s codes are re-processed by the recipient non-legal sub-system, the transfer then reverts back into the legal side of the institution as an irritation. This persists as:

³³ Niklas Luhmann, ‘Operational Closure and Structural Coupling’ above note 45, 1435 quoted in King and Thornhill, *Niklas Luhmann’s Theory of Politics and Law*, above note 33, 33.

³⁴ Gunther Teubner, (1998), ‘Legal Irritants: Good Faith in British Law or How Unifying Law Ends Up in New Divergences’, 61 *Modern Law Review* 11, 27.

³⁵ Ibid.

³⁶ Ibid, 28.

a circular co-evolutionary dynamic that comes to a preliminary equilibrium only once both the legal and the social discourse will have evolved relatively stable eigenvalues in their respective sphere.³⁷

Teubner's representation of the legal transfer process is interesting, not only as it proposes that a legal transfer will continue to be transformed and to transform its recipient jurisdiction long after the former is successfully implemented in the latter. Further, the implication of Teubner's argument is that these transformations will be largely beyond the control of the recipient jurisdiction. Thus, in the authoritarian Chinese legal context, this suggests that legal transfers could have liberating, or at least unpredictable effects.

Section 3.1.2 of chapter three of this thesis argues that the judicial reforms that were piloted in 2014 were, in part, introduced in anticipation of the implementation of the FRAND solution in China with the issuing of a 2016 judicial interpretation by China's Supreme People's Court.³⁸ While these reforms increased the discretionary powers of Chinese judges they also included disciplinary measures that clearly sought to restrain the use of these new powers beyond their intended purposes.

Other reforms introduced as a result of the implementation of the FRAND solution – including the further development of an abuse of rights doctrine discussed in section 4.2.2 of chapter five – may also have produced other, unintended side-effects for Chinese policy makers.

These possibilities, suggested by Teubner's theories and tested against the research undertaken in this thesis, will be returned to in its concluding eighth chapter.

4.3 Political interference to the rule of law in China

Political interference in the rule of law is conceptualized in systems theory as the existential threat of “de-differentiation”. De-differentiation occurs when a sub-system stops or is unable to perform its unique normative function. This normative function, for example the legal sub-

³⁷ Ibid.

³⁸ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] art 24.

system's coding of communications as either legal or illegal, differentiates a sub-system from all others. Therefore, if a sub-system does not strictly apply its unique binary coding to communications, it risks losing its source of its functional differentiation and no longer serves a social purpose.³⁹

The Taiwanese academic, Chih-Chieh Tang has suggested that serious consideration has to be given as to whether systems theory analysis can be applied to the legal system in China.⁴⁰ This is in recognition of the fact that the CCP can and does intrude into legal cases and on legal issues for expedient political reasons. This implies that the legal sub-system in China may not be sufficiently operationally "closed" so as to be able to perform the legal/illegal normative function that differentiates it from China's political sub-system and the other sub-systems in operation in that jurisdiction.

This theoretical challenge has its parallel in practice. This comes in the form of the argument that China's private law courts lack sufficient autonomy, and simply make their decisions based on CCP policy, if not its express directives. As discussed in chapter five of this thesis, this allegation or a variation of it, has been made in relation to all three cases in which Chinese courts have applied the FRAND solution.⁴¹

³⁹ King and Thornhill, *Niklas Luhmann's Theory of Politics and Law*, above n 33, 40-41

⁴⁰ Email exchange with Dr. Chih-Chieh Tang dated 19 May 2015. Dr Tang is a recognised authority on systems theory as applied in the North East Asian context. His peer-reviewed publications include 'Toward a really temporalized theory of event: A Luhmannian critique and reconstruction of Sewell's logics of history' (2013), *Social Science Information* 52(1) 34 –61.

⁴¹ In a 2017 book chapter, D Daniel Sokol and Wentong Zheng further suggested that, even if *Huawei Technologies Co Ltd* ('Huawei') v *InterDigital Corp* ('IDC') had been correctly decided, many observers are still likely to see it as complicit with the Chinese government's industrial policies. D Daniel Sokol and Wentong Zheng, 'FRAND in China' (2013) 22 *Texas Intellectual Property Law Journal* 71, 91; D Daniel Sokol and Wentong Zheng, 'FRAND (and Industrial Policy) in China' in Jorge L Contreras (ed), *The Cambridge Handbook of Technical Standardization Law* (Cambridge University Press, 1st ed, 2017) 306, 317 <https://www.cambridge.org/core/product/identifier/9781316416723%23CN-bp-18/type/book_part>; Yabing Cui and Mark Cohen, 'Across the Fault Lines: Chinese Judicial Approaches to Injunctions and SEPs', *China IPR – Intellectual Property Developments in China* (5 June 2018) <<https://chinaipr.com/2018/06/05/across-the-fault-lines-chinese-judicial-approaches-to-injunctions-and-seps/>>.

In a 2013 article on the first instance decision of that same year in the Chinese case of *Huawei Technologies Co Ltd* ('Huawei') v *InterDigital Corp* ('IDC') case, D Daniel Sokol and Wentong Zheng conclude that:

Given the influence of the government over judges in China, the decisions raise the possibility that in China, ultimately it is the Chinese government that determines FRAND rates (rather than judges).⁴²

Yabing Cui and Mark Cohen have suggested that, in granting their first injunctions to two FRAND-encumbered SEP owners in China, Chinese courts may have been influenced by the fact that both recipient firms were Chinese:

Nonetheless it is concerning that the pioneering cases noted here ruling in favour of a licensor acting in good faith and being entitled to obtain injunctive relief have all occurred where the licensor was Chinese.⁴³

Yet, Hong Kong academic, Hualing Fu argues that China's legal system can be seen in the form of a duality.⁴⁴ Adopting such a perspective offers a way to accommodate both these theoretical and practical concerns while still allowing research to proceed under a systems theory theoretical framework.

One half of this segmented but still intact legal system is a projection of the CCP-dominated 'prerogative state [that solves] politically sensitive matters through substantively extra-legal methods.'⁴⁵ In the shadow of this, Fu argues, there exists in China:

a normal legal system, less politicised, reform-oriented, and semi-autonomous, which continues to evolve toward maturity and grow in

⁴² Sokol and Zheng, 'FRAND in China' (n 42) 91; Sokol and Zheng, 'FRAND (and Industrial Policy) in China' (n 42) 317.

⁴³ Cui and Cohen (n 42).

⁴⁴ Hualing Fu, 'Duality and China's Struggle for Legal Autonomy' [2019] (1) *China Perspectives* 3.

⁴⁵ *Ibid* 3.

institutionalization and sophistication by offering rules-based solutions to a wide range of social conflicts.⁴⁶

While recognizing that ‘a well-functioning legal system renders credibility to the otherwise undemocratic and more than occasionally repressive system’, Fu insists that China’s normal legal system is ‘not mere window dressing’.⁴⁷ Even so, Fu admits that, while the legal institutions of this normal legal system:

make, and are seen to have made, significant decisions, [nonetheless the CCP] surface[es] from time to time from the deeper structure to assert open and direct control.⁴⁸

Yet despite these intrusions, Fu asserts that – in light of the growth since the 1980s in Chinese private law and its attendant rules, procedures and institutionalized practices – an argument can be made for its relative autonomy.⁴⁹ While recognizing that Chinese private law inhabits a fragile space, in which it has only ‘shallow roots in the [local] eco-system’, Fu argues that its existence is indispensable – not merely for propaganda purposes – but to service China’s market economic and other sectors.⁵⁰

Thus, Fu proposes that China’s normal legal system be seen as semi-autonomous and subject to circumstances in which:

[Chinese] private law operates within an authoritarian political system, and receives and submits to occasional political intrusion, [nevertheless] it is based on certain social and economic practices that develop their own rules and structure and maintain their autonomy and integrity.⁵¹

Thus, from a theoretical perspective, such a duality allows China’s normal legal system to operate on a semi-autonomous basis, suggesting that its legal sub-system has sufficient

⁴⁶ Ibid.

⁴⁷ Ibid 4.

⁴⁸ Ibid.

⁴⁹ Ibid 7.

⁵⁰ Ibid 8.

⁵¹ Ibid 7.

operational closure to maintain its functional differentiation. The ability of Chinese courts, ‘to absorb and internalise political commands, and factor in political concerns through the exercise of legal discretion’ seems to describe the extent of this operational closure.⁵² The Chinese legal sub-system can make its legal/illegal determinations, but these are always to some degree contingent upon political intrusions being made.

This balanced state between legal integrity and political expediency seems to accord with the author’s interviews with Chinese lawyers and judges between 2015 and 2016.⁵³

The sitting and retired judges in these interviews recognized the sensitivity of certain cases and issues but were confident of their ability to maneuver around these in their decision-making. The interviewed lawyers also claimed to routinely avoid such obstacles, while also alluding in litigation to government policy priorities in their client’s favour, where this might persuade the court.

From a practical perspective, this view of Chinese private law as semi-autonomous, allows this thesis to conclude that the determinations of the injunction applications involving FRAND-encumbered SEPs in China are lawfully made. If Chinese private law lacked all autonomy, then it would be difficult to disagree with the views of Sokol, Zheng, Cui and Cohen above. The author would have to recognize that the three decisions to which they refer – and on which this thesis bases its core argument – were politically determined, and so a legally-based argument is unlikely to explain their outcomes.

Even so, despite Fu’s proposal of there being a dual legal state in China that includes a semi-autonomous normal legal state, this thesis will not seek to claim that the three decisions cited above, were determined according to law. Instead, it will be argued that they could have been decided according to law.

One reason for this distinction is that the written judgments from these decisions are not comprehensive and there are gaps in the respective courts’ reasoning. However, another reason that is more specific to this research, is the basing of these decisions on China’s BLPs. As will be discussed in chapters five and seven of this thesis, these principles lack sufficient definition.

⁵² Ibid.

⁵³ ‘Interviews with Chinese Lawyers and Serving and Retired Judges (Guangzhou 2015-2016)’.

Thus, while this thesis shows how these BLPs have been used to determine injunction applications involving FRAND-encumbered SEPs according to law, the remaining indefinite state of these provisions, allows that they can be expediently interpreted for political ends. Therefore, this thesis will argue that these cases could have been decided according to law, rather than asserting that they have been so decided.

5 Conclusion

As was proposed in the introduction, the first section of this chapter demonstrated how legal transfers need to have a theoretical framework so as to avoid a view, such as seen in the legal evolution theory example, that assumes that the viewer's perspective is universal. That section of the chapter concluded with a review of a 2015 submission of a US academic organisation to a legislative consultation on amendments to Japanese administrative guidelines. This noted the absence in the submission of any reference to relevant Japanese legal developments, whereas research had demonstrated that legal development across Asia was culturally-influenced and path-dependent.

In considering the three legal transfer theories, the chapter also noted the relativist trap that assumes that national laws are inextricably bound to local conditions and so are incapable of being significantly influenced by foreign legal transfers. This section gave the example of conclusions from a comparison of the good faith doctrine as applied in the US and China, that presented both cultures and their legal traditions in fundamentally essentialised and unalterable forms.

Finally, the section on systems theory firstly demonstrated how this could explain why on entering into Chinese law (and in chapter six of this thesis – the five other jurisdictions) the FRAND solution legal transfer took on some of the characteristics of pre-existing local laws. It next showed how systems theory explained the unpredictable influence that FRAND solution legal transfer had on Chinese law and its institution. Lastly, the chapter offered a framework that at least allowed for the possibility that Chinese courts could make determinations according to law, while subject to an authoritarian state that recognised allegiance to the ruling party above the rule of law.

Chapter 3: Regulatory instruments, institutions & past initiatives

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1 Introduction

1.1 Aims of this chapter

The aims of this chapter are to:

- i) examine the existing laws and regulations that regulate regular patent injunctions in China and others implemented in successive regimes in the attempt to regulate the injunctions of standard-essential patent ('SEP') owners;
- ii) discuss the structure and composition of China's courts and judiciary, as well as reforms initiated in 2014-2015 aimed at increasing the expertise of Chinese courts – especially in decisions concerning advanced technology; and
- iii) propose how past failures in the approaches taken to the regulation of injunction applications involving SEPs in China may have led China's policy makers to adopt the fair, reasonable and non-discriminatory (FRAND) terms-based solution.

1.2 How the aims of this chapter address the thesis topic

This chapter seeks to establish the regulatory background that preceded the introduction of the FRAND solution in China.

The chapter demonstrates how China's international legal obligations have ensured that its law for assessing injunction applications involving regular patents is largely consistent with that in other major jurisdictions. However, between 2008 and 2016, the lawfulness of the four successive regulatory regimes for the determination of injunctions involving SEPs in China has been challenged by foreign firms and, in one case, multiple US government agencies.

This pre-history to the FRAND solution in China explains why the question of this topic is a particularly relevant one. Foreign SEP owners that have endured the previous regulatory regimes, may well be incredulously asking whether this time around Chinese courts will be making their injunction determinations according to law. Most likely aware of this skepticism as well as their past failures, Chinese policy makers may also acknowledge that they have limited legitimacy left to regulate in this area.

The chapter's review of the Chinese court system and the organization of its judiciary provides a necessary context to the discussion of the case law in later chapters. It is also suggested that the personnel and institutional reforms began in 2014-15 might not have been coincidental to the introduction of the FRAND solution into China soon after. This is especially the case on account of the sophisticated application of discretion that the thesis argues in section 4.2.1 of chapter five is required for Chinese courts to determine injunction applications involving SEPs according to principles and doctrine from China's basic law.

2 Regulatory instruments

2.1 Patent Law

2.1.1 Patent law revisions and international commitments

The *Patent Law of the People's Republic of China* ('Patent Law') was first implemented on 1 April 1985, and has been revised three times, most recently in 2009.¹ China is a member of the *Paris Convention for the Protection of Industrial Property* ('Paris Convention'), the *Patent Cooperation Treaty* ('PCT') and the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ('TRIPs').²

¹ The revised versions of the law have been respectively implemented on 1 January 1993; 1 July 2001; and 1 October 2009. 《中华人民共和国专利法》 [Patent Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order No 8, 27 December 2008 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=5484>>.

² Paris Convention for the Protection of Industrial Property, Paris Notification No 114, 19 March 1985; Patent Cooperation Treaty (PCT), PCT Notification No 81, 1 January 1994; 'Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C ('Agreement on Trade-Related Aspects of Intellectual Property Rights')' ('TRIPs Agreement').

2.1.2 Exclusive patent right

Article 11 of the *Patent Law* establishes that once a patent right is granted, for the duration of that right, no other party may exploit its IP through manufacturing or other stipulated means without the patent owner's permission.³

2.1.3 Right to seek an injunction

Article 60 of the *Patent Law* instructs that, where an alleged infringement of the patent right occurs, the patent owner may seek a permanent injunction, either through a Chinese court or the administrative agency responsible for the regulation of patents.⁴

The authority of Chinese courts to grant a permanent injunction is based on Articles 118 and 134 of the *General Principles of the Civil Law* ('GPCL').⁵ These provisions respectively recognize the right of IP owners to seek injunctions against infringing parties and list permanent injunctions as a civil liability that can be imposed on infringing parties. Articles 120 and 179 of the *GRCL* apply to the same effect of the above *GPCL* provisions which they will replace when the 1986 *GPCL* is repealed.⁶ Under the current arrangement, the newer

³ 《中华人民共和国专利法》 [Patent Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order No 8, 27 December 2008 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=5484>> (n 1) Art 11.

⁴ Ibid Art 60.

⁵ 《中华人民共和国民法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6595>> art 118; 134.

⁶ 《中华人民共和国民法总则》 [General Rules of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://Www.Chinalawtranslate.Com>> Art 120; 179.

provisions of the *GRCL* only prevail over those of the *GPCL*, where there is a conflict.⁷ Under Article 66 of the *Patent Law*, preliminary injunctions are also available.⁸

2.1.4 Refusal of injunction on public interest grounds

Injunctions in China must be granted by a court, but they are not subject to any equitable or other judicial discretion and can be claimed as a right on an infringement finding. However, it is already established that Chinese courts can grant damages in place of an injunction where this is demonstrated to be in the public interest. This is suggested by three findings of the Supreme People's Court ('SPC') made in 2009.

The first of these, the *Supreme People's Court Opinion on Several Issues Regarding the Implementation of the National Intellectual Property Strategy* ('*SPC IP Strategy Opinion*') was issued in March 2009.⁹ Article 8 of this *SPC IP Strategy Opinion* calls on Chinese courts to ensure that they 'carefully handle the relationship between protecting private rights and safeguarding the public interest'.¹⁰ The provision further exhorts lower courts to: duly define the limits of the IP rights; ensure that compliance is maintained with laws that protect the

⁷ 李建国 [Li Jianguo], '《关于《中华人民共和国民事诉讼法总则（草案）》的说明》' ['Regarding the General Rules of the Civil Law of the People's Republic of China (Draft)'] (Report Delivered to the 8th Meeting of the 12th National People's Congress, Beijing, 8 March 2017), <http://Www.Npc.Gov.Cn/Npc/Xinwen/2017-03/09/Content_2013899.Htm>.

⁸ Article 66 of the Patent Law also permits patent owners or other interested parties to seek a preliminary injunction, where they become aware that a party is committing or is about to commit a patent infringement. The article requires that unless checked in time, the infringement may cause irreparable damage to the applicant's lawful rights and interests. Applications for a preliminary infringement via a court order can be made before taking legal action. A court must act on this application within 48 hours of accepting the application and require the applicant to take legal action within 15 days of the court imposing the preliminary injunction and compensate the other party where the action was wrongly sought.

《中华人民共和国专利法》 [Patent Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order No 8, 27 December 2008 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=5484>> (n 1) art 66.

⁹ 最高人民法院关于贯彻实施国家知识产权战略若干问题的意见 ['Supreme People's Court Opinion on Several Issues Regarding the Implementation of the National Intellectual Property Strategy'] (People's Republic of China), Supreme People's Court, No 16, 23 March 2009 ('2009 National IP Strategy Opinion').

¹⁰ Ibid Art 8.

public interest; and a balance is maintained between private rights and public interests.¹¹ Meng Pu et al suggest that this *SPC IP Strategy Opinion* article has been widely relevant on the issue of permanent injunction determinations in China, particularly in terms of the claims of private rights versus public interests.¹² Pu et al also see its influence in the *Wuhan Jingyuan Environmental Engineering Co Ltd v Japan Fuji Chemical Industry Co Ltd and Huayang Electric Co Ltd* (*Jingyuan v Japan FKK*) decision that the SPC made late in that same year.¹³

The second public interest-related finding of the SPC in 2009, was its *Opinion on Certain Issues with Respect to Intellectual Property Judicial Adjudication Under the Current Economic Situation* ('SPC Economic Situation Opinion').¹⁴ Article 15 of this SPC opinion permits Chinese courts to order the payment of damages or other forms of compensation, if the granting of an injunction 'would significantly harm the interests of the parties concerned; or is contrary to the public interest; or would be impractical to enforce'.¹⁵

Finally, the third of these related decisions of the SPC in 2009 was the court's verdict in the *Jingyuan v Japan FKK* case.¹⁶ In the facts of the case, the patent owner, Jingyuan applied for

¹¹ Ibid.

¹² Meng Pu et al, 'Latest Developments in Application of Permanent Injunction as Remedy against Patent Infringement' [2010] (2) China Patents & Trademarks 9, 15.

¹³ Ibid.

¹⁴ Thomas F Cotter, *Comparative Patent Remedies: A Legal and Economic Analysis* (Oxford University Press, 2013) 349; 武汉晶源环境工程有限公司 v 日本富士化水工业株式会社和华阳电业有限公司 - 专利侵权案 [Wuhan Jingyuan Environmental Engineering Co Ltd v Japan Fuji Chemical Industry Co Ltd and Huayang Electric Co Ltd] [2009] 最高人民法院 [Supreme People's Court] 民三终字第 8 号 [(Civil appeal case No 8) (21 December 2009) 三、关于富士化水和华阳公司的民事责任承担问题] ('(3) On the issue of the civil liability of Japan FKK and Huayang') (*Jingyuan v Japan FKK and Huayang* (SPC), 21 December 2009).

¹⁵ Thomas F Cotter, *Comparative Patent Remedies: A Legal and Economic Analysis* (Oxford University Press, 2013) 350 ('Comparative Patent Remedies'); 2009 *Economic Situation Opinion* (n 14) Art 15.

¹⁶ 武汉晶源环境工程有限公司 v 日本富士化水工业株式会社和华阳电业有限公司 - 专利侵权案 [Wuhan Jingyuan Environmental Engineering Co Ltd v Japan Fuji Chemical Industry Co Ltd and Huayang Electric Co Ltd] [2009] 最高人民法院 [Supreme People's Court] 民三终字第 8 号 [(Civil appeal case No 8) (21 December 2009) (*Jingyuan v Japan FKK and Huayang* (SPC), 21 December 2009)]; Thomas F Cotter, *Comparative Patent Remedies: A Legal and Economic Analysis* (Oxford University Press, 2013), 349; Cotter refers to two

an injunction against Japan FKK's infringement of Jingyuan's patented method for desulfurizing gas flues or exhaust ducts used in industrial installations. By the time that Jingyuan applied for the injunction, Japan JKK's infringing equipment had already been installed in a power plant owned by Huayang.¹⁷

On appeal, the SPC supported the decision of the first instance court not to grant an injunction to Jingyuan as this would have required the decommissioning of the desulfurizing system at Huayang's plant.¹⁸ The first instance court stated that it had permitted the infringing equipment to remain in place and to alternatively award the payment of damages, as this better served local and national environmental, industrial, economic and social policy priorities.¹⁹ The SPC, in affirming the lower court's decision, specifically noted that, had it been granted, the injunction would have had a 'significant impact' on 'local public interests'.²⁰

Representing the first time that the SPC had refused an injunction on public interest grounds, Pu et al identify the *Jingyuan v Japan FKK* decision as one of 'landmark significance'.²¹ They also present it as conforming to a general principle in Chinese IP law and policy

other commentaries on the 2009 case that discuss it using different English titles: 'China Environmental Project Co Ltd v Fujikasui Engineering Co Ltd, Huayang Electric Power Co Ltd' and 'Wuhan Jingyuan v. Japanese Fuji'; Douglas Clark, Patent Litigation in China (Oxford University Press, First edition, 2011) 153ff; Meng Pu et al, 'Latest Developments in Application of Permanent Injunction as Remedy against Patent Infringement' [2010] (2) China Patents & Trademarks 9, 12ff; Ibid.

¹⁷ Cotter (n 15) 349.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Thomas F Cotter, Comparative Patent Remedies: A Legal and Economic Analysis (Oxford University Press, 2013) 349; 武汉晶源环境工程有限公司 v 日本富士化水工业株式会社和华阳电业有限公司 - 专利侵权案 [Wuhan Jingyuan Environmental Engineering Co Ltd v Japan Fuji Chemical Industry Co Ltd and Huayang Electric Co Ltd] [2009] 最高人民法院 [Supreme People's Court] 民三终字第 8 号 [(Civil appeal case No 8) (21 December 2009) 三、关于富士化水和华阳公司的民事责任承担问题 I'(3) On the issue of the civil liability of Japan FKK and Huayang'] ('Jingyuan v Japan FKK and Huayang (SPC), 21 December 2009').

²¹ Pu et al (n 12) 15.

advocating for ‘due treatment [to be given to the] protection of private rights and ... public interests’.²²

2.2 Standardisation Law

2.2.1 Standardisation law revisions

The *Standardization Law of the People's Republic of China* (‘*Standardization Law*’) was first implemented on 1 April 1989. Since that time, the legislation has been revised once, with the amended law coming into force on 1 January 2018.²³ Relevant subordinate regulation was issued in 1990 and 2014.²⁴

2.2.2 Definitions – General and National Standards

Article 2 of the *Standardization Law* defines a standard as ‘technical requirements that need to be unified’.²⁵ The law recognises that standards can occur in different sectors of the economy, including agriculture and industry.²⁶ The legislation recognises different types of standards – including: national standards, industry standards, local standards, group standards and enterprise standards.²⁷

²² Ibid.

²³ 中华人民共和国标准化法 [Standardisation Law](People’s Republic of China), National People’s Congress, First Implemented 1 January 1989.

²⁴ 中华人民共和国标准化法实施条例 [Regulations for the Implementation of the Standardization Law of the People’s Republic of China] (People’s Republic of China) State Council of the People’s Republic of China, State Council Decree No 53, 6 April 1990; 国家标准管理办法 [National Standards Management Measures] (People’s Republic of China) State Technical Supervision Bureau, 24 August 1990; 《国家标准涉及专利的管理规定(暂行)》 [Interim Measures on National Standards Involving Patents] (People’s Republic of China) Standardization Administration of China and the State Intellectual Property Office, 1 January 2014 <http://Www.Sipo.Gov.Cn/Zcfg/Flfg/Zl/Bmgfxwj/201401/T20140103_894910.Html>.

²⁵ 中华人民共和国标准化法 [Standardisation Law](People’s Republic of China), National People’s Congress, First Implemented 1 January 1989. (n 23) art 2.

²⁶ Ibid.

²⁷ Ibid.

National standards must be formulated for a range of technical requirements – including: commonly used technical terms and methods of examination and experimentation.²⁸ A national regime regulates their formulation, examination and approval and periodic review.²⁹

National standards can be mandatory or voluntary. Mandatory national standards apply to a range of consumables, quality and environmental standards and other materials. Among these are included: ‘important technical terms, symbols, codes and drafting methods’; ‘methods of experimentation and examination’; standards for conversion and coordination’.³⁰ National standards that are not mandatory, are voluntary national standards.³¹

²⁸ National standards are also required for technical requirements relating to: human health and personal and property safety; raw materials, fuels and processed materials; commonly used basic spare parts; commonly used management expertise; important technical requirements in project construction; and other important products that must be controlled by the State. 中华人民共和国标准化法实施条例 [Regulations for the Implementation of the Standardization Law of the People’s Republic of China] (People’s Republic of China) State Council of the People’s Republic of China, State Council Decree No 53, 6 April 1990 (n 24); 国家标准管理办法 [National Standards Management Measures] (People’s Republic of China) State Technical Supervision Bureau, 24 August 1990 (n 24) art 2(1) & (5); 中华人民共和国标准化法实施条例 [Regulations for the Implementation of the Standardization Law of the People’s Republic of China] (People’s Republic of China) State Council of the People’s Republic of China, State Council Decree No 53, 6 April 1990 (n 24) art 11 (2)-4); (6)-(8); 国家标准管理办法 [National Standards Management Measures] (People’s Republic of China) State Technical Supervision Bureau, 24 August 1990 (n 24) art 2(2)-4); (6)-(8).

²⁹ 国家标准管理办法 [National Standards Management Measures] (People’s Republic of China) State Technical Supervision Bureau, 24 August 1990 (n 24) art 15-22; *ibid* art 23-26; *ibid* art 27-30.

³⁰ 中华人民共和国标准化法 [Standardisation Law](People’s Republic of China), National People’s Congress, First Implemented 1 January 1989. (n 23) art 10; 中华人民共和国标准化法实施条例 [Regulations for the Implementation of the Standardization Law of the People’s Republic of China] (People’s Republic of China) State Council of the People’s Republic of China, State Council Decree No 53, 6 April 1990 (n 24) art 18.

³¹ 中华人民共和国标准化法 [Standardisation Law](People’s Republic of China), National People’s Congress, First Implemented 1 January 1989. (n 23) art 11; 中华人民共和国标准化法实施条例 [Regulations for the Implementation of the Standardization Law of the People’s Republic of China] (People’s Republic of China) State Council of the People’s Republic of China, State Council Decree No 53, 6 April 1990 (n 24) art 18.

2.2.3 Declaration of national standards

In late 2013, the Standardisation Administration of China ('SAC') and the State Intellectual Property Office ('SIPO') – at that time the national regulator of Chinese patents – jointly issued: *Interim Measures on National Standards Involving Patents* ('*National Standards Interim Measures*').³² In late 2018, SIPO was renamed the China National Intellectual Property Administration ('CNIPA').³³

Under Article 5 of the interim measures, all parties participating in the formulation or revision of a national standard must disclose the existence of any SEPs that they own or have knowledge of to the relevant standard-setting organisation ('SSO').³⁴ If a party fails to do so, they will be held to have violated the good faith principle and will incur the corresponding liabilities. The interim measures do not indicate what these liabilities entail.³⁵

Article 3 of the interim measures states that they apply both to registered patents and those subject to application.³⁶ Article 4 of the interim measures define SEPs as those patents required for the implementation of the standard.³⁷

The SAC must publish notice of a proposed national standard 30 days before approving the standard in which time SEP owners are to make their declarations.³⁸ SEP owners that are not

³² 《国家标准涉及专利的管理规定(暂行)》 [Interim Measures on National Standards Involving Patents] (People's Republic of China) Standardization Administration of China and the State Intellectual Property Office, 1 January 2014 <http://Www.Sipo.Gov.Cn/Zcfg/Flfg/Zl/Bmgfxwj/201401/T20140103_894910.Html> (n 24).

³³ European Patent Office, China: SIPO has been renamed to CNIPA, 28 August 2018, <<https://www.epo.org/searching-for-patents/helpful-resources/asian/asia-updates/2018/20180905.html>>

³⁴ 《国家标准涉及专利的管理规定(暂行)》 [Interim Measures on National Standards Involving Patents] (People's Republic of China) Standardization Administration of China and the State Intellectual Property Office, 1 January 2014 <http://Www.Sipo.Gov.Cn/Zcfg/Flfg/Zl/Bmgfxwj/201401/T20140103_894910.Html> (n 24) art 5.

³⁵ Ibid.

³⁶ Ibid art 3.

³⁷ Ibid art 4.

³⁸ Ibid art 8.

participants in the standardisation process are not under an obligation to disclose their holding of a SEP, however they are encouraged to do so.

The interim measures do not define under which circumstances a party will be treated as a participant. However, in 2010, the SAC issued draft provisions entitled, *Disposal rules for the inclusion of patents in national standards* ('Draft disposal rules') for public comment.³⁹ These provisions define 'a participant' in the standard-setting process to include individuals and organizations that: initiated the standardization process; are working group members of the relevant SSO; or have made a 'technical contribution.'⁴⁰ The draft disposal rules define a technical contribution as technical materials or technical advice officially submitted to the concerned working group in the relevant SSO.⁴¹

Article 9 of the Interim Measures requires that national standard SEP owners must commit to license their SEP either free of charge or subject to fair, reasonable and non-discriminatory ('FRAND') royalty rate.⁴²

Under Article 10 of the interim measures, if the SEP owner refuses to license its SEP on either of these terms and the relevant standard is a voluntary national standard, the specifications of the standard that relate to its patents will be removed from the standard.⁴³

Article 15 of the interim measures states that where the relevant standard is a mandatory national standard, the SAC, the SIPO and other relevant departments will enter into negotiations with the SEP owner refusing to license either free of charge or subject to FRAND terms.⁴⁴

³⁹ Skip Fisher, "China Issues New Rules on Patents in Domestic Standards" on Globe Business Media Group, Lexology (28 October 2014) <<https://www.lexology.com>>.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² 《国家标准涉及专利的管理规定(暂行)》 [Interim Measures on National Standards Involving Patents] (People's Republic of China) Standardization Administration of China and the State Intellectual Property Office, 1 January 2014 <http://www.sipo.gov.cn/zcfg/flfg/zl/bmgfxwj/201401/T20140103_894910.html> (n 24) art 9.

⁴³ Ibid art 10.

⁴⁴ Ibid art 15.

2.3 Competition Law

2.3.1 Abuse of Dominant Market Power through excessive pricing

As under other competition law jurisdictions, chapter three of the *Anti-Monopoly Law* ('AML') prohibits the abuse of dominant market power.⁴⁵

Article 17 of the legislation lists conduct that will qualify as abuse of this dominant market power.⁴⁶ Articles 18 and 19 respectively set out the factors for determining if a firm possesses dominant market power and what levels of market share will allow the assumption that a firm holds dominant market power.⁴⁷

Most of the conduct listed in Article 17 as abuses of dominant market power would be held as such in the majority of the world's competition law jurisdictions. These include, without a justifiable reason, a firm: refusing to trade with a party; requiring a party to trade exclusively with it or another party; or imposing unreasonable conditions on a trading party.⁴⁸ Pricing discrimination, in the form of applying dissimilar prices to trading parties with equal standing, is also prohibited under Article 17 of the AML.⁴⁹

In addition to the form of abusive conduct proscribed under Article 17 of the AML and discussed above, firms with dominant market power are also prohibited from selling commodities at an unfairly high price (不公平的高价), or buying them at an unfairly low price (不公平的低价).⁵⁰

⁴⁵ 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) arts 17-19.

⁴⁶ Ibid art 17.

⁴⁷ Ibid arts 18, 19.

⁴⁸ Ibid art 17(3); ibid art 17(4); ibid art 17(5).

⁴⁹ 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 45) art 17(6).

⁵⁰ Ibid art 17(1); ibid art 17(2).

Even in those jurisdictions where excessive pricing is a violation under the competition law, the prohibition has been rarely successfully applied.⁵¹

China has been recognised as an outlier in terms of the frequency with which it has applied this prohibition in the past.⁵²

A judicial application of the prohibition, discussed in section 2.1 of chapter five of this thesis, is the 2013 decision, *Huawei Technologies Co* ('Huawei') *v* *InterDigital Technology Corporation* ('IDC').⁵³ An administrative prosecution that included charges of excessive pricing, was the investigation of the SEP owner, Qualcomm Inc ('Qualcomm') by one of

⁵¹ An excessive pricing case before the South African Competition Tribunal will be only the third such case considered by the Tribunal since the passing of South Africa's Competition Act of 1998. Excessive cases in the European Union are also rare. Coleman, Martin, McHugh, Nick, Irvine, Heather, Gascon, Denis and Kruse, Layne E.,

"Excessive pricing: Will antitrust authorities intervene? Two new cases – from China and South Africa – show that competition authorities are prepared to intervene against 'excessive pricing'", Mondaq, 20 January 2014, <<http://www.mondaq.com/australia/x/289482/Cartels+Monopolies/Excessive+pricing+Will+antitrust+authorities+intervene+Two+new+cases+from+China+and+South+Africa+show+that+competition+authorities+are+prepared+to+intervene+against+excessive+pricing>>

⁵² Comparing the approaches that regulators in South Korea, Japan, China and the United States have taken in their prosecution of Qualcomm Inc ('Qualcomm'), Dae-Sik Hong observed that, unlike other countries, China's investigation of Qualcomm in 2015 and of other firms since that time, has focused on the exploitative effects of the conduct of firms with a dominant market position. Dae-Sik Hong, 'Regulating Abuse of SEPs in Mobile Communications Market: Reviewing 1st and 2nd Qualcomm Cases in Korea' in Ashish Bharadwaj, Vishwas H Devaiah and Indranath Gupta (eds), *Multi-Dimensional Approaches Towards New Technology* (Springer Singapore, 2018) 163, 179–180 <http://link.springer.com/10.1007/978-981-13-1232-8_9> ('Regulating Abuse of SEPs in Mobile Communications Market').

⁵³ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted version, on file with author); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province (People's Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013.

China's former three competition law regulators, the National Development Reform Commission ('NDRC').⁵⁴ This case is discussed below in Section 4.4.

2.3.2 Application of Competition Law to Intellectual Property Rights

Article 55 of the 2008 Anti-Monopoly Law

Article 55 of the AML is understood to impose liability on firms that abuse their IP rights, resulting in harm to market competition:

This Law does not govern firms' exploitation of their intellectual property rights in accordance with the laws and relevant administrative regulations on intellectual property rights; however, this law is applicable to firm conduct that abuses their intellectual property rights and eliminates or restricts market competition.⁵⁵

However, despite the inclusion of this provision in the AML when it first came into force in 2008, only the 2015 provisions set out immediately below have been implemented under their authority. As discussed in section 4.2.2 of chapter five of this thesis, the original three regulators of the AML sought to draft a common set of enforcement guidelines over several years to counter IP owners' abuse of their rights.⁵⁶ However, a finalized version of these guidelines were never completed.

2015 Provisions against Anti-competitive Abuse of Intellectual Property Rights

In 2015, one of the original three administrative regulators of the AML, the State Administration for Industry and Commerce ('SAIC') issued its *Provisions on prohibiting the*

⁵⁴ 国家发展改革委员会 [National Development and Reform Commission], '《国家发展改革委对高通公司垄断行为责令整改并罚款 60 亿元》' [National Development and Reform Commission Orders Qualcomm to Rectify Anti-Competitive Activities and Imposes 6 Billion Yuan Fine] (Media Release, 10 February 2015) <http://Www.Ndrc.Gov.Cn/Xwzx/Xwfb/201502/T20150210_663822.Html>' ('NDRC Media Release (10 February 2015)').

⁵⁵ 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 45) art 55.

⁵⁶ Section 4.2.2 of chapter five.

abuse of Intellectual Property Rights to Preclude or Restrict Competition ('2015 Anti-IP Abuse Provisions').⁵⁷

As noted above, these provisions are the only substantive regulations known to have been issued under the authority of Article 55 of the AML.⁵⁸ The only other anti-IP abuse regulation enacted under the AML is a single provision included in Article 48(2) of the *Patent Law*. As discussed in section 4.2.2 of chapter five of this thesis, this patent law provision prohibits patent owners from exercising their patent rights to eliminate or reduce market competition.⁵⁹

Despite its rarity, on the face of the regulation, the 2015 SAIC provisions would seem to have a significant impact on the rights of SEP owners in China. Article 7 of the 2015 Anti-IP Abuse Provisions prohibits firms, without justifiable reasons, from refusing to license IP 'which is an essential facility for production and operations' to other firms.⁶⁰ However, this prohibition is subject to certain conditions.

The first of these conditions is that the relevant IP 'cannot be reasonably substituted' and that this IP is an essential facility for other firms, other than the party seeking to use the IP, that are likewise competing in the relevant market.⁶¹ The second condition is that the refusal to license the relevant IP must be shown to adversely affect competition or innovation in the

⁵⁷ 关于禁止滥用知识产权排除、限制竞争行为的规定 [*Provisions on Prohibiting the Abuse of Intellectual Property Rights to Preclude or Restrict Competition*] (People's Republic of China), State Administration of Industry and Commerce, Decree No 74, 1 August 2015 2015.

⁵⁸ 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 45) art 55.

⁵⁹ 《中华人民共和国专利法》 [Patent Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order No 8, 27 December 2008 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=5484>> (n 1) art 48(2).

⁶⁰ 关于禁止滥用知识产权排除、限制竞争行为的规定 [*Provisions on Prohibiting the Abuse of Intellectual Property Rights to Preclude or Restrict Competition*] (People's Republic of China), State Administration of Industry and Commerce, Decree No 74, 1 August 2015 (n 57) art 7.

⁶¹ Ibid art 7(1).

relevant markets and therefore damage the interests of consumers and the general public.⁶² Thirdly and finally, it must be established that the licensing of the IP will not result in any unreasonable damage to the IP owner.⁶³

Despite the inclusion of the above conditions, what is unique about Article 7 of the Anti-IP Abuse Provisions is what it excludes. What is missing from the SAIC provision is any reference to the relevant SEP being subject to a FRAND commitment. Therefore, regardless of whether a SEP owner had made such a declaration, the SAIC provisions proposed that it would be obliged to license its technology, subject to the above conditions.⁶⁴

2.4 Other relevant provisions

It should be noted that at least two other regulations are important to the discussion in this thesis of the regulation of SEP owners' injunction rights in China. These include: the 1986 *General Principles of the Civil Law* and the 2017 *General Rules of the Civil Law*.

These regulations are discussed in section 4.2.1 of chapter five, beginning in section 4.2.1, as they are particularly relevant to the proposed regulatory model for Chinese courts to determine injunction applications involving SEPs discussed therein.

3 Regulatory Institutions

3.1 Judicial courts and judiciary

3.1.1 Judicial courts

Due to its focus on the regulation of SEPs in China, this discussion of the China's judicial system will be restricted to the judicial institutions and official personnel directly involved in civil and administrative law proceedings pertaining to this subject matter.⁶⁵

⁶² Ibid art 7(2).

⁶³ Ibid art 7(3).

⁶⁴ Another of the SAIC regulations, Article 13 of the 2015 Anti-IP Abuse Provisions, does refer to the FRAND commitments of SEP owners, but only marginally. Article 13 prohibits firms from eliminating or excluding competition in the course of the formulation or the implementation of a standard. Ibid art 13.

⁶⁵ In China, the judicial system ('司法系统' or '司法体制') can refer to the People's Courts, the People's Procuratorate, as well as the police and justice department agencies under the Ministry of Public Security (公安部) and the Ministry of Justice 司法部). Yifan Wang, Sarah Biddulph and Andrew Godwin, Introduction to the

The *Civil Procedure Law* and *Administrative Litigation Law* respectively govern proceedings under the civil law and administrative law jurisdictions.⁶⁶

Supreme People's Court

The SPC is the highest judicial body in China and its final court of appeal.⁶⁷

The original jurisdiction of the SPC in civil matters includes first instance over the following matters: (1) that have a major impact on the whole country; and (2) that the SPC deems it should hear.⁶⁸ The SPC's original administrative jurisdiction extends to grave and complicated administrative cases affecting the whole country.⁶⁹

Chinese Judicial System and Court Hierarchy (Briefing Paper No 6, Asian Law Centre, University of Melbourne, 2017) 5 ('Introduction to the Chinese Judicial System and Court Hierarchy').

⁶⁶ 《中华人民共和国民事诉讼法》[Civil Procedure Law of the People's Republic of China] (People's Republic of China), National People's Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans); 《中华人民共和国行政诉讼法》[Administrative Litigation Law of the People's Republic of China] (People's Republic of China) Standing Committee of the National People's Congress, Adopted at the 2nd Session of the 7th National People's Congress on 4 April 1989; Last Amended 1 November 2014 and Implemented 1 May 2015.

⁶⁷ 《中华人民共和国宪法》[Constitution of the People's Republic of China] (People's Republic of China) National People's Congress, 4 December 1982 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6634>> art 127; 《中华人民共和国法院组织法》[Organic Law of the People's Courts of the People's Republic of China] (People's Republic of China) National People's Congress (People's Republic of China) Adopted by the Second Session of the 5th National People's Congress on 1 July 1979; Last Amended on 26 October 2018; Implemented on 1 January 2019 <http://Www.Gov.Cn/Xinwen/2018-10/27/Content_5334895.Htm> art 29.

⁶⁸ 《中华人民共和国民事诉讼法》[Civil Procedure Law of the People's Republic of China] (People's Republic of China), National People's Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) (n 66) art 20.

⁶⁹ Note that the meaning of 'major impact', 'major' and 'grave and complicated' are not defined under Chinese procedure laws. 《中华人民共和国行政诉讼法》[Administrative Litigation Law of the People's Republic of China] (People's Republic of China) Standing Committee of the National People's Congress, Adopted at the 2nd Session of the 7th National People's Congress on 4 April 1989; Last Amended 1 November 2014 and Implemented 1 May 2015 (n 66) art 17.

The appellate jurisdiction of the SPC includes as the second instance review court for cases commenced at Higher People's Court ('HPC') level or in special courts.⁷⁰

The SPC also has a quasi-legislative function to enact judicial interpretations (司法解释).

SPC judicial interpretations determine the meaning and correct application of laws and regulations for all lower courts, on which they are binding.⁷¹ The SPC also issues

guiding cases (指导性案例或案例指导). Based on either a SPC or lower court judgment, guiding cases are intended to demonstrate a correct and effective application of law to which the SPC may add a short summary and commentary. Guiding cases are intended 'to unify the criteria for applying law'.⁷²

Higher People's Courts

The highest level of local courts, the original jurisdiction of HPCs cover all civil cases that have a 'major impact' within their area of jurisdiction.⁷³ The meaning of 'major impact' is not defined in law, however a SPC judicial interpretation specifies a monetary value for matters to be considered to be of 'major impact'.⁷⁴ Nonetheless, this amount is only intended

⁷⁰ 《中华人民共和国法院组织法》 [Organic Law of the People's Courts of the People's Republic of China] (People's Republic of China) National People's Congress (People's Republic of China) Adopted by the Second Session of the 5th National People's Congress on 1 July 1979; Last Amended on 26 October 2018; Implemented on 1 January 2019 <http://Www.Gov.Cn/Xinwen/2018-10/27/Content_5334895.Htm> (n 67) art 31(2).

⁷¹ 《最高人民法院发布关于司法解释工作的规定》 [Provisions of Supreme People's Court on the Judicial Interpretation Work] (People's Republic of China) Supreme People's Court, 23 March 2007 art 5.

⁷² 《〈最高人民法院关于案例指导工作的规定〉实施细则》 [Detailed Implementing Rules on the Provisions of the Supreme People's Court Concerning Work on Case Guidance] (People's Republic of China) Adjudication Committee of the Supreme People's Court (13 May 2015, China Guiding Cases Project, Stanford University Trans) <<http://Cgc.Law.Stanford.Edu/Guiding,Cases,Rules/20150513,English/>> art 1.

⁷³ 《中华人民共和国民事诉讼法》 [Civil Procedure Law of the People's Republic of China] (People's Republic of China), National People's Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) (n 66) art 19.

⁷⁴ 《最高人民法院关于调整高级人民法院和中级人民法院管辖第一审民商事案件标准的通知》 [Notice of the Supreme People's Court on Adjusting the Standards Applicable to the Jurisdictions of High People's Courts and Intermediate People's Courts over First-Instance Civil and Commercial Cases] (People's Republic of China) Supreme People's Court, 30 April 2015 art 1.

as guidance.

The administrative law original jurisdictions of HPCs include all ‘grave’ and ‘complicated’ cases within their territorial jurisdiction.⁷⁵

The appellate jurisdiction of the HPCs extends to the first instance decisions of all Intermediate People’s Courts (‘IPCs’) within its territorial jurisdiction.⁷⁶

Intermediate People’s Courts

IPCs are established at the second administrative or prefectural level.

The original civil law jurisdiction of IPCs includes: (1) major cases involving a foreign element; (2) cases that have a major impact on the area at a prefectural level; and (3) cases determined by the SPC to be under the jurisdiction of the IPC.⁷⁷

The original administrative law jurisdiction of IPCs include: (1) cases against departments under the State Council or governments at or above county level; (2) cases handled by Customs; and (3) grave and complicated cases in the prefecture level areas.⁷⁸

The appellate jurisdictions of IPCs includes all second instance hearings from BPC decisions.

⁷⁵ 《中华人民共和国行政诉讼法》 [Administrative Litigation Law of the People’s Republic of China] (People’s Republic of China) Standing Committee of the National People’s Congress, Adopted at the 2nd Session of the 7th National People’s Congress on 4 April 1989; Last Amended 1 November 2014 and Implemented 1 May 2015 (n 66) art 16.

⁷⁶ 《中华人民共和国民事诉讼法》 [Civil Procedure Law of the People’s Republic of China] (People’s Republic of China), National People’s Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) (n 66) art 2.

⁷⁷ Ibid art 18.

⁷⁸ 《中华人民共和国行政诉讼法》 [Administrative Litigation Law of the People’s Republic of China] (People’s Republic of China) Standing Committee of the National People’s Congress, Adopted at the 2nd Session of the 7th National People’s Congress on 4 April 1989; Last Amended 1 November 2014 and Implemented 1 May 2015 (n 66) art 15.

Basic People's Courts

BPCs are established at the third administrative or county or district level.

The original jurisdiction of BPCs is general, unless otherwise provided by the relevant civil or administrative laws and regulations.⁷⁹

3.1.2 Judiciary

The judicial personnel within a people's court consists of a president (院长), vice-presidents (副院长), chief judges of divisions (庭长), deputy chief judges of divisions (副庭长), and judges (审判员).⁸⁰ The president of the SPC is commonly referred to as the Chief Justice (首席大法官) and other judges as Justices (大法官). The President of the High People's Court is commonly referred to as Justice or Senior Judge (高级法官).⁸¹

By law, the Presidents of the people's courts are elected and removed by the local people's congresses. In practice, however, this occurs on the recommendation of the local Party Organisation department. Vice-presidents, chief judges of divisions, associate chief judges of divisions, and judges are appointed by the standing committees of the local people's congresses.⁸²

⁷⁹ Ibid art 14; 《中华人民共和国民事诉讼法》[Civil Procedure Law of the People's Republic of China] (People's Republic of China), National People's Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) (n 66) art 17.

⁸⁰ 《中华人民共和国法院组织法》[Organic Law of the People's Courts of the People's Republic of China] (People's Republic of China) National People's Congress (People's Republic of China) Adopted by the Second Session of the 5th National People's Congress on 1 July 1979; Last Amended on 26 October 2018; Implemented on 1 January 2019 <http://Www.Gov.Cn/Xinwen/2018-10/27/Content_5334895.Htm> (n 67) art 18, 23, 26 and 30; Wang, Biddulph and Godwin (n 65) 18.

⁸¹ Wang, Biddulph and Godwin (n 65) 18.

⁸² 《中华人民共和国法院组织法》[Organic Law of the People's Courts of the People's Republic of China] (People's Republic of China) National People's Congress (People's Republic of China) Adopted by the Second Session of the 5th National People's Congress on 1 July 1979; Last Amended on 26 October 2018; Implemented on 1 January 2019 <http://Www.Gov.Cn/Xinwen/2018-10/27/Content_5334895.Htm> (n 67) art 34; Wang, Biddulph and Godwin (n 65) 19–20.

3.1.3 Judicial Reforms

At the 2013 Third Plenary Session of the 18th Central Committee of the CCP, it was recognised that the lack of judicial independence and the low status of Chinese courts and judges was undermining efforts to establish a version of the rule of law in China.⁸³

Over the following two years, reforms were piloted with the intention of improving judicial fairness and efficiency. In early 2016, the SPC published an account of the judicial reforms that it had so far undertaken with the assistance of other central government authorities.⁸⁴

⁸³ 《中共中央关于全面深化改革若干重大问题的决定》 [Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform (People's Republic of China) Communist Party of China, Third Plenary Session of the 18th Central Committee, 12 November 2013 <http://Www.China.Org.Cn/China/Third_plenary_session/2014-01/16/Content_31212602.Htm>.

⁸⁴ 最高人民法院 [Supreme People's Court], 《中国法院的司法改革》 [*Judicial reform of Chinese courts*] (人民法院出版社 [People's Court Publishing House], 2016).

Judiciary participation in judicial selection panels

Since 2015, this has included initiating regional pilot programs with the aim of ‘[i]mproving [the] professionalism of court personnel’.⁸⁵ Whereas Chinese judges have previously been selected by officials, with political input from CCP members, these programs propose to set up selection committees that included senior judges, as well as ‘other social members’ at the provincial level.⁸⁶ However, while this new process would see senior judges directly choosing junior judges to progress to higher courts based on their professional achievements, it is understood that the original pool of candidates would still be selected based on their political credentials.⁸⁷

Recruitment of lawyer and academic expertise and increased resources

For the first time in 2014, the recruitment of judges was open to qualified lawyers and legal experts.⁸⁸ Previously, only candidates that had trained as judges could be considered for judicial appointments. This reform was expected to increase the experience and expertise of China’s judiciary.⁸⁹

Chinese judges were also to be provided additional trial support and administrative staffing.⁹⁰ The pilot plans were also to establish a separate salary system for judges and to increase their remuneration in line with their professional qualifications and responsibilities.⁹¹ Prior to the reforms, Chinese judges had been classed as regular government officials.

Elevation to provincial administration and limiting of oversight

Other structural reforms were also to be piloted. These included the transfer of the management of local Chinese courts from the adjacent city and county administrations up to the provincial government level. Local courts were also to be directly funded by provincial

⁸⁵ Ibid 93.

⁸⁶ Ibid 94.

⁸⁷ ‘Interviews with Chinese Lawyers and Serving and Retired Judges (Guangzhou 2015-2016)’.

⁸⁸ 最高人民法院 [Supreme People’s Court] (n 84) 94.

⁸⁹ Ibid.

⁹⁰ Ibid 94–5.

⁹¹ Ibid 96–7.

governments, rather than these city and county administrations. In both cases, this was an attempt to halt the influence of local protectionism on Chinese courts at this lower level.

The reforms also proposed to intervene in the internal workings of the courts. Previously, court presidents and other senior judges had an oversight authority in regard to cases decided by more junior judges in their district. Yet, the 2014 reforms determined that senior judges were to ‘no longer approve, verify, sign or issue the judgment for case that they have not directly participated in.’⁹²

Ratchetting up of judicial accountability

Thus, these reform measures had the effect of inviting greater expertise into Chinese courts, increased their productivity and removing some of the previous restraints on judicial autonomy. Nevertheless, in an apparently co-ordinated action, Chinese policy makers also implemented new rules that ratcheted up of the liability of Chinese judges for any “erroneous” decisions that they might subsequently make.

The 2015 SPC *Opinion on Perfecting the Judicial Accountability System of People’s Courts* (‘SPC Judicial Accountability Opinion’), holds individual judges liable for any errors that they make in performing their adjudicative duties.⁹³

Article 25 of the Opinion states that a judge who ‘intentionally violates the laws during adjudicative procedure’ or produces an ‘erroneous ruling by gross negligence that causes serious consequences’ will be held liable for ‘illegal adjudication’.⁹⁴ This same provision states that this responsibility that judges bear for the quality of their decisions is life-long (终身负责) and enforceable against them post-retirement or after a change of profession.⁹⁵

⁹² Ibid 71.

⁹³ 《关于完善人民法院司法责任制的若干意见》 [Opinion on Perfecting the Judicial Accountability System of People’s Courts](People’s Republic of China) Supreme People’s Court, Issue (2015) No 13, 16 September 2015 (‘SPC Judicial Accountability Opinion’).

⁹⁴ Ibid art 25.

⁹⁵ Ibid.

The activities subject to judicial accountability include those involving obvious criminality such as the taking of bribes, practising favouritism and making false statements.⁹⁶ However, culpability also extends to more broadly described activities, including ‘adjudicat[ing] in violation of the law’ and ‘handl[ing] a case without permission and in violation of regulation’ and ‘mak[ing] a case a sham’.⁹⁷

Finally, a general “catch-all” clause included in the 2015 *SPC Judicial Accountability Opinion* will impose life-long liability on a Chinese judge that:

[o]therwise purposefully and wrongfully adjudicates in violation of legal procedure, rules of evidence, or clear provisions of the law, or otherwise with gross negligence, causes an erroneous adjudication and serious consequences to follow.⁹⁸

3.2 Intellectual Property Courts

3.2.1 Regional Specialist IP courts

The prelude to the establishment of specialist IP courts in China was relatively brief.⁹⁹ At the 18th Congress of the Communist Party of China (‘CCP’) in 2012, it was recognised that further measures were required to protect the IP rights of the innovative industries that were emerging out of China’s 2008 *National Intellectual Property Strategy*.¹⁰⁰

⁹⁶ Ibid art 26(1).

⁹⁷ Ibid; ibid art 26(2).

⁹⁸ *SPC Judicial Accountability Opinion* (n 93) art 26(7).

⁹⁹ Note that prior to the institution of the specialist intellectual property courts in 2014, China already had specialized intellectual property (‘IP’) tribunals in the form of IP divisions of its intermediate and higher people’s courts. The first of these specialised IP tribunals, Beijing’s No.1 Intermediate People’s Court (‘IPC’) was established in 1993. As of the end of 2012, 420 IP divisions had been set up in basic people’s courts (‘BPC’), IPC and higher people’s courts nationwide. BPC IP tribunals have been established in Beijing, Shenzhen and Shanghai to service those high tech city centres. Mark Cohen, ‘Specialized IP Courts and China’s Quest to Become an Innovative Economy’, Asia Dialogue (3 December 2014) <<https://theasiadialogue.com/2014/12/03/specialized-ip-courts-and-chinas-quest-to-become-an-innovative-economy/>>.

¹⁰⁰ 国家知识产权战略纲要的通知 [Notice of the Outline of the National Intellectual Property Strategy] (People’s Republic of China) State Council, Issue [2008] No. 18, 11 June 2008.

In 2013, a proposal was developed for three regional IP courts in Beijing, Shanghai and Guangzhou and included in the decision of the Third Plenary Congress of the 18th Central Committee of the CCP as a commitment:

to strengthen IP application and protection and explore ways to set up IP court[s].¹⁰¹

The following year, the 2014 *Decision of the Standing Committee of the National People's Congress on the Establishment of Intellectual Property Courts in Beijing, Shanghai and Guangzhou* ('NPC Regional Specialist IP Courts Decision') was passed.¹⁰²

The NPC decision states that the regional specialist IP courts are to have jurisdiction in the first instance over IP civil and administrative cases involving patents, new plant varieties, integrated circuit layout designs, and technical secrets ('technology cases') (See the red arrowed line in the upper 'Infringement' bracket in Figure 1 in this chapter).¹⁰³

The SPC *Provisions on the Jurisdiction of the Beijing, Shanghai and Guangzhou Intellectual Property Courts* ('SPC Regional Specialist IP Courts Provisions') further adds to this jurisdiction the responsibility for cases involving computer software.¹⁰⁴ The SPC provisions further grant the specialist IP courts the ability to hear second instance appeal cases on a general array of IP disputes – including copyright, trademarks and unfair competition, as well

¹⁰¹ III ('Modern market system'), 13 ('Deepen science and technology system reform'). 《中共中央关于全面深化改革若干重大问题的决定》 [Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform (People's Republic of China) Communist Party of China, Third Plenary Session of the 18th Central Committee, 12 November 2013 <http://Www.China.Org.Cn/China/Third_plenary_session/2014-01/16/Content_31212602.Htm> (n 83).

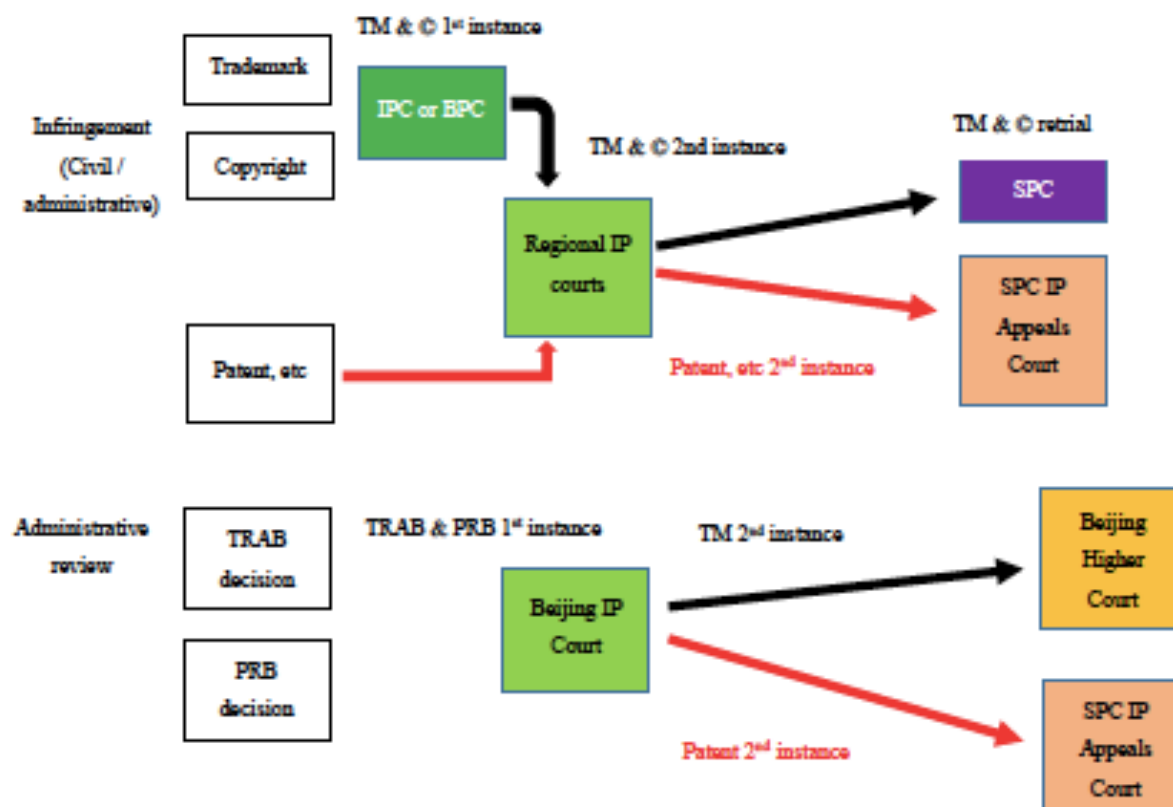
¹⁰² 全国人大常委会关于在北上广三地设立知识产权法院的决定 [Decision of the Standing Committee of the National People's Congress on the Establishment of Intellectual Property Courts in Beijing, Shanghai and Guangzhou] (People's Republic of China), Adopted at the 10th Meeting of the Standing Committee of the 12th National People's Congress on 31 August 2014.

¹⁰³ Ibid art 2.

¹⁰⁴ 《最高人民法院关于北京、上海、广州知识产权法院案件管辖的规定》 [Provisions on the Jurisdiction of the Beijing, Shanghai and Guangzhou Intellectual Property Courts] (People's Republic of China) Supreme People's Court, Issue [2014] No 12, 3 November 2014 3, art 1.

as jurisdiction over cases involving well-known trademarks (see the black arrowed line in the upper ‘Infringement’ bracket in Figure 1).¹⁰⁵

FIGURE 1: SPECIALIST IP REGIONAL COURTS & NATIONAL TRIBUNAL¹⁰⁶



The SPC Provisions further establish that the Beijing IP Court is to have exclusive first instance jurisdiction over appeals from the administrative decisions of the Trademark Review and Adjudication Board (‘TRAB’) and Patent Re-examination Board (‘PRB’) (see the lower ‘Administrative lawsuit’ bracket in Figure 1).¹⁰⁷

¹⁰⁵ Ibid art 1(2); ibid art 1(3).

¹⁰⁶ The original version of this chart appears in: Eugene Low, Kevin Xu and Stefaan Meuwissen, ‘China: New National-Level Appeal Court – Improved Consistency and Efficiency in High-Tech IP Cases’ (9 November 2018) Hogan Lovells: Engage <<https://www.engage.hoganlovells.com/knowledgeservices/news/china-new-national-level-appealcourt-cautious-hopes-for-improved-consistency-and-efficiency-in-high-tech-ip-patent-cases>>.

¹⁰⁷ 《最高人民法院关于北京、上海、广州知识产权法院案件管辖的规定》 [Provisions on the Jurisdiction of the Beijing, Shanghai and Guangzhou Intellectual Property Courts] (People’s Republic of China) Supreme People’s Court, Issue [2014] No 12, 3 November 2014 (n 104) art 5.

Regular commentator on IP law in China, Mark Cohen has suggested that references to the specialist IP courts as such, are ‘a bit of a misnomer’.¹⁰⁸ Cohen notes that the ‘lion’s share’ of the IP litigation in China concerns trademark and copyright and yet these actions have been left out of the IP courts’ first instance jurisdiction.¹⁰⁹ As noted above, these actions would only reach a regional specialist IP court on a second instance appeal, after being initiated in a district BPC or IPC (see the black arrowed line in the upper ‘Infringement’ bracket in Figure 1).

Cohen observes that the selection of issues for the regional IP courts’ jurisdiction is not a question of legal or technical complexity, as certain non-patent cases, for example, those involving online copyright, ‘can be quite technically complicated’.¹¹⁰ Instead, Cohen argues:

these courts are not comprehensive IP courts but are targeted at China’s innovative sectors — as China understands them.¹¹¹

Yet, despite Cohen’s concerns about this segmenting of China’s IP jurisdiction between high priority ‘technology’ cases and lower priority trademark and copyright cases, as the Figure 1 demonstrates, the latter will reach a regional IP court in the second instance. However, in most cases, this regional IP court is likely to be the last court of appeal.

To further appeal a decision at the regional IP court level, these litigants in a trademark or copyright case would need to be granted a re-trial.¹¹² Chinese court actions are usually limited to a second instance hearing, with retrials being much less common. Also, as distinct from an appeal process, the execution of the second instance judgment will not be suspended during the retrial application process.¹¹³ Thus, an alleged trademark or copyright violation

¹⁰⁸ Mark Cohen, ‘Update on Specialized IP Courts’, China IPR - Intellectual Property Developments in China (31 October 2014) <<https://chinaipr.com/category/specialized-ip-courts/page/3/>>.

¹⁰⁹ Ibid.

¹¹⁰ Cohen (n 99).

¹¹¹ Cohen (n 108).

¹¹² 《中华人民共和国民事诉讼法》 [Civil Procedure Law of the People’s Republic of China] (People’s Republic of China), National People’s Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) (n 66) art 199; 200.

¹¹³ Ibid art 199.

can continue any certainty of a future challenge the decision of a court at the relatively junior level of an IPC.

In contrast, as discussed in the section below, litigants in a ‘technology case’ can not only initiate their action in a regional IP court, but readily seek a second instance hearing at the senior level of a SPC appeal court.

3.2.2 Appellate Intellectual Property Court of the Supreme People’s Court

In late 2018, the Standing Committee of the NPC issued a decision authorising the establishment of a new division of the SPC, to be referred to as the Intellectual Property Court of Appeal at the Supreme People’s Court (最高人民法院知识产权法庭) (‘SPC IP Appeal Court’).¹¹⁴

The preamble to the NPC decision explains that the purpose of the new court is:

[t]o unify the adjudication standards for intellectual property cases, further strengthen the judicial protection for intellectual property, optimize the rule-of-law environment for technological innovation, and accelerate the implement of the innovation-driven development strategy...¹¹⁵

To achieve this, the SPC IP Appeal Court acts as the second instance court for cases involving patents, new plant varieties, integrated circuit layout designs and technical secrets for:

- civil and administrative decisions of the regional specialist IP courts;¹¹⁶ and

¹¹⁴ 全国人民代表大会常务委员会关于 专利等知识产权案件诉讼程序 若干问题的决定 [Decision of the Standing Committee of the National People’s Congress on Several Issues Concerning the Litigation Procedures in Patents and Other Intellectual Property Cases] (People’s Republic of China) Adopted at the 6th Meeting of the Standing Committee of the 13th National People’s Congress on 26 October 2018.

¹¹⁵ Ibid Preamble.

¹¹⁶ Not shown in Figure 1, the Intellectual Property Court of Appeal at the Supreme People’s Court (‘SPC IP Appeal Court’) is also the second instance court for all decisions in the regional specialist intellectual property courts relating to the *Anti-Monopoly Law* (‘AML’). In addition, the SPC IP Appeal Court serves as the second instance and retrial courts for Higher People’s Courts and Intermediate People’s Courts respectively on cases relating to invention patents, utility model patents, new plant varieties, integrated circuit layout designs, technical secrets, computer software and the AML 《最高人民法院关于知识产权法庭若干问题的规定》

- judicial review decisions of the regional IP courts on the administrative rulings of government departments (see the pink boxes in both brackets in Figure 1).¹¹⁷

In addition, the SPC IP Appeal Court has the jurisdiction, at its discretion, to hear in the first instance complicated IP cases of nationwide concern.¹¹⁸

The below contrast of aspirations suggests how differently English language commentators and the Chinese government see the role of the SPC IP Appeal Court.

In his 2011 publication, *Patent Litigation in China*, lawyer Douglas Clark campaigned for a national IP appellate court for China for the legal developments and greater conformity with international norms that such an initiative might bring:

By its very definition, the existence of a uniform court of appeal will lead to the decline of local protectionism, and Chinese patent law jurisprudence will improve dramatically...[T]he establishment of a court of appeals is a game changer that will bring Chinese patent law up to international standards in a very short period of time.¹¹⁹

Expressing a subtle difference in view, following the 2018 announcement of the establishment of the SPC IP Appeal Court, the SPC president, Zhou Qiang presented the new court as a means to engineer greater consistency and efficiency in judicial outcomes, as well as to otherwise spur on technological development:

[Provisions of the Supreme People's Court on Several Issues Concerning the Intellectual Property Court of Appeal at the Supreme People's Court] (People's Republic of China) Supreme People's Court, Interpretation No. 22 [2018], 1 January 2019 art 2(1) & (2).

¹¹⁷ Not shown in Figure 1, the Intellectual Property Court of Appeal at the Supreme People's Court is also the second instance court for the judicial review of decisions of Intermediate People's Courts and Higher People's Courts on the administrative rulings of government departments in cases relating to invention patents, utility model patents, new plant varieties, integrated circuit layout designs, technical secrets, computer software and the *Anti-Monopoly Law*. Ibid art 2(3).

¹¹⁸ 全国人民代表大会常务委员会关于 专利等知识产权案件诉讼程序 若干问题的决定 [Decision of the Standing Committee of the National People's Congress on Several Issues Concerning the Litigation Procedures in Patents and Other Intellectual Property Cases] (People's Republic of China) Adopted at the 6th Meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018 (n 114) art 2(4).

¹¹⁹ Clark (n 16) 161.

Due to the complexity of IPR cases and expertise needed for their trials, a national appeal court will help prevent inconsistency of legal application and improve the quality and efficiency of trials ... A national IPR appeal court will also help nurture a favorable legal environment for technological innovation and a better business environment for domestic and international enterprises.¹²⁰

4 Past Regulatory Initiatives

4.1 2008 *Chaoyang Xinguo* case letter

In 2008, the SPC issued a letter of advice to the Liaoning HPC on the infringing of SEPs included in standards.¹²¹ Specifically, the Liaoning HPC had asked whether a party that had implemented a standard ('standard implementer') before having licensed a SEP included in that standard, should be held to have infringed the relevant SEP.¹²²

In its response, the SPC stated that, because Chinese SSOs were yet to establish rules on the disclosure of SEPs and other related information, it took the view that:

[I]f a patent owner has participated in the setting a standard or has agreed to contribute its patent to a national, industry or local standard, it shall be

¹²⁰ 'China Considers Handing Supreme Court Complex IPR Appeals', Xinhua News Agency (online at 22 October 2018) <http://www.xinhuanet.com/english/2018-10/22/c_137550642.htm>.

¹²¹ 最高人民法院关于朝阳兴诺公司按照建设部颁发的行业标准《复合载体夯扩桩设计规程》设计、施工而实施标准中专利的行为是否构成侵犯专利权问题的函 [Letter of the Supreme People's Court on the Issue of Whether the Use by Chaoyang Xinguo Company of a Patent Included in an Ministry of Construction-Issued Industry Standard for the Design of Ram-Compaction Piles with a Composite Bearing Base Constituted a Patent Infringement] (People's Republic of China) Supreme People's Court, No 4, 7 August 2008.

¹²² 《关于季强、刘辉与朝阳市兴诺建筑工程有限公司专利侵权纠纷一案的请示》 [Ji Qiang and Liu Hui v Chaoyang Xingnuo Building Construction Co Ltd – A Patent Infringement Dispute] (辽宁省高级人民法院 [Higher People's Court of Liaoning Province], 辽民四知终字第 126 号 [Intellectual Property Appeal No 126]).

deemed that the [SEP owner] has permitted [standard implementers] to use its patent ...¹²³

Therefore, the SPC concluded, a standard implementer's use of a SEP should not constitute a patent infringement under Article 11 of China's *Patent Law*.¹²⁴

Additionally, the SPC recognised that a SEP owner could require a standard implementer to pay a royalty for its use. However, the court stated that this royalty be 'less than the normal royalty'.¹²⁵

As only a letter (函), this advice to the Liaoning HPC was not binding on lower Chinese courts. Therefore, the SPC included similar text in the first circulated draft of what would become *Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (I)*.¹²⁶ However, controversy over how the text transposing the 2008 letter treated the rights of SEP owners, led to it being omitted from the final version of the *SPC Patent Law Interpretation I*, as issued in 2010.¹²⁷

¹²³ 最高人民法院关于朝阳兴诺公司按照建设部颁发的行业标准《复合载体夯扩桩设计规程》设计、施工而实施标准中专利的行为是否构成侵犯专利权问题的函 [Letter of the Supreme People's Court on the Issue of Whether the Use by Chaoyang Xinguo Company of a Patent Included in an Ministry of Construction-Issued Industry Standard for the Design of Ram-Compaction Piles with a Composite Bearing Base Constituted a Patent Infringement] (People's Republic of China) Supreme People's Court, No 4, 7 August 2008 (n 121).

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（一）》 [Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (I)], (People's Republic of China) Judicial Committee of the Supreme People's Court, Effective 1 January 2010 [Douglas Clarke Trans] <<https://Wipolex.Wipo.Int/Zh/Text/199510>>; Clark (n 16) 12.13.3.

¹²⁷ Clark (n 16) 14.5.15; H Stephen Harris (ed), *Anti-Monopoly Law and Practice in China* (Oxford University Press, 2011) 239; 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（一）》 [Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (I)], (People's Republic of China) Judicial Committee of the Supreme

4.2 2009 Draft Provisional Rules on National Standards Involving Patents

In late 2009, after it became clear that the above provision that deemed the licensing of SEPs would not be included in the 2010 judicial interpretation, the SAC issued draft administrative provisions for addressing this same issue.¹²⁸

On being offered for public consultation, the SAC's *Draft Provisional Rules on the Administration of the Formulating and Revising of National Standards Involving Patents* reportedly received almost 400 submissions from foreign governments, firms and private interest groups.¹²⁹

'Among the troubling provisions of this draft', draft Article 9 of the proposed provisional rules required SEP owners to license their IP on a FRAND basis 'at a price significantly lower than the normal royalty rate'.¹³⁰ Similarly unprecedented in national or international standard-setting processes, draft Article 13 required that, if a patent was included in a mandatory national standard, its SEP owner must license the patent or it would be compulsorily licensed.¹³¹

4.3 2014 National Standards Measures

As a result of the opposition to the 2009 draft provisional rules, they were never implemented. Instead, the SAC, together with the SIPO, issued the *National Standards Interim Measures* discussed above in section 2.2.3 that came into effect in 2014.

Critically, the 2014 interim measures omitted the obligation on SEP owners to license their IP at a royalty 'significantly lower' than the market rate – as the SPC had first proposed in its 2008 letter and as had been included in SAC's 2009 proposed provisional rules.

People's Court, Effective 1 January 2010 [Douglas Clarke Trans] <<https://Wipolex.Wipo.Int/Zh/Text/199510>> (n 126).

¹²⁸ Harris (n 127) 239.

¹²⁹ Ibid; George T Willingmyre, 'Take Two - China's Proposed Regulations For Patent-Involving National Standards', Intellectual Property Watch (21 December 2009) <<https://www.ip-watch.org/2009/12/21/take-two-china%E2%80%99s-proposed-regulations-for-patent-involving-national-standards/>>.

¹³⁰ Harris (n 127) 240.

¹³¹ Ibid.

Nevertheless, while the 2014 interim measures succeeded where those previously regulatory initiatives had failed – in implementing a solution to the SEP issue – the provisions contain a severe, if not fatal weakness.

As noted above, Article 15 of the interim measures state that if a patent owner that holds a SEP in a mandatory national standard, refuses to license this, the SAC, the SIPO and other relevant departments will enter into negotiations with the SEP owner. Yet, this provision does not resolve the issue. In particular, it does not say what will happen if the relevant SEP owner and nominated government departments cannot come to an agreement on licensing the SEP. In light of SAC's previous provisional rules, SEP owners might assume that, if its negotiations with these government departments fail, they will be threatened with compulsory licensing.

Therefore, the 2014 interim measures passed into law, but without solving the problem of SEP licensing. Uncertainties remained for local industries reliant on being able to use the relevant standards and for SEP owners afraid of implementing technology in China that they might be forced to license at less than market rates.¹³²

4.4 2015 NDRC *Qualcomm* Determination

In late 2013, the National Development and Reform Commission ('NDRC') announced that it was undertaking an investigation into Qualcomm for anti-competitive conduct.¹³³ Sixteen months later in early 2015, the NDRC and Qualcomm came to a settlement in which the SEP

¹³² More broadly on China's evolution from a go-it-alone approach to a greater engagement with international standardisation bodies. See: Dieter Ernst, *Indigenous Innovation and Globalization: The Challenge for China's Standardization Strategy* (University of California (UC) Institute on Global Conflict and East-West Center, 19 July 2011) <<http://www.eastwestcenter.org/publications/indigenous-innovation-and-globalization-challenge-chinas-standardization-strategy>> ('*Indigenous Innovation and Globalization*'); Jorge L Contreras, 'Divergent Patterns of Engagement in Internet Standardization: Japan, Korea and China' (2014) 38(10) *Telecommunications Policy* 914 ('Divergent Patterns of Engagement in Internet Standardization').

¹³³ Mukherjee, Supantha and Alawadhi, Neha, "China probe may be aimed at Qualcomm's 4G royalties", Reuters, 26 November 2013, <<http://www.reuters.com/article/2013/11/26/us-qualcomm-china-idUSBRE9AO0E820131126>>

owner agreed to pay 6.088 billion RMB (equivalent to 975 million USD) in fines and to take other remedial actions.¹³⁴

The investigation concerned Qualcomm's licensing of SEPs and sale of modem chipsets to Chinese firms. Chinese state media had reported complaints from Chinese handset manufacturers that they were overcharged for licensing fees and for supplies of modem chipsets, and that Qualcomm had otherwise forced them to accept other unreasonable conditions.¹³⁵

On presenting its findings in 2015, the NDRC concluded that Qualcomm had abused its dominant market position in the licensing of SEPs and sale of its modem chipsets to use with the CDMA, WCDMA and LTE mobile telecommunications technical standards.

Specifically, the NDRC held that Qualcomm had abused its dominant market position due to its violation of Articles 17(1) and 17(5) of the AML.

¹³⁴ In its settlement with the National Development Reform Commission ('NDRC'), in addition to paying a 6.088 billion RMB, Qualcomm Inc ('Qualcomm') agreed to: 1) offer to Chinese standard-essential patent (SEP) owners licenses to Chinese-issued standard-essential patents separately from licenses to its other patents and provide patent lists during the negotiating process; 2) negotiate cross-licenses with Chinese licensees in good faith and provide fair compensation for such rights; 3) charge royalties for third generation ('3G') and fourth generation ('4G') Chinese SEPs for branded smartphones sold for use in China based on a royalty base of 65 percent of the net selling price of the smartphone and royalty rates of 5 percent for 3G devices and 3.5 percent for 4G phones; 4) provide existing licensees an opportunity to take the new terms for sales of branded devices for use in China as of January 1, 2015; and 5) not condition the sale of baseband chips on the chip customer signing a license agreement with terms that the NDRC finds to be unreasonable, or on the customer agreeing not to challenge unreasonable terms in the license agreement. Qualcomm Inc, Tina Asmar and Warren Kneeshaw, "Qualcomm and China's National Development and Reform Commission Reach Resolution - NDRC Accepts Qualcomm's Rectification Plan - Qualcomm Raises Midpoints of Fiscal 2015 Revenue and Non-GAAP EPS Guidance" (Media Release, 9 February 2015)' 1-2.

¹³⁵ Staff writer, "Qualcomm Probed for Price-fixing in China", Xinhua, 19 February 2013, <<http://english.cri.cn/6826/2014/02/19/2702s813692.htm>> accessed 23 February 2014; Feng, Xin, "China's communications industry files complaint against Qualcomm", CCTV, 10 February 2013, <<http://english.cntv.cn/program/bizasia/20140210/103666.shtml>> accessed 23 February 2014.

As discussed above, Article 17(1) of the AML prohibits the charging unfairly high prices.¹³⁶ In the context of the NDRC investigation, the prohibition was applied to Qualcomm's licensing practices that were held to result in the charging of unfairly high royalties for the licensing of its SEPs. Qualcomm's licensing practices to which the prohibition was applied – included:

- a. the requirement that Chinese handset manufacturers license its patents within portfolios, without Qualcomm providing a list of the portfolio's contents;
- b. the inclusion of expired SEPs and non-SEPs in the portfolios, with Chinese handset manufacturers having no contents list with which to identify these; and
- c. the requirement that some Chinese handset manufacturers permitted Qualcomm to license their patents to its other customers, without Qualcomm or its customers paying royalties to these Chinese handset manufacturers for the use of their patents.

These practices were held to impose unfairly high royalties on Chinese handset manufacturers as without Qualcomm's unfair actions, the handset manufacturers could have claimed discounts on the royalties that they were obliged to pay. Thus, without being unfairly denied a list of the contents of Qualcomm's portfolio, the Chinese handset manufacturers could have sought a lower royalty in light of the expired patents and the lower value non-SEPs that the portfolio contained.

Similarly, without being unfairly obliged to license their patents to Qualcomm and its customers for no charge, Chinese handset manufacturers could have sought to have the value of the royalties owed on any patents that they granted back to Qualcomm, offset against the licensing fees they must pay to Qualcomm.

Article 17(5) of the AML prohibits a firm with a dominant market position from tying products or services and from imposing unreasonable conditions on its trading partners 'without any justifiable cause'.¹³⁷

¹³⁶ 《中华人民共和国反垄断法》[Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 45) art 17(1).

¹³⁷ Ibid art 17(5).

The NDRC found that Qualcomm's inclusion of non-SEPs in the patent portfolios that it offered to Chinese handset manufacturers, was anti-competitive tying in violation of Article 17(5) of the AML, for which Qualcomm had not justifiable cause. The Chinese regulator further held that Qualcomm's conditioning of the sale of its modem chipsets on Chinese handset manufacturers entering into a licensing agreement with unreasonable terms had violated Article 17(5) of the AML. In addition to agreeing to the above licensing practices, these agreements also forbid Chinese handset manufacturers from challenging the agreement or Qualcomm's practice of denying vital supplies of modem chipsets to customers that initiated litigation.

4.4.1 Chinese competition law: Reviled overseas & rejected at home

Intergovernmental and industry backlash

Between late 2013, when the NDRC initiated its investigation into Qualcomm, and early 2015, when it fined and extracted an impressive list of commitments from the firm, the NDRC and China's other AML regulators incurred a barrage of international criticism.

In late 2014, the chairwoman of the US FTC, Edith Ramirez spoke publicly on the role of competition law enforcement in relation to SEP licensing.¹³⁸ Citing the European Commission Samsung and Motorola decision from earlier that year, Ramirez suggested that the FTC and the EU seemed to be taking a similar approach in regard to the regulation of FRAND-encumbered SEPs.¹³⁹

¹³⁸ Edith Ramirez (US FTC Chairwoman), 'Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective' (at the 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center Washington, DC, 10 September 2014)

<https://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf>.

¹³⁹ European Union, "'Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunctions'" (29 April 2014) <http://Europa.Eu/Rapid/Press-Release_IP-14-490_en.Htm>; AT39985 – Motorola – Enforcement of GPRS Standard Essential Patents (29 April 2014)<http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf> (European Commission); Edith Ramirez (FTC Chairwoman), 'Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective' (at the 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center Washington, DC, 10 September 2014) 7–8

<https://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf>.

In contrast, Ramirez was concerned that contemporary media reports seemed to indicate that China's competition law regulators:

may be willing to impose liability based solely on the royalty terms that a patent owner demands for a license to its FRAND-encumbered SEPs, as well as royalty demands for licenses for other patents that may not be subject to a voluntary FRAND commitment.¹⁴⁰

Speaking at a conference only days later, Bill Baer, the assistant attorney-general for the Antitrust Division of the US Department of Justice ('DOJ'), began by endorsing Ramirez's comments.¹⁴¹ Then, without referring to China's competition law regulators by name, Baer observed that:

[R]egardless of the underlying theory of antitrust liability, I am concerned about antitrust regimes that appear to force adoption of a specific royalty that is not necessary to remedy the actual harm to competition.¹⁴²

In late 2014, it was also reported that the then US Secretary of the Treasury, Jack Law had sent a private letter to China's Vice Premier, Wang Yang asserting that China's AML regulators were focussing their prosecutions on foreign firms.¹⁴³ Lew was said to have complained that these enforcement actions had devalued foreign IP, while warning that they had the potential to harm US-China relations more generally.¹⁴⁴ The same late 2014 news

¹⁴⁰ Ramirez (US FTC Chairwoman) (n 138) 8.

¹⁴¹ Bill Baer, 'International Antitrust Enforcement: Progress Made; Work to Be Done' (at the 41st Annual Conference on International Antitrust Law and Policy, Fordham University School of Law, New York, 12 September 2014) 7 <<https://www.justice.gov/atr/speech/international-antitrust-enforcement-progress-made-work-be-done>> ('Progress Made; Work to Be Done').

¹⁴² Ibid 8.

¹⁴³ Krista Hughes, 'Treasury's Lew Warned China on Antitrust Probes of Foreign Firms-WSJ', Reuters (online at 14 September 2014) <<https://www.reuters.com/article/usa-china-antitrust-idUSL1N0RF0RR20140914>>; David Goldstein, 'U.S. Ramps Up Criticism of China's Enforcement of Its Antitrust Laws Against Foreign Companies', AntitrustWatch (15 October 2014) <<http://blogs.orrick.com/antitrust/2014/10/15/u-s-ramps-up-criticism-of-chinas-enforcement-of-its-antitrust-laws-against-foreign-companies/>>.

¹⁴⁴ Hughes (n 143); Goldstein (n 143).

report estimated that at that time, more than 30 US firms were subject to probes by China's AML regulators.¹⁴⁵

Representative bodies for foreign investors were also expressing their concerns as to how Chinese regulators were enforcing the AML. In late 2014, in testimony before the Office of the US Trade Representative, the US Chamber of Commerce claimed that Chinese authorities:

[were] using a variety of policy tools – including competition law, technology standards and IP policies – to limit prices of foreign companies' goods and IP...¹⁴⁶

The US-China Business Council published a major report on Chinese competition policy and enforcement at this time, questioning the objectives of China's competition law regime.¹⁴⁷ Specifically, the industry group asked rhetorically if the Chinese government was directly 'using the AML to force lower prices, rather than let[ting] the "market play the decisive role"...'¹⁴⁸

So virulent were these attacks on China's AML regulators – especially in relation to their perceived assault on the pricing of foreign IP – that the heads of the three agencies took the unusual step of holding a press conference together to defend their regulatory activities.¹⁴⁹ At that meeting, the director of the NDRC's AML enforcement bureau insisted that the enforcement of the AML by all three regulators:

¹⁴⁵ Hughes (n 143).

¹⁴⁶ Jeremie Waterman, 'Oral Statement Of the United States Chamber of Commerce Before the Office of the United States Trade Representative' (at the Hearing on China's Implementation of and Compliance with Its Commitments to the WTO, Washington, DC, 1 October 2014) <<https://s3.amazonaws.com/cdn.orrick.com/files/chamberremarks10.1.14.pdf>>; Goldstein (n 143).

¹⁴⁷ United States-China Business Council, Competition Policy and Enforcement in China (United States-China Business Council, September 2014) <http://uschina.org/sites/default/files/AML%202014%20Report%20FINAL_0.pdf>.

¹⁴⁸ Ibid 1.

¹⁴⁹ Michael Martina and Xiaoyi Shao, 'UPDATE 2-China's Antitrust Regulators Defend Probes; Qualcomm...', *Reuters* (online at 11 September 2014) <<https://www.reuters.com/article/china-antitrust-idUSL3N0RC2MY20140911>>; Goldstein (n 143).

is fair and transparent. It is not targeting any market player, and of course, it is not targeting any foreign invested or foreign enterprises.¹⁵⁰

Poor private action performance and uptake

Ironically, while the administrative enforcement of the AML was allegedly targeting foreign-invested firms in China, the law was also failing Chinese firms attempting to make out private actions under its provisions.

In an article published in 2015, lawyer Jiangxiao Athena Hou noted that in the five years after the AML came into force in 2008, Chinese courts had only accepted 172 private actions under the law.¹⁵¹ Of those cases filed, Hou said, ‘a great majority’ were dismissed or settled for a ‘relatively insignificant amount of money’.¹⁵² Ding Liang reported that prior to 2012, less than 50 AML cases had been tried by Chinese courts in the first instance.¹⁵³ Subsequently though, Ding sees ‘an increasing trend’ in private litigation under the AML, with 150 first instance cases in 2015, and 161 AML-based actions initiated in the Beijing IP court alone in 2016.¹⁵⁴

However, Hao Zhan et al were less sanguine about the trajectory of private actions under China’s competition law.¹⁵⁵ In an article published in late 2018, they observed that although the annual number of AML-based private litigation in China has risen in recent years, it is still low compared to other private actions claiming IP infringement or unfair competition.¹⁵⁶ An early 2019 article by Hao Zhan et al, further asked whether poor plaintiff success rates in

¹⁵⁰ Martina and Shao (n 149); Goldstein (n 143).

¹⁵¹ Jiangxiao Athena Hou, ‘Is Chinese Private Antitrust Litigation Ready to Take Off?’ (June 2015) Competition Policy International 1 <<https://www.competitionpolicyinternational.com/assets/Asia-Column-June-Full.pdf>>.

¹⁵² Ibid.

¹⁵³ Liang Ding, ‘Private Antitrust Litigation in China’ (20 March 2019) Lexology <<https://www.lexology.com/library/detail.aspx?g=c18b6397-a08d-48f3-84e0-d8b3f1c7789b>>.

¹⁵⁴ Ibid.

¹⁵⁵ Hao Zhan et al, ‘Court Examines Refusal to Deal in Private Antitrust Litigation against Tencent’ (18 October 2018) International Law Office <<https://www.internationallawoffice.com>>.

¹⁵⁶ Ibid.

private actions under the AML were discouraging parties from seeking redress for damages done by a rival's anti-competitive conduct.¹⁵⁷

Hou suggests three reasons for the limited attraction and poor performance of private actions initiated under the AML.

These include:

- 1) the relative inexperience of Chinese courts with determining AML-based cases;
- 2) the lack of a discovery right being available to these plaintiffs; and
- 3) the evidentiary burden of plaintiffs in abuse of market dominance cases.

Inexperience of Chinese courts

Hou observed that there have been only 'a few noteworthy opinions', in which Chinese courts have confidently applied a 'sophisticated legal and economic analysis' when making AML-based decisions.¹⁵⁸

Lawyer Zhang Shaojun would agree with Hou's assessment. Zhang represented the Chinese firm, Ge Fang, when the Taiwanese parent company, Hon Hai, and its Chinese subsidiaries accused Ge Fang of selling products that infringed its patent in the Universal Serial Bus 3.0 ('USB 3.0') plug port. In the action, Ge Fang unsuccessfully attempted to prove that the disputed patent was subject to a commitment that the Taiwanese firm had made to license its SEP on FRAND terms.¹⁵⁹

In a 2015 interview, after Ge Fang failed in its action under Chinese patent law, the author asked Zhang why Ge Fang did not pursue a private action or make an administrative complaint against Hon Hai under the AML.

While acknowledging the success of standard implementers in the 2013 *Huawei Technologies Co Ltd ('Huawei') v InterDigital Corp ('IDC')* case and through the 2015

¹⁵⁷ Hao Zhan, Ying Song and Zhan Yang, 'A New Era – 2018 Antimonopoly Law Enforcement Highlights' (7 February 2019) International Law Office.

¹⁵⁸ Hou (n 151) 2.

¹⁵⁹ Benjamin Bai, 'To Be or Not To BE SEPs', Kluwer Patent Blog (23 February 2015) <<http://kluwerpatentblog.com/2015/02/23/to-be-or-not-to-be-seps/>>.

administrative *Qualcomm* determination, Zhang dismissed the suggestion.¹⁶⁰ He argued that despite these victories, China's courts and AML regulators were too inexperienced applying the competition law, making any private or administrative AML action too uncertain for his clients.¹⁶¹

No discovery mechanism

A further challenge that Zhang drew attention to, was the weight of evidence that plaintiffs had to assemble in an AML action that he said was both complex and difficult to acquire.¹⁶² Hou explains why this evidence is difficult to acquire – namely, because Chinese courts do not provide an evidence discovery mechanism. Therefore, plaintiff firms alleging anti-competitive conduct struggle to obtain the required data to correctly define the relevant market and establish that the defendant firm holds a dominant market position in this. The plaintiff firm's attempts to do this, can be thwarted by the defendant firm's claims that the requested information is confidential or commercially sensitive. Similarly, Chinese courts can compel neither opposing legal representatives nor third parties to share or provide evidence to plaintiff firms.

Thus, even major Chinese firms with ample legal and financial resources have failed to make out the elements of an AML-based case. For example, in 2014, the SPC dismissed a private

¹⁶⁰ The 2013 Huawei Technologies Co Ltd v InterDigital Corp case is discussed in depth in chapter five of this thesis. 《华为技术有限公司与IDC公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第305号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 53); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province (People's Republic of China)], 粤高法民三终字第306号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 53); 《行政处罚决定书-高通公司》[Qualcomm Inc - Administrative Penalty decision], 中华人民共和国国家发展和改革委员会 [National Development and Reform Commission] (People's Republic of China), 发改办价监处罚〔2015〕1号 [Pricing Supervisory Penalty (2015) No 1], 9 February 2015 [author's translation].

¹⁶¹ 'Interview with Zhang Shaojun [张少军] (Guangzhou, 15 August 2015)'.

¹⁶² Ibid.

action by China's largest online security software provider, Qihoo 360 Technology Co Ltd ('Qihoo') against Tencent Holding Ltd ('Tencent'), a major Chinese online gaming and messaging provider.¹⁶³ Alleging that Tencent had abused its dominant market position, Qihoo was unable to prove that Tencent held a dominant market position in the relevant online market. Hou notes that the SPC rejected several claims that Qihoo made in attempting to define the relevant market that should apply in the action.¹⁶⁴ The court was also critical of the plaintiff's attempts to establish that Tencent held a dominant market position, based predominantly on assertions concerning its market share.¹⁶⁵ Rather, the SPC emphasised that market shares were only a rough indicator of market dominance and that more attention should have been paid to other factors, such as market entry and the effect on competition of Tencent's conduct, as set out above in Article 18 of the AML.¹⁶⁶

In another AML-based private action brought against Tencent in late 2018, another plaintiff firm struggled to assemble the necessary elements to make out an abuse of dominant market position.¹⁶⁷

¹⁶³ 北京奇虎科技有限公司诉腾讯科技(深圳)有限公司和深圳市腾讯计算机系统有限公司[Beijing Qihoo Technology Co Ltd v Tencent Technologies (Shenzhen) Co Ltd and Shenzhen Tencent Computer System Co Ltd] [2014] 最高人民法院 [Supreme People's Court] (People's Republic of China) 民三终字第 4 号 [Civil Court Appeal No 4]; 'Qihoo 360 Technology Co Ltd - Company Profile and News', Bloomberg.com <<https://www.bloomberg.com/profile/company/QIHU:US>>; Sruthi Ramakrishnan and Devika Krishna Kumar, 'Chinese Tech Company Qihoo 360 Latest to Be Taken Private', Reuters (online at Dember 2015) <<https://www.reuters.com/article/us-qihoo-360-m-a-idUSKBN0U118720151218>>; 'Tencent Holdings Ltd - Company Profile and News', Bloomberg.com <<https://www.bloomberg.com/profile/company/TCEHY:US>>.

¹⁶⁴ Hou (n 151) 5.

¹⁶⁵ 北京奇虎科技有限公司诉腾讯科技(深圳)有限公司和深圳市腾讯计算机系统有限公司[Beijing Qihoo Technology Co Ltd v Tencent Technologies (Shenzhen) Co Ltd and Shenzhen Tencent Computer System Co Ltd] (n 163) 98; Yong Lim and Yunyu Shen, 'A Tale of Two Courts: Handling Market Definition in Abuse of Dominance Cases under Market Share-Based Statutory Power Presumptions in China and Korea' [2015] (1) *CPI Antitrust Chronicle* 6.

¹⁶⁶ 北京奇虎科技有限公司诉腾讯科技(深圳)有限公司和深圳市腾讯计算机系统有限公司[Beijing Qihoo Technology Co Ltd v Tencent Technologies (Shenzhen) Co Ltd and Shenzhen Tencent Computer System Co Ltd] (n 163) 99; Lim and Shen (n 165) 6.

¹⁶⁷ Hao Zhan et al (n 155).

In that case, the plaintiff firm, Shenzhen Micro Source Code Software Development Co Ltd ('SMSCSD') attempted to prove dominant market position with data on the number of monthly and daily active users accessing Tencent's messaging application, WeChat.¹⁶⁸ The court held that this could not serve as an adequate basis for calculating Tencent's market share as users frequently registered for services on multiple platforms and dismissed SMSCSD's action as failing to prove that Tencent's market dominance.¹⁶⁹

In commenting on the case, Hao Zhan et al recognised the disadvantage that SMSCSD encountered in the 2018 case in obtaining sufficient evidence, in particular market data, that was necessary to successfully make out its case under the AML.¹⁷⁰

No relief of evidentiary burden in abuse of market dominance cases

Finally, Hou recognises the assistance that the 2012 SPC regulations on AML-related civil disputes provided to plaintiff firms seeking private action under the legislation, including standing, burden of proof and expert testimony.¹⁷¹ Nonetheless, she notes that, while the 2012 SPC regulations established that the burden of proof largely shifts where the private action involves "hard core" anti-competitive conduct, this is less the case in actions alleging an abuse of dominant market position.¹⁷²

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

¹⁷¹ 《关于审理因垄断行为引发的民事纠纷案件应用法律若干问题的规定》 [Regulations on Several Issues Concerning the Application of Law in the Trial of Civil Cases Arising from Monopolistic Conduct] (People's Republic of China) Judicial Committee of the Supreme People's Court, Legal Interpretation No. 5, 30 January 2012 [Author's Trans]; Hou (n 151) 2.

¹⁷² Article 7 of the 2012 SPC regulations refer to the list of these "hard core" anti-competitive offences in Article 13 of the Anti-Monopoly Law ('AML'). The list of offences in Article 13 of the AML includes (1) fixing or changing prices of commodities; (2) limiting the output or sales of commodities; (3) dividing the sales market or the raw material procurement market; (4) restricting the purchase of new technology or new facilities or the development of new technology or new products; (5) making boycott transactions; and (6) other monopoly agreements as determined by the Anti-monopoly Authority under the State Council. 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 45) art 13; 《关于审理因垄断行为引发的民事纠纷案件应用法律若干问题的规定》

Under Article 7 of the SPC regulations, plaintiffs making allegations of price-fixing are required to present sufficient evidence and economic analysis to receive damages and to refute the defendant firm's assertions that exemptions apply. However, under Article 8 of the SPC regulations – as in the *Qihoo* and *SMSCSD* actions – plaintiffs alleging an abuse of dominant market position bear the burden of defining the relevant market, proving market dominance and its abuse, as well as a case for damages.¹⁷³

4.4.2 Grounds for seeking an alternative form of regulation?

This thesis argues that the successive regulatory failures of China's policy makers between 2008 and 2015 to develop a legal defence against the “abusive” SEP owner licensing practices, motivated their search for an alternative FRAND-based approach.

This view recognises that of the three attempts made to implement such a defence during that period, only one – the SPC's attempt to pass its 2008 *Chaoyang Xinguo* case letter into law – unambiguously failed.¹⁷⁴ The other two regulatory efforts – the 2014 *National Standard Measures* and the 2015 NDRC *Qualcomm* Determination – succeeded in terms of their respective implementation and investigation conclusion.¹⁷⁵

[Regulations on Several Issues Concerning the Application of Law in the Trial of Civil Cases Arising from Monopolistic Conduct] (People's Republic of China) Judicial Committee of the Supreme People's Court, Legal Interpretation No. 5, 30 January 2012 [Author's Trans] (n 171) art 7; Hou (n 151) 4.

¹⁷³ 《关于审理因垄断行为引发的民事纠纷案件应用法律若干问题的规定》 [Regulations on Several Issues Concerning the Application of Law in the Trial of Civil Cases Arising from Monopolistic Conduct] (People's Republic of China) Judicial Committee of the Supreme People's Court, Legal Interpretation No. 5, 30 January 2012 [Author's Trans] (n 171) art 8.

¹⁷⁴ 最高人民法院关于朝阳兴诺公司按照建设部颁发的行业标准《复合载体夯扩桩设计规程》设计、施工而实施标准中专利的行为是否构成侵犯专利权问题的函 [Letter of the Supreme People's Court on the Issue of Whether the Use by Chaoyang Xinguo Company of a Patent Included in an Ministry of Construction-Issued Industry Standard for the Design of Ram-Compaction Piles with a Composite Bearing Base Constituted a Patent Infringement] (People's Republic of China) Supreme People's Court, No 4, 7 August 2008 (n 121).

¹⁷⁵ 《国家标准涉及专利的管理规定(暂行)》 [Interim Measures on National Standards Involving Patents] (People's Republic of China) Standardization Administration of China and the State Intellectual Property Office, 1 January 2014 <http://Www.Sipo.Gov.Cn/Zcfg/Flfg/Zl/Bmgfxwj/201401/T20140103_894910.Html> (n 24); 《行政处罚决定书- 高通公司》 [Qualcomm Inc - Administrative Penalty Decision], 中华人民共和国 国家发展和改革委员会 [National Development and Reform Commission] (People's Republic of China), 发改办

Nonetheless, as suggested above, the 2014 *National Standard Measures* failed in the sense that they did not resolve the central issue of whether or not SEP owners can be compelled to license their IP for use in mandatory national standards or other critical standards. Instead, the interim measures deferred this issue to future negotiations between SEP owners and government departments, potentially in the shadow of a compulsory licensing order.

Similarly, the 2015 NDRC *Qualcomm* Determination elicited a record fine and an impressive list of future commitments from a globally-active SEP owner. Yet, it also attracted a cannonade of criticisms that threatened to indelibly tarnish the legitimacy of Chinese competition law.

In reference to the 2015 NDRC *Qualcomm* Determination, South Korean academic, Dae-Sik Hong noted that China was alone in taking enforcement action against exploitative anti-competitive actions. In particular, he saw this in its prosecution of SEP owners for imposing unfairly high pricing. In fact, in addition to the 2015 *Qualcomm* case, Hong could be referring to the 2013 *Huawei v IDC* decision, that also held the SEP owner therein liable for unfairly high pricing.¹⁷⁶ This case also most likely provoked many of the international criticisms made of China's competition law applications in 2014, cited above.

However, Hong also identified a contrast between the enforcement approaches that China and South Korea had taken towards SEP owners up to that point, specifically in relation to their respective administrative actions against Qualcomm's licensing practices.¹⁷⁷

价监处罚〔2015〕1号[Pricing Supervisory Penalty (2015) No. 1], 9 February 2015 [Author's Translation] (n 160).

¹⁷⁶ See section 2.1 in chapter 5.

¹⁷⁷ 《行政处罚决定书-高通公司》[Qualcomm Inc - Administrative Penalty Decision], 中华人民共和国国家发展和改革委员会[National Development and Reform Commission] (People's Republic of China), 发改办价监处罚〔2015〕1号[Pricing Supervisory Penalty (2015) No. 1], 9 February 2015 [Author's Translation] (n 160); *퀄컴의 시장지배적지위남용 행위 등에 대한 건* [In re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.pdf> (accessed 20 November 2019); Hong (n 52) 177–8.

The South Korean competition law includes a prohibition against unfairly high pricing or excessive pricing that mirrors Article 17(1) in the AML.¹⁷⁸ Yet, as Hong notes, the Korea Fair Trade Commission (‘KFTC’), in its 2017 administrative action against Qualcomm, avoided using the excessive pricing prohibition against Qualcomm’s expired SEPs and grant-back free of charge terms.¹⁷⁹ Instead, as discussed in section 3.4 of chapter six of this thesis, the KFTC presented these licensing terms as evidence of Qualcomm’s violating its FRAND commitment to negotiate with standard implementers in good faith.

The KFTC determination is itself a controversial decision, for this and other reasons.¹⁸⁰ However, comments made by Dae-Sik Hong suggest that this and earlier decisions in South Korea, may have offered China an alternative regulatory route to regulating SEP rights, away from the unfairly high pricing prohibition of the competition law.¹⁸¹

¹⁷⁸ Article 3-2 ‘(1) No market-dominating enterpriser shall commit acts falling under any of the following subparagraphs (hereinafter referred to as “abusive acts”): 1. An act determining, maintaining, or changing unreasonably the price of commodities or services.’ 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea), National Assembly of South Korea, Law No. 3320, 31 December 1980 art 3-2(1); 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 45) art 17(1).

¹⁷⁹ Hong (n 52) 178.

¹⁸⁰ Koren W Wong-Ervin et al, “A Comparative and Economic Analysis of the US FTC’s Complaint And the Korea FTC’s Decision against Qualcomm” (Law & Economics Research Paper Series, No 17-17, George Mason University, 15 April 2017) <https://Papers.Ssrn.Com/Sol3/Papers.Cfm?Abstract_id=2947306>.’; Judge Douglas H Ginsburg, “Comity in International Competition Law Enforcement” (Presentation Delivered at Extraterritorial Reach of Competition Remedies - Competition Policy Roundtable, Organisation for Economic Co-Operation and Development, 5 December 2017) <<http://Www.Oecd.Org/Competition/Extraterritorial-Reach-of-Competition-Remedies.Htm>>’ 7.

¹⁸¹ Comparing the approaches that regulators in South Korea, Japan, China and the United States have taken in their prosecution of Qualcomm Inc (‘Qualcomm’), Dae-Sik Hong observed that, unlike other countries, China’s investigation of Qualcomm in 2015 and of other firms since that time, has focused on the exploitative effects of the conduct of firms with a dominant market position. Dae-Sik Hong, ‘Regulating Abuse of SEPs in Mobile Communications Market: Reviewing 1st and 2nd Qualcomm Cases in Korea’ in Ashish Bharadwaj, Vishwas H Devaiah and Indranath Gupta (eds), Multi-Dimensional Approaches Towards New Technology (Springer Singapore, 2018) 163, 179–180 <http://link.springer.com/10.1007/978-981-13-1232-8_9> (‘Regulating Abuse of SEPs in Mobile Communications Market’).

The above section also suggests another reason for Chinese policy makers to look elsewhere for remedial measures for standard implementers following the disappointing experience of private actions under the AML. The excessive demands that the AML imposes on Chinese courts and plaintiffs – including: the need for highly specialised expertise; the acquisition of confidential market data without discovery; and an exhaustive burden of proof, imposes an untenable load on standard implementers. Thus, also for those reasons, Chinese policy makers have felt compelled to find an alternative private action defence for standard implementers against the perceived abusive licensing practices of SEP owners.

Section 3 in chapter four of this thesis discusses the details of these perceived abusive licensing practices.¹⁸² Section 4.3 of chapter five proposes that the approach that Chinese policy makers have selected to counter these – as an alternative to the competition law – is based on an emerging abuse of rights doctrine in China and the pre-existing basic law provisions of Chinese civil law.¹⁸³

5 Conclusion

As proposed in the list of aims for this chapter, the above sections have set out the relevant Chinese laws, regulations and institutions to be discussed in the remainder of the thesis.

The chapter also proposed why Chinese policy makers might have abandoned previous initiatives to regulate the injunctive rights of SEP owners. This is particularly of interest in relation to the apparent decision to find an alternative defensive action for Chinese standard implementers – and perhaps even for Chinese administrative agencies – to take action against SEP owners allegedly breaching their FRAND duty.

Such a development may lessen the anxiety of FRAND-encumbered SEP owners fearful of incurring penalties under the AML for taking injunctive action against standard implementers. However, if Chinese firms have been unable to take private action against dominant firms due to the difficulties of an unhelpful AML, more accommodating legislation may well increase the private action initiated and won against dominant firms – Chinese and foreign alike.

¹⁸² See section 3 of chapter 4.

¹⁸³ See section 4.2.2 in chapter 5.

Chapter 4: Applying the conventional elements of the FRAND solution

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1 Introduction

1.1 Aims of this chapter

The aims of this chapter are to:

- i) define the technical terms used throughout this thesis – specifically “standard”, “standard-setting organisation” (‘SSO’) and “standard-essential patent” (‘SEP’);
- ii) explain two licensing abuses that distort their licensing negotiations and misuse the right of SEP owners to seek injunctions and its regulation; and
- iii) examine cases and enforcement guidelines in five jurisdictions outside of China that have assessed, or proposed to assess, injunctive action involving SEPs, based on the SEP owner’s compliance with their content licensing obligations.

1.2 How the aims of this chapter address the thesis topic

Chapter one of this thesis argues that Chinese courts can determine injunction applications involving SEPs according to law if the incomplete law specifically-enacted for that purpose is supplemented by principles and doctrine from China’s basic law.

That first chapter also asserted that how Chinese courts assess the compliance of SEP owners with their process obligations is the most incompletely understood aspect of the 2016-implemented regime for determining injunction applications involving SEPs. This is both because of the apparent lack of familiarity of English language commentators with China’s basic law and the limited quality of the semi-official commentaries explaining China’s

specifically-enacted and basic law. These issues are respectively examined in section 4.2.1 of chapter five and section 3.2.2 of chapter seven of the thesis. This deficient of understanding is also not helped by the fact that the academic literature and semi-official commentaries on China's basic law is largely unavailable in English.

On account of those circumstances, in chapter one, it was proposed that the thesis would focus exclusively on understanding how SEP owners' process licensing obligations would be assessed in an injunction determination process drawing on China's basic law for its legal standard, procedures and grounds for refusing an injunction to a SEP owners.

Yet, the assessment of SEP owners' compliance with their process obligations might also be the most incomplete aspect of the determination process. This is because of the preoccupation of English language commentaries with the limited forms of the process obligations regimes in the content licensing issues and the European Union ('EU') and the United States ('US') – as argued in section 1.2 of chapter one of this thesis.

In light of this preoccupation, but also to clearly demonstrate how content licensing and process licensing are differently assessed, section 5 in this chapter four solely examines how the other five jurisdictions have assessed the content licensing compliance of SEP owners. Similarly, section 2 of chapter five assesses whether injunction determinations involving SEPs in China have assessed the compliance of SEP owners, consistent with the processes of the other five jurisdictions discussed in chapter four.

This chapter thus asks according to what law Chinese courts should be making their injunction determinations – mindful of the expectations implicit in the practices of foreign courts and many English language commentators. The latter chapters of the thesis answer this question, arguing that a more balanced analysis that considers both SEP owners' content licensing and process licensing obligations is needed to understand Chinese and global practices more generally.

2 Technical Definitions

2.1 Standards

A standard is a set of technical specifications that describe forms or processes for achieving ‘certain beneficial features’ in a product or service.¹ The standards relevant to the SEPs discussed in this thesis, have all undergone some institutional process of examination and approval to determine if they are ‘sufficiently effective to merit wide adoption’.²

2.2 Standard Setting Organisations

An organisation that undertakes the examination and approval of standards, and later publishes the specifications of those endorsed through its processes, is known as a SSO.³

¹ National Research Council (U.S.), *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communications Technology* (The National Academies Press, 2013) 1

<<https://www.nap.edu/catalog/18510/patent-challenges-for-standard-setting-in-the-global-economy-lessons>> (*Patent Challenges for Standard-Setting in the Global Economy*).

<http://www.nationalacademies.org/nasem/na_070358.html>, Article 1. The National Academy of Sciences is a federal corporation under a charter enacted by US Congress (36 US Code §§150301-04 (1998)).

² Ibid. An example of standards that have developed outside of institutional processes are “de facto” standards. These are technical specifications utilised by dominant firms or preferred by consumers which are universally adopted as industry standards as a result of market forces.

³ These organisations are also referred to as “standard developing organisations” and “standard development organisations”.

2.3 Standard Essential Patents

A SEP is a patent that is indispensable to the implementation of a technical standard.⁴

Another way to see this is that a patent is a SEP if there is no other way to implement a standard other than by infringing that patent.⁵

The essentiality of a patent to a standard can be both defined on technical and commercial grounds. A patent may be essential if for technical or engineering reasons it must be included in a standard. Alternatively, a patent may be essential for commercial reasons if there is no other commercially feasible way – in light of manufacturing costs, efficiency, reliability, etc. – to implement the standard other than by using the patent.⁶

3 Holding-up and holding-out SEP licensing

Each of the above the SEP abuses ultimately relies on the SEP owner's ability to seek an injunction against the standard implementer's continued use of the SEP.

While not declaring any of the above activities to be inherently illegal, major jurisdictions have attempted to regulate SEP owners' use of their injunction right in these activities where it is held to have been applied to achieve exploitative outcomes.

The second part of this chapter describes how these exploitative outcomes have been defined, and what common primary and secondary measures have been implemented in major jurisdictions to counter these practices.

⁴ European Commission, Enterprise and Industry Directorate-General and ECORYS, *Patents and Standards: A Modern Framework for IPR-Based Standardization: Final Report*. (European Commission, 2014) 40 <<http://bookshop.europa.eu/uri?target=EUB:NOTICE:NB0214176:EN:HTML>> ('*Patents and Standards a Modern Framework for IPR-Based Standardization*'). This 2014 report was commissioned by the Directorate-General of Enterprise and Industry of the European Commission from the European Consortium for Sustainable Industrial Policy (ECSIP), led by consortium member, the economic research and consulting firm, ECORYS <<http://www.ecorys.com/>>, with the participation of the Eindhoven University of Technology <<https://www.tue.nl>>.

⁵ Ibid.

⁶ Jorge L Contreras, 'Essentiality and Standards-Essential Patents' in Jorge L Contreras (ed), *The Cambridge Handbook of Technical Standardization Law* (Cambridge University Press, 1st ed, 2017) 209, 217–220 <https://www.cambridge.org/core/product/identifier/9781316416723%23CN-bp-13/type/book_part>.

3.1 Patent Hold-Up

Patent hold-up is a controversial issue.⁷ Norman V. Siebrasse, in his review of the academic literature on this and other abusive licensing practices, notes that:

despite its centrality, the concept of “[hold-up]”, it does not have any precise definition – or rather, it has a variety of precise definitions.⁸

Nevertheless, Siebrasse allows that:

In the broadest sense, [hold-up] is used to mean any mechanism by which a [patent owner] can extract a royalty that is higher than a fair benchmark royalty. In a slightly narrower sense [hold-up] is used to mean any mechanism by which the royalty that might be demanded by a [patent owner] ex post is higher than that which might be demanded ex ante⁹

Another use that a SEP owner may make of patent hold-out is to harm its competitors by demanding an excessive royalty, with the primary anti-competitive objective being to make the essential input difficult for its competitor to obtain and so to compete.

Regardless of how more or less controversial the concept of patent hold-up – and of its counterpart immediately discussed below – is, this thesis takes their influence on regulation on jurisdictions globally as a given. This is not because the thesis means to confirm the existence or claimed effects of these licensing abuses. Instead, it is because the focus of this thesis is the regulation that has been adopted in response to the threat of these abuses, and not on the threat of these abuses to the licensing and value of SEPs – real or imagined.

⁷ Add refs to conflicting accounts

⁸ Norman Siebrasse, ‘Holdup, Holdout and Royalty Stacking: A Review of the Literature’ in C Bradford Biddle et al (eds), *Patent Remedies and Complex Products: Toward a Global Consensus* (Cambridge University Press, 2019) 254 <<http://www.ssrn.com/abstract=2902780>> (‘Holdup, Holdout and Royalty Stacking’).

⁹ Ibid.

3.2 Patent Hold-Out

Patent hold-out, or as it is also known, reverse hold-up, is a less contentious concept.¹⁰

Siebrasse explains that the term generally refers to the ‘efforts by [a standard] implementer to pay a royalty that is unfairly low.’¹¹

A more expansive explanation of patent hold-out practices, suggests that it occurs where:

an implementer of a standard simply refuses to pay royalties to SEP owners until forced to do so by a Court. In practice, hold-out is rarely as “naked” as blanket refusal. Instead, it takes the form of endless litigation and appeals, demands for negotiating each SEP separately and similar practices.¹²

The harm SEP owners can incur as a result of patent hold-out includes:

- 1) litigation costs incurred in seeking unpaid royalties;
- 2) reductions in revenue;
- 3) limitations cash flow; and
- 4) disincentives to invest and participate in further innovation or standardisation activities.¹³

The patent hold-out of a standard implementer may also harm market competition more generally, where its competitors are paying to license the relevant SEPs.¹⁴

¹⁰ In contrast to patent hold-up, Siebrasse observes that patent hold-out is ‘generally undertheorized’, citing Colleen V. Chien’s view that hold-out is ‘arguably undertheoried.’ Colleen V. Chien, ‘Holding Up and Holding Out’, 21 Michigan Telecommunications & Technology Law Review 1 (2014). Ibid 284.

¹¹ Ibid.

¹² European Commission, Executive Agency for Small and Medium-sized Enterprises and Charles River Associates, *Transparency, Predictability, and Efficiency of SSO-Based Standardization and SEP Licensing: A Report for the European Commission* (European Commission, 2016) 20 <http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=9028&lang=en> (*‘Transparency, Predictability, and Efficiency of SSO-Based Standardization and SEP Licensing’*).

¹³ European Commission, Enterprise and Industry Directorate-General and ECORYS (n 4) 112.

¹⁴ European Commission, Executive Agency for Small and Medium-sized Enterprises and Charles River Associates (n 12) 20.

4 The “FRAND solution” legal transfer

The two sub-sections immediately below identify the regulatory solution that has been applied in jurisdictions around the world to counter the licensing abuses defined above: patent hold-up and patent hold-out.

This regulatory solution, referred to throughout this thesis as the “FRAND solution” legal transfer, is conventionally seen to consist of two elements: a “FRAND commitment” and an “unwilling licensee test”.¹⁵

As is explained further below, under the FRAND solution, SEP owners are obliged to enter into a FRAND commitment to counter patent hold-up, whereas the unwilling licensee test is applied to standard implementers to counter patent hold-out.

4.1 The “FRAND commitment”

FRAND refers to “fair, reasonable and non-discriminatory” terms and conditions. In some US cases, the alternative form of the term is used, “RAND”, but there is no material difference between the meaning of the two terms.¹⁶

Prior to being permitted to participate in a standard-making process in a SSO – and potentially contribute a patent to a SSO standard – SEP owners are often required to make a FRAND commitment.¹⁷

¹⁵ A FRAND commitment can also alternatively be referred to as a “FRAND declaration” or a “FRAND undertaking”.

¹⁶ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) [89].

¹⁷ Note that some standard-setting organisations required or permit the licensing of SEPs on a royalty-free basis. See, for example, The World Wide Web Consortium (‘W3C’) that is the main organisation responsible for establishing international standards for use on the World Wide Web. The W3C Patent Policy (5 February 2004 (updated 1 August 2017)) states that:

In order to promote the widest adoption of Web standards, W3C seeks to issue Recommendations that can be implemented on a Royalty-Free (RF) basis. Subject to the conditions of this policy, W3C will not approve a Recommendation if it is aware that Essential Claims exist which are not available on Royalty-Free terms.

The below example of such a FRAND commitment is included in the ‘Intellectual Property Right Policy’ that is annexed to the rules of procedure of a SSO, the European Telecommunications Standards Institute (‘ETSI’).

Article 6.1 of the intellectual property (‘IP’) rights policy on the ‘Availability of Licenses’ states:

When an ESSENTIAL [intellectual property right] relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the [patent owner] to give within three months an irrevocable [commitment] in writing that it is prepared to grant irrevocable licences on [FRAND] terms and conditions under such [intellectual property right] to at least the following extent:

- MANUFACTURE, including the right to make or have made customized components and sub-systems to the [standard implementer’s] own design for use in MANUFACTURE;
- sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
- repair, use, or operate EQUIPMENT; and
- use METHODS...

Justice Birss, in his 2017 decision in the United Kingdom (‘UK’) case, *Unwired Planet International Ltd (‘UP’) v Huawei Technologies Co Ltd (‘Huawei’)* explained that the purpose of a FRAND commitment ‘is to secure a proper reward for innovation whilst avoiding [hold-up]’.¹⁸

Similarly describing FRAND commitments as intended to ensure that parties ‘strike a fair balance’ in their licensing agreements, Justice Birss claims that this view of FRAND commitments ‘is not in dispute and can be seen in numerous sources’.¹⁹ To demonstrate this

¹⁸ Ibid [92].

¹⁹ Ibid.

claim, Justice Birss quotes from the decision of the Guangdong Higher People’s Court (‘HPC’) in the 2013 *Huawei Technologies Co Ltd* (‘Huawei’) v *InterDigital Corp* (‘IDC’):

For good faith users who are willing to pay reasonable royalties, owners of [SEPs] should not directly refuse to grant licenses. On the one hand, it is necessary to ensure that patentees can obtain sufficient returns from their technical innovations. On the other hand, owners of [SEPs] should be prevented from charging exorbitant royalty rates or attaching unreasonable terms by leveraging their powerful position forged by the standards. The core of the FRAND obligations lies in the determination of reasonable and non-discriminatory royalties or royalty rates.²⁰

Justice Birss further claims that these same principles have been endorsed in decisions made by the European Commission, the Court of Justice of the European Union (‘CJEU’) and US case law.²¹

4.2 The “Unwilling Licensee Test”

Later in his judgment, Justice Birss also recognises that these principles also restrain standard implementers from practising patent hold-up.²² While acknowledging that the FRAND commitment primarily binds the SEP owner, the UK judge holds that an obligation is also imposed on standard implementers.²³

²⁰ *Huawei Technologies Co Ltd v InterDigital Corp*, Section IV, 2nd paragraph (p 56 of the translation) quoted by *Ibid*.

²¹ EU Commission Decision AT.39985 Motorola – Enforcement of GPRS Standard Essential Patents of 29 April 2014 at para 7677; *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) [48]-[55]; *Ericsson, Inc v D-Link Systems, Inc*, 773 F 3d 1201 (Fed Cir, 2014) 7–8; *In re Innovatio IP Ventures, LLC* (D Ill, MDL No 2303, WL 5593609 27 September 2013) slip op 14–15; *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 16) [93];[94].

²² *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 16) [160].

²³ *Ibid*.

Justice Birss proposes that ‘the logic of the FRAND undertaking’ means that standard implementers must negotiate fairly if they want to ‘take advantage of the constraint’ that the FRAND commitment imposes on the SEP owner’s right to seek an injunction:

Just as a [standard implementer] is entitled to demand FRAND terms in a licence from a [patent owner] subject to [a FRAND commitment], so a [patent owner] is entitled to demand FRAND terms in the same licence. In other words, the [standard implementer] who does not negotiate fairly is not a willing licensee and may ultimately be subject to an injunction.²⁴

5 The Application of the “FRAND solution” in Five Jurisdictions

The following section examines how five foreign jurisdictions have respectively obliged SEP owners to comply with their FRAND commitments and applied the unwilling licensee test to the actions of standard implementers. Section two of chapter five of this thesis will assess to what extent Chinese courts have taken a similar regulatory approach in their adoption of the FRAND solution.

The section discusses each of the jurisdictions in turn, beginning with a brief summary of how the FRAND solution legal transfer has been applied in the jurisdiction. A more detailed account of each of the respective judicial decisions, administrative determinations and guidelines then follows.

5.1 The Netherlands

The FRAND solution legal transfer was first applied in a determination of an injunction application involving FRAND-encumbered SEPs in the Netherlands in the 2012 judicial decision of The Hague District Court in *Apple Inc v Samsung Electronics Co Ltd* (‘*Apple v Samsung*’).²⁵

²⁴ Ibid.

²⁵ *Apple Inc et al* (‘*Apple*’) *v Samsung Electronics Co Ltd* (‘*Samsung*’) [Preliminary Judgment], *Rechtbank Den Haag* [The Hague District Court], 400367 / HA ZA 11-2212, 400376 / HA ZA 11-2213 400385 / HA ZA 11-2215, 14 March 2012 (‘*Apple v Samsung* (The Hague District Court, 14 March 2012)’); *Apple Inc et al* (‘*Apple*’) *v Samsung Electronics Co Ltd* (‘*Samsung*’)[Final Judgment], *Rechtbank Den Haag* [The Hague District Court], 400385 / HA ZA 11-2215, 22 June 2012.

As discussed below, this 2012 decision applied a defence to injunctive actions that at that time was unique to Dutch abuse of rights and patent law. However, as the Netherlands is an EU member, following a 2015 decision that set a new precedent in the EU, Dutch courts began deciding injunction determinations involving SEPs in accordance EU competition law.²⁶

The pre-2015 Dutch “special circumstances” injunction defence was introduced in the 2010 decision of The Hague District Court in *Koninklijke Philips NV* (‘*Philips*’) v *SK Kassetten GmbH & Co. KG* (‘*SK Kassetten*’).²⁷

The 2010 *Philips v SK Kassetten* decision rejected the competition law-based defence from the German *Orange Book Standard* case as inconsistent with Dutch law.²⁸ Instead, The Hague District Court held that even after a SEP owner proven that a standard implementer had infringed its SEP, Dutch courts could refuse to grant the SEP owner an injunction under ‘special circumstances’.²⁹

Later in 2010, The Hague District Court applied the special circumstances defence in its decision in *LG Electronics Inc* (‘*LG*’) v *Sony Supply Chain Solutions (Europe) BV* (‘*Sony*’).

²⁶ The mid-2015 Court of Justice of the European Union (‘CJEU’) decision in *Huawei Technologies Co Ltd* (‘*Huawei*’) v *ZTE Corp* (‘*ZTE*’) bound all European Union (‘EU’) member states to determine injunction applications involving standard-essential patents under EU competition law. See section 5.5.1 in this chapter. The first Dutch case to comply *Huawei v ZTE* was The Hague District Court decision in *Koninklijke Philips NV* v *Archos SA* (‘*Philips v Archos*’). In that decision, the standard implementer, Archos proved that the SEP owner Philips was subject to FRAND commitment. However, Archos was unable to show that Philips’ licensing offers were not FRAND. *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 20); *Koninklijke Philips NV v Archos SA* (‘*Philips v Archos*’), *Rechtbank Den Haag* [The Hague District Court], C/09/505587 / HA ZA 16206, 8 February 2017 <<https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025>>.

²⁷ *Koninklijke Philips NV v SK Kassetten GmbH & Co KG* (‘*Philips v SK Kasetten*’), *Rechtbank Den Haag* [The Hague District Court], 316533/HA ZA 08-2522, 316535 / HA ZA 08-2524, 7 March 2010.

²⁸ *Orange Book Standard*, *Bundesgerichtshof* [German Federal Court of Justice], KZR 39/06, 6 May 2009 (IPEG Consultancy trans) <<http://www.ipeg.com/blog/wp-content/uploads/EN-Translation-BGH-Orange-Book-Standard-eng.pdf>>.

²⁹ Ibid; Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme, ‘A Further Perspective on Apple v Samsung: How to Successfully Enforce Standard Essential Patents in the Netherlands’ (2012) 7–8 *Berichten Industriële Eigendom* 222, 224.

In that case, the court refused to grant the SEP owner, LG an injunction as LG had previously made commitments to a SSO to submit all of its licensing disputes to an arbitrator for a binding resolution. The Dutch court therefore determined that these commitments amounted to special circumstances, as they provided a means for the dispute to be resolved without the need for injunctive action.³⁰

5.1.1 2012 *Apple v Samsung* decision: Abuse of Rights

The Hague District Court issued a preliminary and final judgment, on 14 March 2012 and 20 June 2012 respectively, concerning an application of the SEP owner, Samsung for an injunction in respect to the alleged infringements of the standard implementer, Apple against four of Samsung's telecommunications technology SEPs.³¹ The Hague District Court refused to grant Samsung an injunction, in part citing Apple's FRAND defence, relating to Samsung's behaviour during its licensing negotiations with Apple.³²

Enforcement of FRAND Commitments

The Hague District Court did not make a final determination as to whether the SEP owner, Samsung had offered FRAND-compliant terms to the standard implement, Apple. Contemporary commentators suggested that this was because the court found that Samsung's conduct in its licensing negotiations with Apple had abused its rights and prejudiced the outcome of the negotiations.³³

³⁰ European Commission, Joint Research Centre, *Licensing Terms of Standard Essential Patents: A Comprehensive Analysis of Cases* (Publications Office of the European Union, 2017) 48 ('*Licensing Terms of Standard Essential Patents*').

³¹ The four disputed patents were all European patents used in the Universal Mobile Telecommunications Service ('UTMS') is a third-generation ('3G') standard (EP 1 096 516, EP 1 114 528, EP 1 478 136 and EP 1 188 269). Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme, 'A Different Perspective on Samsung v. Apple: Guidance on Enforcing FRAND Pledged Patents in the Netherlands', *De Brauw Blackstone Westbroek Legal Alerts* (26 October 2011) <<http://www.debrauw.com>>.

³² The Hague District Court also cited Apple patent exhaustion defence as grounds for denying Samsung an injunction. Kuipers, Groenevelt and Lamme (n 28) 222, 228.

³³ *Ibid* 225.

Samsung's conduct and The Hague District Court's assessment of this is discussed in section two of chapter six of this thesis.³⁴

Application of the Unwilling Licensee Test

Having noted that the standard implementer, Apple had refused to cross-license some of its non-SEPs and other IP rights, The Hague Court did not find that this made Apple an unwilling licensee.³⁵

Instead, the court concluded that Apple was actively seeking to enter into a licensing agreement for Samsung's SEPs, based on its request for licensing terms prior to the initiation of the injunction proceedings and its submission of two counteroffers to Samsung.³⁶ In making this determination, the court also found that the royalties that Apple had proposed in its two counter-offers did not 'appear too unreasonable'.³⁷

5.2 South Korea

The FRAND solution legal transfer has been applied in South Korea in one judicial decision, two administrative determinations and one set of administrative guidelines.

In 2012, the Seoul Central District Court drew on the two conventional elements of the regulatory solution in deciding the *Samsung Electronics Co Ltd ('Samsung') v Apple Korea Ltd ('Apple')* case under South Korean abuse of rights law.³⁸

³⁴ See section 2.1 in chapter 6.

³⁵ Kuipers, Groenevelt and Lamme (n 28) 226.

³⁶ Ibid.

³⁷ Ibid.

³⁸ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [*Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment*], 서울중앙지방법원 제11민사부 [*Seoul Central District Court Civil Division No 11*], 2011 가합 39552 [2011 Civil trial panel 39552], 24 August 2012 [*Supreme Court Library of Korea trans, 2012*]
<http://library.scourt.go.kr/SCLIB_data/decision/Seoul%20Central%20Disctrict%20Court%20Decision%202011GaHap39552.htm> (accessed 20 November 2019).

In 2014 and 2017, the Korea Fair Trade Commission ('KFTC') applied the FRAND solution legal transfer in its administrative determinations respectively concerning the SEP owners, *Samsung Electronics Co Ltd* ('Samsung') and Qualcomm Inc ('Qualcomm').

In 2014, the KFTC also implemented the FRAND solution legal transfer in amendments it made to its enforcement guidelines, the Review Guidelines on Unfair Exercise of Intellectual Property Rights ('*KFTC IP Guidelines*').³⁹

In its two determinations and guidelines, the KFTC has proposed to apply, or has applied, penalties under South Korean competition law and unfair business practices law where the KFTC sees the practice of patent hold-up affecting local competition and fair trading.

The *KFTC IP Guidelines* recognise that such patent hold-up can occur where:

[a SEP owner] requires the payment of excessive royalty from willing licensees or fil[es] an injunction to impose unfair conditions ... with an intention to exclude competitors or obstruct ...competitors' business activities⁴⁰

The KFTC guidelines propose that this practice is not only anti-competitive and contrary to fair trade, but is an abuse of rights, drawing on the 2012 *Samsung v Apple* decision without expressly citing it. Thus, where such a FRAND-encumbered SEP owner seeks an injunctive action against a willing licensee, the KFTC guidelines propose that this conduct:

can be determined as a behaviour that restricts competition in the relevant market as it exceeds the reasonable extent of [the] exercise of patent right.⁴¹

³⁹ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016, above n 55.

⁴⁰ Ibid III 5B.

⁴¹ Ibid.

5.2.1 2012 *Samsung v Apple* decision: Abuse of Rights

In its 24 August 2012 decision, the Seoul Central District Court granted Samsung an injunction with damages against Apple for infringement of two of Samsung's SEPs in the former's smartphone and tablet devices.⁴²

Enforcement of FRAND Commitments

Based on evidence that Samsung, the SEP owner had made a FRAND commitment, the Seoul Central District Court assessed the royalty rate that Samsung offered to Apple and ultimately determined that it was a FRAND rate.⁴³

The Seoul Central District Court then appeared to include this determination as another factor in its assessment whether Samsung, in seeking injunctive action against the standard implementer, Apple, Samsung had committed an abuse of rights.⁴⁴

The court considered whether Samsung had committed two abuse of rights offences. The first of these offences assessed whether Samsung had committed an abuse of rights under the South Korea's Civil Code. The second of the offences assessed whether Samsung had committed an abuse of its patent rights.

Article 2(2) of the *Civil Act* of South Korea states that abuses of rights are not permitted.⁴⁵ The Seoul Central District in *Samsung v Apple* set out the elements of the abuse of rights

⁴² Methods comprising the elements recited in Claim 4 of the '975 Patent, Claim 1 of the '900 Patent and Claim 6 of the '900 Patent, Ibid 2; Attachment 2(4),(6),(7). Ibid 2–4.

⁴³ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [*Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment*], 서울중앙지방법원 제11민사부 [*Seoul Central District Court Civil Division No 11*], 2011 가합39552 [2011 Civil Trial Panel 39552], 24 August 2012 [*Supreme Court Library of Korea Trans, 2012*]
<http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20District%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 37) 165, 180.

⁴⁴ Ibid 184–5.

⁴⁵ 민법 [*Civil Act*] (Republic of Korea), National Assembly of South Korea, Law No 471, 22 February 1958 (Partial Amendment Act No.14409, 20 December 2016) art 2(2).

offence under Civil Code, citing a 2011 decision of the Supreme Court of South Korea.⁴⁶

To prove that a party has committed an abuse of rights under the Civil Code, requires that subjective and objective elements of the offence be met.⁴⁷ The subjective element to be shown is that the relevant exercise of a right only had the purpose of harming the other party and there was no benefit to the accused party.⁴⁸ The objective element of the offence to be shown is that the exercise of the right violated the social order.⁴⁹

The Seoul Central District Court found that Samsung had not committed an abuse of rights under the Civil Code as its exercise of its right to seek an injunction was not only to harm Apple and not without benefit to Samsung.⁵⁰ The injunctive action had the other purpose of stopping Apple from infringing its SEPs and the benefit to Samsung of relieving it of the damages suffered by Apple's infringement.⁵¹ The court also recognised the social need to protect the substantial investments and technical expertise required to produce innovative technologies in telecommunications-related patents.⁵²

The Seoul Central District Court also explained the elements of the offence of committing an abuse of patent rights, in this case, citing a 2007 decision of the Supreme Court of South

⁴⁶ 대법원 [Supreme Court] 《선고 2011 다 12163》 [Case No 2011 Da 12163], 28 April 2011 (Korean) <http://library.scourt.go.kr/SCLIB_data/case_pdf/2011%B4%D912163.pdf>.

⁴⁷ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20District%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 37) 176.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid 185.

⁵¹ Ibid.

⁵² Ibid.

Korea.⁵³

The court explained that if a patent owner abuses its patent rights, it will lose protection of those rights under law. This will occur if, in exercising its rights, a patent owner disturbs fair competition or the order of trade, or deviates from the purpose or function of the patent system and violates the principle of good faith owed to consumers or other commercial parties.⁵⁴

The Seoul Central District Court ultimately determined that Samsung did not abuse its patent rights.⁵⁵ Specifically, the court found that Samsung did not seek an injunction against Apple to restrict fair competition or disturb the trade order by excluding Apple from the market or restricting its market entry.⁵⁶ Having found that Apple continued to use Samsung's SEPs without seeking a license after being informed of the alleged infringement, the court also held that such an exercise of rights does not deviate from the purpose or function of the patent system.⁵⁷ Therefore, Samsung did not violate the principle of good faith owed to consumers or other commercial parties.⁵⁸

However, beyond making the above direct responses to the criteria of the abuse of patent rights offence, the Seoul Central District Court also stated that it had considered the circumstances of Samsung and Apple's interactions as a whole.⁵⁹ The other factors the court

⁵³ 대법원 [Supreme Court] 《선고 2005 다 67223》 [Case No 2005 Da 67223], 25 January 2007 (trans Supreme Court Library of Korea) <http://library.scourt.go.kr/SCLIB_data/case_eng/2_842005Da67223.htm>.

⁵⁴ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20District%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 37) 177.

⁵⁵ Ibid 186, 190.

⁵⁶ Ibid 187–8.

⁵⁷ Ibid 186.

⁵⁸ Ibid.

⁵⁹ Ibid.

gave for not finding that Samsung had abused its patent right, were criticisms of Apple's conduct and so, consistent with the FRAND solution model, can be seen as the court's application of the unwilling licensee test.

Application of the Unwilling Licensee Test

As explained immediately above, the following conduct of the standard implementer, Apple, in the 2012 *Samsung v Apple* decision of the Seoul Central District Court, influenced the court's decision to grant the SEP owner, Samsung, an injunction. Therefore, Apple's conduct is listed below as unfair or bad faith behaviour that identifies Apple as an unwilling licensee.

Apple's offending conduct, as identified by the Seoul Central District Court, included:

- 1) being aware of its infringement and not requesting a license;
- 2) refusing to acknowledge the validity and its infringement of the SEPs;
- 3) being, in part, responsible for the delays in the licensing negotiations;
- 4) substantially devaluing Samsung's patents in its counter-offers;
- 5) not providing a deposit equivalent to the royalties due while its challenges to the validity and infringement of the SEPs were determined;
- 6) requesting the disclosure of information on other licensee' licensing agreements without offering to complete a confidentiality agreement and using these delays to attempt to delay injunctive action;
- 7) using litigation and the denial of the validity and infringement of the SEPs to avoid paying the royalties owing before the end of the litigation.⁶⁰

5.2.2 2014 Samsung Determination: Abuse of Rights and Competition Law

In 2014, the KFTC completed a two-year investigation in response to allegations that Apple had made, concluding that in seeking injunctions in relation to its FRAND-encumbered SEPs, Samsung did not behave anti-competitively.⁶¹ However, as the Commission did not

⁶⁰ Ibid 186–9.

⁶¹ 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea) National Assembly of South Korea), Law No. 3320, 31 December 1980
<<http://Www.Wipo.Int/Wipolex/En/Profile.Jsp?Code=KR>>, 3–2(1)3 ('1980 Monopoly Regulation and Fair Trade Act'); Intellectual Property and Standard Setting – Note by Korea (OECD), 20 November 2014, para 16.

initiate a prosecution, the KFTC did not publish a written decision explaining its reasoning for not doing so.⁶²

Therefore, the below discussion is based on accounts of a press release that the KFTC circulated on the decision in early 2014.⁶³

Enforcement of FRAND Commitments

In the KFTC's assessment of their previous licensing negotiations in which Samsung was the SEP owner and Apple the standard implementer, the KFTC reportedly found that Samsung had offered Apple, licensing of its SEPs on FRAND terms.⁶⁴ Reportedly, this determination was based on the KFTC finding that Samsung's offers were based on a clear and reasonable set of factors.⁶⁵ These factors included:

- i) the technological value of the patent to be licensed;
- ii) the scope and duration of the license;
- iii) whether a cross license was to be granted; and
- iv) the turnover of the related products.⁶⁶

Application of the Unwilling Licensee Test

The KFTC was also reported to have found that Apple had acted as an unwilling licensee during its licensing negotiations with Samsung. The Commission is said to have based this conclusion on the following unfair or bad faith conduct of the standard implementer – including:

⁶² Youngjin Jung, 'How Intellectual Property Rights Interact with Competition Law and Policy in Korea: QUO VADIS?' (2018) 9(4) *Journal of European Competition Law & Practice* 249, 255–6.

⁶³ *Ibid.*

⁶⁴ *Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014, DAF/COMP/WD(2014)115, 20 November 2014* <[http://www.Oecd.Org/Officialdocuments/Publicdisplaydocumentpdf/?Cote=DAF/COMP/WD\(2014\)115&doclanguage=en](http://www.Oecd.Org/Officialdocuments/Publicdisplaydocumentpdf/?Cote=DAF/COMP/WD(2014)115&doclanguage=en)> (n 60) [23].

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

- i) seeking litigation while negotiations between the parties were ongoing;⁶⁷
- ii) severely undervaluing of Samsung's SEPs in counter-offers;⁶⁸ and
- iii) refusing to pay security on the disputed SEPs as negotiations continued.⁶⁹

5.2.3 2016 Korea Fair Trade Commission *Intellectual Property Rights Guidelines: Abuse of Rights & Competition Law*

On 23 March 2016, the KFTC issued a revised version of its *KFTC IP Guidelines*.⁷⁰

While the guidelines lack the force of law, they do indicate how the KFTC is most likely to apply South Korea's competition law, the *Monopoly Regulation and Fair Trade Act* ('*MRFTA*') in a given circumstance.⁷¹

In 2014, a media release accompanying amendments to the guidelines stated that these amendments were being added to counter:

the abuse of patents by non-practicing entities and the owners of a [SEP], which has recently emerged as an issue in the intellectual property sector.⁷²

⁶⁷ Ibid [22].

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016, Korea Fair Trade Commission, 'KFTC Rationalizes Its Regulations on SEPs to Promote Technology Innovation - The Amendment to Review Guidelines on Unfair Exercise of Intellectual Property Rights Is Finalized and Has Taken Effect' (Official English Translation of Amended guidelines)(Media Release, 30 March 2016) <<http://www.ftc.go.kr/eng/solution/skin/doc.html?fn=366aa2f4a69f216a84a85de9d158544e679a8566574b877747c75936e16794ea&rs=/eng/files/data/result/files/bbs/2016/#>>>.

⁷¹ 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea), National Assembly of South Korea, Law No. 3320, 31 December 1980 (n 60).

⁷² Korea Fair Trade Commission, 'Legal Basis Established for Regulation on Patent Trolls, Abuse of Standard-Essential Patents, Etc.: KFTC Amends "Guidelines for Examination of Improper Exercise of Intellectual Property Rights"' (Media Release, 24 December 2014) <<http://Www.Ftc.Go.Kr/Eng/Bbs.Do>>.

In 2016, changes were made to some of the amendments inserted in the guidelines in 2014.⁷³ However, none of the changes made in 2016 affected the 2014 amendments discussed below and in section 3.3 of chapter six of this thesis.⁷⁴

Enforcement of FRAND Commitments

The *KFTC IP Guidelines* recognise that:

If a SEP owner commit[s] to license standard essential technologies on FRAND terms, it means the SEP owner has an obligation to negotiate faithfully with willing licensees concerning a licensing agreement on FRAND terms ...⁷⁵

The *KFTC IP Guidelines* state that in determining whether a SEP owner has ‘faithfully performed its negotiation obligation’, matters that can be considered can include ‘whether terms of license offered to licensees are reasonable and non-discriminative’.⁷⁶

Application of the Unwilling Licensee Test

The guidelines recognise that patent hold-out can occur and that the seeking of an injunction may be the only way that a SEP owner can protect its IP.⁷⁷

⁷³ The 2016 amendments to the Review Guidelines on Unfair Exercise of Intellectual Property Rights (‘KFTC IP Guidelines’ limited the definition of standard technologies to those that standard-setting organisations and other similar institutions had defined as such. The guidelines also restricted their definition of a standard-essential patent (‘SEP’) to a patent that had been incorporated into a standard and that a SEP owner had voluntarily committed to licensing on [fair,] reasonable and non-discriminatory (‘FRAND’) terms. Finally, he revised guidelines were amended to demonstrate how the Korea Fair Trade Commission would distinguish in the prosecution of matters involving FRAND-encumbered, as opposed to de-facto SEPs. Korea Fair Trade Commission (n 69) 3.

⁷⁴ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (The Korea Fair Trade Commission (KFTC) Did Not Issue an English Translation of 2016 Revision of Review Guidelines. Commentary on the 2016 Review Guidelines Is Based on the KFTC English Translation of the 2014 Review Guidelines and a 2016 KFTC Press Release Issued with 2016 Revision of Review Guidelines) (n 38).

⁷⁵ Ibid III 5B.

⁷⁶ Ibid III 5B Note 1.

⁷⁷ Ibid Art 5B, Note 2(1)-(2).

Thus, the KFTC IP guidelines allow that SEP owners may be permitted to seek injunctions where a standard implementer:

- i) has not negotiated in good faith or delays paying royalties;
- ii) has refused to abide by terms determined by a court or arbitrator; or
- iii) is otherwise unlikely to pay royalties owing, e.g. as it is near bankrupt.⁷⁸

5.2.4 2017 Korea Fair Trade Commission *Qualcomm Determination*: Abuse of Rights & Competition Law

In early 2017, the KFTC fined the SEP owner, Qualcomm Inc (‘Qualcomm’) a total of 1.01 trillion KRW (900 million USD), for breaches of South Korea’s competition and unfair business practice laws.⁷⁹

However, distinct from the other determinations and regulations discussed in this chapter, the Commission’s investigation did not cite evidence of the SEP owner abusing its right to seek injunctive action on FRAND-encumbered SEPs. Instead, the KFTC held that Qualcomm’s business model itself had ‘virtually the same effect’ as abusive injunctive action, while also effectively circumventing its FRAND commitments and denying standard implementers the basic protections of a judicial process.⁸⁰

Enforcement of FRAND Commitments

The KFTC held that Qualcomm had breached its commitment to license to standard implementers on FRAND terms, in relation to its rival modem chipset (‘MC’) manufacturers, in the following two ways:

- 1) prior to 2008, Qualcomm had imposed restrictions on the licensing of its FRAND-encumbered SEPs to rival MC manufacturers – in requiring that the latter:

⁷⁸ Ibid.

⁷⁹ *퀄컴의 시장지배적지위남용 행위 등에 대한 건* [In re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.pdf> (accessed 20 November 2019) 2–5.

⁸⁰ Ibid [394]; [394]–[398].

- i) only sell their MCs to handset manufacturers that had entered into licensing agreements with Qualcomm;⁸¹
 - ii) report to Qualcomm data on their own MC sales;⁸² and
 - iii) cross-license all of their patents to Qualcomm, free of any obligation to pay royalties and of any threat of injunction action.⁸³
- 2) after 2008, Qualcomm refused to license its FRAND-encumbered SEPs to rival MC manufacturers.⁸⁴

Application of the Unwilling Licensee Test

The 2017 KFTC decision records that it did apply the unwilling licensee test to those MC manufacturers that claimed that Qualcomm had either restricted or denied their licensing of its FRAND-encumbered SEPs.⁸⁵ However, the decision does not state on what grounds the KFTC concluded that each of the MC manufacturers demonstrated a genuine intent to enter into a licensing agreement on FRAND terms with Qualcomm.⁸⁶

5.3 United States

Two examples of the FRAND solution legal transfer being applied in the US, include one prominent judicial decision and one administrative determination.

⁸¹ Ibid [79].

⁸² Ibid [80].

⁸³ Ibid [81].

⁸⁴ Ibid [84].

⁸⁵ Ibid [329]-[330].

⁸⁶ For example, the decision refers to the standard-essential patent ('SEP') owner, Qualcomm licensing its SEPs to five modem chipset ('MC') manufacturers on restricted terms prior to 2008. The names of these firms are redacted from the public decision, however the 2017 Korea Fair Trade Commission ('KFTC') determination explicitly identifies the other MC manufacturers as 'willing licensees'. The KFTC decision also referred to three other MC manufacturers – again in redactions – that Qualcomm refused to grant SEP licensing after 2008. Again, in its 2017 decision, the KFTC likewise described these firms are also being 'willing licensees ... with the capability and willingness to pay royalties'. Ibid.

In the Matter of Motorola Mobility LLC and Google Inc, in 2013, the US Federal Trade Commission ('US FTC') proposed to charge Google Inc and its subsidiaries ('Google') with practicing unfair market competition ('UMC') under Section 5 of the *Federal Trade Commission Act* ('FTC Act').⁸⁷

This UMC offence imposes fines of up to 10,000 USD for each violation of a US FTC order.⁸⁸ US district courts are also empowered to grant injunctions and other equitable relief as deemed necessary for the enforcement of the US FTC orders.⁸⁹

In this application of its UMC power, the US FTC alleged that Google had taken injunctive action against standard implementers that were willing licensees – in breach of their FRAND commitments.

In the 2013 *Microsoft Corp* ('Microsoft') case *v Motorola Mobility Inc* ('Motorola') case, the standard implementer, Microsoft took action against the SEP owner, Motorola for failing to offer FRAND rates in compliance with its FRAND commitments. In its decision, the Washington State District Court recognised the invitation of a SSO to the SEP owner, Motorola to participate in its standardisation activities as effectively an offer to contract.⁹⁰ Therefore, Motorola's acceptance of this offer became contractually binding – with its FRAND commitment forming part of this "FRAND contract".⁹¹ This construction of the interactions between the parties, then allowed the standard implementer, Microsoft – as an intended third-party beneficiary to this agreement, to legally enforce its FRAND commitments terms and against Motorola.⁹²

⁸⁷ *Federal Trade Commission Act of 1914* s 5.

⁸⁸ *Federal Trade Commission Act of 1914*, 15 US Code §45(l) (2017).

⁸⁹ *Ibid.*

⁹⁰ *Microsoft Corp v Motorola Inc*, 854 F Supp 2d 993 (WD Wash, 2012) 9–10.

⁹¹ *Ibid.*

⁹² *Ibid* 10–11.

5.3.1 2013 US Federal Trade Commission Order against Google: Unfair methods of competition

On 23 July 2013, the US FTC ordered Google to ‘cease and desist’ injunctive action in relation to its FRAND-encumbered SEPs used in smartphones, wireless networks and audio-visual devices.⁹³

Enforcement of FRAND Commitments

To avoid sanction under Section 5 of the *FTC Act*, Google agreed to enter into a 10-year compliance regime with the US FTC, under threat of further enforcement action on breach of this compliance regime.⁹⁴ Specifically, the compliance regime required Google to meet its FRAND commitments by restricting its rights to seek an injunction and obliging it to undertake activities that should ensure that the terms of agreements entered into are FRAND.

For example, where a standard implementer disputes that Google’s offered term are FRAND, at least 60 days prior to filing for an injunction, Google must offer to enter into binding arbitration with the standard implementer.⁹⁵ If the standard implementer agrees to enter into binding arbitration, Google must ensure that a licensing agreement is entered between it and the standard implementer within 30 days of the arbitrator setting the terms of the agreement.⁹⁶

Application of the Unwilling Licensee Test

The FTC-imposed regime applied the second element of the FRAND solution legal transfer in permitting Google to seek injunctions against a standard implementer that was acting in the manner of an “unwilling licensee”.

⁹³ *In the Matter of Motorola Mobility LLC and Google Inc (Decision and Order)*, United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 II B-D. Ibid I, AA. This decision was preceded only months earlier by a similar case, *In the Matter of Robert Bosch GmbH*, [2013] Docket No C-4377, 24 April 2013 (‘Bosch’). In the *Bosch* settlement, the United States Federal Trade Commission similarly compelled a standard-essential patent (‘SEP’) holder to comply with its commitments to license its SEPs on fair, reasonable and non-discriminatory terms (‘FRAND’).

⁹⁴ *In the Matter of Motorola Mobility LLC and Google Inc (Decision and Order)*, United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 (n 92) Pt IX.

⁹⁵ *Ibid* art IV B2.

⁹⁶ *Ibid* art IV B2(f).

This included a standard implementer that refused to enter into a licensing agreement or to accept licensing terms determined by a court or through binding arbitration.⁹⁷ Standard implementers could also lose the protection of a FRAND defence against injunctive action, if they failed to respond to an offer of licensing terms after thirty days.⁹⁸

5.3.2 2013 Microsoft v Motorola decision

The *Microsoft v Motorola* decision of the Washington State District Court is most well-known for being the first US court to calculate an exact FRAND value for the licensing of SEPs subject to dispute. The case concerned SEPs owned by Motorola, relating to wireless network and video compression standards, which it claimed Microsoft had infringed in its manufactured products.⁹⁹

Enforcement of FRAND Commitments

Based on its calculations of FRAND rates for the dispute SEPs, Washington State District Court found that Motorola had offered licensing rates in excess of the FRAND rate, and therefore that the SEP owner had breached its FRAND commitment.¹⁰⁰

Application of the Unwilling Licensee Test

The Washington State District Court in *Microsoft v Motorola* was not required to assess whether or not the standard implementer, Microsoft was an unwilling licensee.

However, in its 2014 decision in *Apple Inc* ('Apple') *v* *Motorola Inc* ('Motorola'), the US Court of Appeals for the Federal Circuit ('CAFC') endorsed the use of the unwilling licensee test in US courts – noting that:

an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.¹⁰¹

⁹⁷ 2013 FTC Google Mobility Decision and Order II, E, 4.

⁹⁸ *Ibid*.

⁹⁹ *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 25 April 2013) slip op 3.

¹⁰⁰ *Ibid* [456]; [459].

¹⁰¹ *Apple Inc v Motorola Inc* 757 F 3d 1286 (Fed Cir, 2014) 71–72.

The CAFC also cited the *Policy Statement on Standard Essential Patent Remedies*, as a source of examples of when these refusals and delays might occur, that the United States Department of Justice ('DOJ') and United States Patent and Trademark Office ('USPTO') jointly issued in 2013 ('DOJ-USPTO Guidelines').¹⁰²

The DOJ-USPTO Guidelines suggest that refusals to pay FRAND royalties and delays to enter negotiations should be seen as indicative of a more generalised 'constructive refusal to negotiate'.¹⁰³ The guidelines propose that an infringing party can be seen to be effectively refusing to negotiate – and unwilling to license – where the terms of its counteroffers are:

clearly outside the bounds of what could reasonably be considered to be F/RAND terms [and are] an attempt to evade the putative licensee's obligation to fairly compensate the patent owner.¹⁰⁴

The DOJ and USPTO further maintain that their policy statement does not seek to provide an exhaustive list of the practices of unwilling licensees, but only to identify:

relevant factors [for] determining whether public interest considerations should prevent the issuance of an exclusion order based on infringement of

¹⁰² *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments* United States Department of Justice and United States Patent and Trademark Office, (United States of America), United States Department of Justice and United States Patent and Trademark Office, 8 January 2013 <<https://www.justice.gov/atr/page/file/1118381/download>> ('*Policy Statement on Standard Essential Patent Remedies*'). The policy statement is primarily intended to express the agencies' views on when the US International Trade Commission should issue its injunction-like import exclusion orders in investigations involving alleged SEP infringements. However, in the introduction to the policy statement, the agencies also recognised that their commentary may likewise be relevant to judicial proceedings. Note that the United States International Trade Commission is empowered to issue import exclusion orders under Section 337 of the *Tariff Act of 1930*, 19 U.S. Code § 1337. Following the submission of this thesis, a revised version of this policy was issued: The Policy Statement on Remedies for Standards-Essential Patents subject to Voluntary F/RAND Commitments (United States of America), United States Patent & Trademark Office, the National Institute Of Standards and Technology and the United States Department of Justice, Antitrust Division, 19 December, 2019 <<https://www.justice.gov/atr/page/file/1228016/download>>

¹⁰³ Ibid 7.

¹⁰⁴ Ibid.

a F/RAND-encumbered, standards-essential patent or when shaping such a remedy.¹⁰⁵

5.4 Japan

Two examples of applications of the FRAND solution legal transfer in Japan are a judicial decision in the Intellectual Property High Court of Japan ('IPHCJ') and amendments made to administrative enforcement guidelines issued by the Japan Fair Trade Commission ('JFTC').¹⁰⁶

The 2014 *Apple Japan v Samsung Electronics Co Ltd* case was decided under Japanese abuse of rights law.

The 2016 amendments to the *Guidelines for the Use of Intellectual Property under the Antimonopoly Act* ('JFTC IP Guidelines') proposed that a SEP owner's injunctive action could have consequences under Japan's competition law.¹⁰⁷

As the JFTC guidelines state:

bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent owner ... may fall under the exclusion of business activities ... by making it difficult to research and develop, produce or sell the products adopting the standards.¹⁰⁸

¹⁰⁵ Ibid 7–8.

¹⁰⁶ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014; 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frand.Pdf>.

¹⁰⁷ 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frand.Pdf> (n 105) Part 3(1)(i)(e).

¹⁰⁸ Ibid.

Article 2(5) of Japan's competition law prohibits behaviour as anti-competitive – or 'private monopolisation' – if it:

excludes or controls the business activities of other enterprises, thereby causing ... a substantial restraint of competition in any particular field of trade.¹⁰⁹

5.4.1 2014 *Apple v Samsung* decision

This dispute between Apple and Samsung concerned SEPs relating to smartphone technology and was decided by the IPHCJ on 16 May 2014.¹¹⁰

Enforcement of FRAND Commitments

The IPHCJ based its decision on the *Apple v Samsung* case on the fundamental prohibition in Article 1(3) the Japanese *Civil Code* against the abuse of rights.¹¹¹

In the 2014 case, the court found that it would be an abuse of rights for Samsung to seek an injunction against a willing licensee.¹¹² The court also held that it would be an abuse of rights

¹⁰⁹ 《私的独占の禁止及び公正取引の確保に関する法律》 [Act on Prohibition of Private Monopolization and Maintenance of Fair Trade] (State of Japan), National Diet, Act No 54, 14 April 1947 Art 3; *ibid* Art 2(5).

¹¹⁰ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 105).

¹¹¹ 民法 [*Civil Code*] (State of Japan), National Diet, Act No 89, 27 August 1896 art 1(3); Yuzuki Nagakoshi and Katsuya Tamai, 'Japan without FRANDS? Recent Developments on Injunctions and FRAND Encumbered Patents in Japan' (2016) 44 *American Intellectual Property Law Association (AIPLA) Quarterly Journal* 243, 245–6.

¹¹² 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 105) 128.

for Samsung to seek royalties in excess of FRAND terms, unless special circumstances prevailed.¹¹³

Application of the Unwilling Licensee Test

The IPHCJ suggested that an example of special circumstances permitting the SEP owner to seek royalty rates in excess of FRAND terms would be if a standard implementer was held to have ‘no intention to receive a FRAND license’, i.e. an unwilling licensee.¹¹⁴

In the *Apple v Samsung* case, the IPHCJ determined that Apple was not an unwilling licensee, the court finding that the standard implementer’s counter-offers were ‘fairly reasonable’.¹¹⁵

5.4.2 2016 Japan Fair Trade Commission *Intellectual Property Rights Guidelines: Abuse of Rights & Competition Law*

On 21 January 2016, the JFTC issued a revised version of its *JFTC IP Guidelines*.¹¹⁶

Enforcement of FRAND Commitments

The *JFTC IP Guidelines* demonstrate this in relation to the first element of the FRAND solution legal transfer by proposing to prosecute SEP owners that bring injunctions against

¹¹³ Ibid 130, 123–4.

¹¹⁴ Ibid 123–4.

¹¹⁵ In 2015, the Tokyo District Court in its decision *Imation Corporation Japan* (‘Imation’) v *One-Blue LLC* (‘One-Blue’) followed the 2014 *Samsung Electronics Co, Ltd* (‘Samsung’) v *Apple Japan* (‘Apple’) decision. In *Imation v One-Blue* decision, the standard-essential patent (‘SEP’) owner, One-Blue was found to have committed an abuse of rights for seeking an injunction against Imation that was found to be a willing licensee. One-Blue also failed to show that its royalty offer was FRAND. Imation was found to be a willing licensee due to its stated intent to license One-Blue’s SEPs and its two ‘fair and reasonable’ counter-offers. Ibid 129; 《イメーション株式会社対ワンブルー，エルエルシー》 [*Imation Corporation Japan v One-Blue LLC*] 東京地方裁判所民事第 29 部 [Tokyo District Court, 29th Civil Division, State of Japan] 平成 25 年(7)第 21383 号 [2013 Civil Case No 21383], 18 February 2015

<http://www.ip.courts.go.jp/app/files/hanrei_en/930/001930.pdf> (Summary of the Judgment) [Intellectual Property High Court, trans] 1, 2, 3 (‘*Imation v One-Blue* (Tokyo DC), 18 February 2015 (Court Summary)’).

¹¹⁶ 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016

<http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/ipgl_frand.pdf> (n 105).

willing licensees.¹¹⁷

Part three of the JFTC guidelines concerns anti-competitive restraints on the use of technology and states that:

[a refusal] to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent Owner, or refusal to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent Owner after the withdrawal of the FRAND Declaration for that Standard Essential Patent may fall under the exclusion of business activities of other entrepreneurs by making it difficult to research and develop, produce or sell the products adopting the standards.¹¹⁸

As cited above, Japanese competition law prohibits firms from engaging in ‘private monopolization’.¹¹⁹ The law defines this as business activity which ‘excludes or controls the business activities of other enterprises, thereby causing ... a substantial restraint of competition in any particular field of trade.’¹²⁰

Application of the Unwilling Licensee Test

The JFTC guidelines also propose to assess the willingness of an infringing party to enter into a licensing agreement, based on:

(their) attitude to the offers, such as prompt and reasonable counter offers, and whether or not the parties undertake licensing negotiations in good

¹¹⁷ *Ibid* Pt 3 (1) (i) (e); Pt 4 (2) (iv).

¹¹⁸ 知的財産の利用に関する独占禁止法上の指針 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], (State of Japan), Japan Fair Trade Commission, 21 January 2016, Part 3(1)(i)(e).

¹¹⁹ 《私的独占の禁止及び公正取引の確保に関する法律》 [Act on Prohibition of Private Monopolization and Maintenance of Fair Trade] (State of Japan), National Diet, Act No 54, 14 April 1947, art 3 (‘Anti-Monopoly Act’).

¹²⁰ *Ibid* art 2(5).

faith in light of the normal business practices.¹²¹

The JFTC guidelines further expressly state that parties will not be considered unwilling licensees as a consequence of choosing to challenge the validity or the essentiality of the disputed SEPs, nor if they deny their infringement of these.¹²²

5.5 European Union

The 2015 *Huawei Technologies Co Ltd* ('Huawei') v *ZTE Corp* ('ZTE') decision, is the leading authority in the EU on the granting of injunctions on SEPs.¹²³ The CJEU, the EU's highest court of appeal, issued the decision as a preliminary ruling, on request from a German district court hearing the *Huawei v ZTE* case.¹²⁴ As discussed below, the CJEU decision was based on EU competition law.¹²⁵

The 2017 *Unwired Planet International Ltd* ('UP') v *Huawei Technologies Co Ltd* ('Huawei') was decided in the patent court of the England and Wales High Court ('EWHC').¹²⁶ The decision followed the precedent established in the 2015 *Huawei v ZTE* case and applied EU competition law. However, the court argued that the case may have been better decided under contract law.¹²⁷

¹²¹ 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016
<http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frاند.Pdf> (n 105) Part 3(1)(i)(e).

¹²² Ibid.

¹²³ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 20) [39].

¹²⁴ Ibid.

¹²⁵ *Treaty on the Functioning of the European Union* ('TFEU'), Opened for Signature 7 February 1992, [2009] OJ C 115/199 (Entered into Force 1 November 1993) art 102.

¹²⁶ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 16).

¹²⁷ Ibid [723], [806](1).

5.5.1 2015 *Huawei v ZTE* decision: Competition Law

On 16 July 2015, the CJEU provided a preliminary judgment on issues referred to it by the Düsseldorf District Court, from the *Huawei v ZTE* case.¹²⁸ The dispute concerned the standard implementer, ZTE's alleged unlicensed use in its telecommunications equipment of SEPs owned by the SEP owner, Huawei.¹²⁹

Enforcement of FRAND Commitments

The CJEU established that Huawei had committed to licensing its SEPs on FRAND terms and possessed dominant market power through its SEPs.¹³⁰ Accordingly, the court held that Huawei would breach EU competition law if it did not offer a standard implementer FRAND terms as its FRAND commitment:

create(d) legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms, a refusal by the proprietor of the SEP to grant a licence on those terms may, in principle, constitute an abuse within the meaning of [the prohibition against abuse of dominant market position] in Article 102 of the [EU competition law, contained in the [*Treaty on the Functioning of the European Union* ['TFEU']]].¹³¹

Application of the Unwilling Licensee Test

The CJEU also applied the unwilling licensee test, imposing a three-step set of obligations that alleged SEP-infringing standard implementers must complete, in order to retain the protection of the FRAND defence.

¹²⁸ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 20) [39].

¹²⁹ *Ibid* [21].

¹³⁰ *Ibid* [22], [28].

¹³¹ *Ibid* [53]. The Court of Justice of the European Union notes that, according to the referring Düsseldorf District Court, the dominant market position of Huawei Technologies Co. Ltd in the case, is not in dispute. *Ibid* [28].

On being alerted to a possible SEP infringement, these three obligations require standard implementer to:

- 1) express a willingness to conclude a FRAND-compliant licensing agreement;¹³²
- 2) diligently respond to any FRAND-compliant offer provided by the SEP owner ‘in accordance with recognised commercial practices in the field and in good faith’;¹³³
- 3) If the SEP owner does not accept this initial counteroffer, before continuing negotiations, to provide ‘appropriate security, in accordance with recognised commercial practices in the field’.¹³⁴

On the second step, the CJEU held that if the standard implementer rejects the SEP owner’s initial licensing offer, it must reply ‘promptly and in writing, (with) a specific counter-offer that corresponds to FRAND terms.’¹³⁵ The court also stated that the standard implementer’s conduct in these negotiations will be assessed ‘on the basis of objective factors’ and are to be free of any ‘delaying tactics.’¹³⁶

Finally, the CJEU opinion makes clear that an alleged infringer will not lose its status as a willing licensee, if it challenges the validity or essentiality of the relevant SEPs, or its infringement of these.¹³⁷

5.5.2 2017 *Unwired Planet v Huawei* decision: Competition Law (Contract Law)

On 5 April 2017, the EWHC held that the standard implementer, Huawei, had infringed two European SEP granted in the UK to the SEP owner, UP.¹³⁸ As discussed below, as Huawei

¹³² *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 20) [63].

¹³³ Ibid [65].

¹³⁴ An example that the *Huawei Technologies Co Ltd v ZTE Corp* decision gives of appropriate security is the provision of ‘a bank guarantee or by placing the amounts necessary on deposit.’ Ibid [67].

¹³⁵ Ibid 66.

¹³⁶ Ibid [65].

¹³⁷ Ibid [69].

¹³⁸ The two patents are registered with the references EP (UK) 2 229 744 and EP (UK) 1 230 818. They are respectively implemented in the telecommunications network technologies of poll triggers and interRAT

refused to license the SEPs as part of a global patent portfolio, the EWHC held that Huawei was an unwilling licensee and awarded an injunction to UP.

On 23 October 2018, the England and Wales Court of Appeal ('EWCA') dismissed Huawei's appeal from the EWHC decision and upheld the first instance court's findings on all substantive issues.¹³⁹ Huawei has been granted leave to appeal its case to the UK Supreme Court, with a hearing expected in late 2020.¹⁴⁰

Enforcement of FRAND Commitments

In the first instance decision, the EWHC found that UP, had not complied with its FRAND commitment to offer FRAND-compliant licensing terms to standard implementers – with none of the offers to Huawei held to be FRAND-compliant.¹⁴¹

Application of the Unwilling Licensee Test

Huawei was found to be an unwilling licensee as it had refused to license UP's worldwide portfolio of licenses in order to be authorized to use the two UK SEPs it required.¹⁴²

The EWHC determined that only a worldwide license – and not a UK license – was FRAND, due to the inefficiency that UP would incur negotiating licensing of its patents on a country-by-country basis.¹⁴³ Therefore, the EWHC granted UP an injunction in respect to the two UK

handover. *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 16) [807] (18).

¹³⁹ *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018).

¹⁴⁰ The Supreme Court (United Kingdom of Great Britain and Northern Ireland), "Permission to Appeal Result - April 2019" (Media Release, April 2019) <<https://www.supremecourt.uk/docs/permission-to-appeal-2019-04.pdf>>; Eingestellt von Florian Mueller, 'Supreme Court of the UK Grants Huawei's Petition to Appeal Lower Court's Claim to Global FRAND Jurisdiction in Unwired Planet Case', *FOSS PATENTS* (23 April 2019) <<http://www.fosspatents.com/2019/04/supreme-court-of-uk-grants-huaweis.html>>.

¹⁴¹ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 16) [522].

¹⁴² *Ibid* [524].

¹⁴³ *Ibid* [524]; [543]; [572].

SEPs that the court had found Huawei had infringed.¹⁴⁴

Reviewing this issue on appeal, the EWCA affirmed the finding of the first instance court, including its determination that a global license was FRAND, due to its greater efficiency and consistency with industry practice.¹⁴⁵

6 Conclusion

Consistent with the aims set out at the beginning of this chapter, it first defined the technical terms that will be used throughout the thesis – namely: standards, SSOs and SEPs.

The chapter next explained the abusive licensing practices of patent hold-up and patent hold-out. This noted how through patent hold-up, SEP owners are seen to have the opportunity to exploit the reliance of standard implementers on having access to patents incorporated within the relevant standard, to demand excessive royalties or to deny licensing to their competitors. Conversely, standard implementers were seen to be able to delay enter into a licensing agreement or the making of royalty payments, thereby forcing SEP owners to incur litigation costs, as well as losses in revenue and cash flow. It is also proposed that patent hold-out discourages investments in further innovations and participation in standardisation projects.

The FRAND solution legal transfer was identified as a common regulatory response in jurisdictions around the world, in which courts and administrative agencies enforce the commitments that SEP owners have made to SSOs to license their SEPs subject to FRAND terms and conditions. SEP owners that failed to abide by their FRAND commitments are denied injunctive relief in the event of an infringement against their IP. Correspondingly, only standard implementers that are held to be willing licensees can claim the protection from injunctive action that the FRAND solution offers.

Finally, the chapter provided examples of the two conventional elements of the FRAND solution legal transfer – the enforcement of FRAND commitments and the application of the unwilling licensee test – being applied in five jurisdictions outside China.

¹⁴⁴ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 1304 (7 June 2017).

¹⁴⁵ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 16) [55]; [56].

These applications were made through a diverse range of laws and doctrines, including: the abuse of rights doctrine; competition law; contract law; and unique formulations of administrative law and exceptions to patent law. Nonetheless, in each case, the FRAND solution legal transfer as defined, was shown as being applied in the form of its two conventional elements.

Chapter 5: Seeking injunctions on standard-essential patents in China

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1 Introduction

1.1 Aims of this Chapter

The aims of this chapter are to:

- i) demonstrate that Chinese courts are assessing whether standard essential patent ('SEP') owners are licensing their SEP on fair, reasonable and non-discriminatory ('FRAND') terms consistent with decision-makers in the five other jurisdictions in section five of chapter four of this thesis (i.e. "going along?");
- ii) identify Chinese courts including a third element in their applications of the FRAND solution legal transfer – namely, process obligations – in injunction application determinations including FRAND-encumbered SEP owners (i.e. "going rogue?");
- iii) propose that China's variation of the FRAND solution legal transfer does not necessarily signify corruption or incompetent but instead a mutual transformation of the FRAND solution and Chinese legal culture through the legal transfer process (i.e. "going native?")

1.2 How the aims of the chapter address the thesis topic

This chapter most directly addresses the topic of this thesis in proposing how Chinese courts can make injunction determinations according to the incomplete law specifically-enacted for that purpose and principles and doctrine from China's basic law.

Preceding that, the chapter first tests whether the injunction determinations involving SEPs that Chinese courts have so far made, conform to the conventionally-cited elements of the FRAND solution – and so would be seen as determined according to law on that measure. As

set out in section four of chapter four, these two elements include an assessment of the SEP owner's compliance with its content licensing obligations (e.g. the offering of FRAND-compliant royalty rates) and the application of the unwilling licensee test.

However, complicating matters, this chapter finds that Chinese courts have assessed a third element in their injunction determinations involving SEPs – namely, compliance of SEP owners with their process obligations, i.e. relating to licensing negotiations conduct.

Accordingly, having proposed that the assessment of this third element can be made according to existing Chinese law, chapter six examines whether any of the other five jurisdictions have likewise lawfully applied this third element.

2 *Going Along? Applying the conventional elements of the FRAND solution*

Consistent with the approach of the five other jurisdictions examined in in section five of chapter four, Chinese courts have applied the FRAND solution in cases where FRAND-encumbered SEP owners are seeking injunctions.

The first Chinese courts to apply the conventional two elements of the FRAND solution were the first and second instance courts in the 2013 *Huawei Technologies Co Ltd ('Huawei') v InterDigital Corp ('IDC')* case in China's south-eastern Guangdong province.¹ The FRAND

¹ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp ('IDC') - Standard Essential Patent Royalty Dispute Case], 深圳中级法院 [Shenzhen Intermediate People's Court, People's Republic of China], 知民初字第 857 号 [Intellectual Property First Instance Decision No 857], 4 February 2013; 《人民司法·案例》 [People's Judicature - Cases] 2014, Vol 4, p 17; 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted version, on file with author); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》 [Huawei Technologies Corporation Limited v InterDigital Corporation - Abuse of Dominant Market Position Dispute Case] 深圳中级法院 [Shenzhen Intermediate People's Court, People's Republic of China], [2011] 深中法知民初字第 858 号 [Intellectual Property First Instance Decision No 858]; 2013 年中国法院 50 件典型知识产权案例之四十一 [2013 Top 50 Intellectual Property Law Typical Cases, No 41]; 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position

solution was applied a second time in the first and second instance decisions of the *IWNComm Co Ltd* (*‘IWNComm’*) *v Sony Mobile Communications Products (China) Co Ltd* (*‘Sony’*) case in Beijing in 2017 and 2018 respectively.² In 2018, the FRAND solution was applied a third time, again in Guangdong province, in the first instance, *Huawei Technologies Co Ltd* (*‘Huawei’*) *v Samsung (China) Investment Co Ltd* (*‘Samsung’*) decision.³

In the 2013 *Huawei v IDC* it was unclear under what law the Guangdong courts applied the FRAND solution. The SEP owner in the case, IDC, did not seek an injunction from the Chinese courts. However, as discussed below, the first and second instance courts in the case were highly critical of injunctive action that IDC had initiated in the United States (*‘US’*) against the standard implementer, Huawei. In fact, both courts concluded their condemnation of IDC’s US injunctive action with the finding that this litigation was a violation of China’s competition law, the 2008 Anti-Monopoly Law (*‘AML’*).

Both the 2017-18 *IWNComm v Sony* and 2018 *Huawei v Samsung* decisions were preceded by the 2016 *Interpretation of the Supreme People’s Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)* (*‘SPC Patent Law Interpretation II’*). This judicial interpretation of China’s highest court, Supreme People’s Court (*‘SPC’*), established that the decisions that the *IWNComm v Sony* and *Huawei v Samsung* courts made to grant

Dispute Case], 广东省高级人民法院 [Higher People’s Court of Guangdong Province (People’s Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013.

² 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第 1194 号 [First Instance Decision No 1194], 22 March 2017; 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [*Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case*], 北京市高级人民法院 [Beijing Higher People’s Court], 京民终 454 号 [Second Instance Civil Court Decision No 454], 28 March 2018.

³ 《华为技术有限公司与三星（中国）投资有限公司》 [*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People’s Court], 粤 03 民初 816 号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans).

injunctions to the SEP owners in those cases were an application of China's 2008 *Patent Law*.

2.1 2013 *Huawei v IDC* decisions

The first instance Shenzhen Intermediate People's Court ('IPC') issued its decision on 4 February 2013 and the second instance court, the Guangdong Higher People's Court ('HPC') handed down its decision on the FRAND duty-related aspects of the case on 16 October 2013 and its decision on the AML-related aspects of the case on 21 October 2013.

The first and second courts agreed that the SEP owner, IDC possessed dominant market positions in both the Chinese and US markets for the licensing of SEPs for second, third and fourth generation (2G, 3G and 4G) mobile communications technology.⁴ The two courts also held that IDC had abused that market dominance by imposing discriminative royalties on Huawei in comparison to other handset manufacturers and so had engaged in excessive pricing in breach of Article 17(1) of the AML.⁵ IDC was likewise found in breach of Article

⁴ 《中华人民共和国反垄断法》[Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 68, 30 August 2007 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6543>> Art 17(2) and 18 ('AML'); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province, People's Republic of China], 粤高法民三终字第 306 号 [Intellectual Property Appeal No 306], 21 October 2013 (Redacted version) <<http://www.gdcourts.gov.cn/gdgy/s/cpwsqk/findWsnrByid?wsid=LM4300000020140417030902158689>> ('Huawei v IDC (Guangdong HPC, No. 306, 21 October 2013) (Redacted)') This finding of market dominance was further supported by the limited nature of IDC's manufacturing activities. As it was determined to be unnecessary for IDC to reduce or waive its licensing fees in order to be granted the right to use the SEPs of other firms in its own manufacturing, the HPC court found that there was no countervailing force from any cross-licensing or other horizontal arrangement that would diminish IDC's dominant market position.

⁵ 《中华人民共和国反垄断法》[Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 68, 30 August 2007 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6543>> Art 17(1) ('AML'); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province, People's Republic of China], 粤高法民三终字第 306 号 [Intellectual Property

17(5) of the AML for unjustified tying of products, for insisting that Huawei license unwanted non-SEPs with the SEPs it was seeking.⁶

Finally, the Guangdong HPC endorsed the Shenzhen IPC's finding that IDC had acted anti-competitively in filing injunctive action against Huawei in the US on 26 July 2011.⁷

On that date, IDC filed injunctive actions against Huawei in the US District Court in Delaware and the US International Trade Commission ('USITC') alleging that the Chinese

Appeal No 306], 21 October 2013 (Redacted version)

<<http://www.gdcourts.gov.cn/gdgy/s/cpwsqk/findWsnrByid?wsid=LM4300000020140417030902158689>>

('Huawei v IDC (Guangdong HPC, No. 306, 21 October 2013) (Redacted)'); IDC's attempt to impose a "free grantback" condition on Huawei, as part of the licensing agreement, added further weight to this determination. Under this licensing condition, IDC would have been permitted to use and license to third parties any of Huawei's own patents without having to pay any royalties back to Chinese firm. These unpaid royalty fees were also not to be deducted from the royalties that Huawei would be required to pay IDC for the use of its SEPs. Accordingly, the Huawei v IDC courts saw this free grantback condition as further consideration that IDC would be receiving under the offered terms, and so as adding to the already excessive prices for licensing being demanded by the US firm. Ibid.

⁶ 《中华人民共和国反垄断法》[Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 68, 30 August 2007 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6543>> Art 17(5) ('AML'); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province, People's Republic of China], 粤高法民三终字第 306 号 [Intellectual Property Appeal No 306], 21 October 2013 (Redacted version)

<<http://www.gdcourts.gov.cn/gdgy/s/cpwsqk/findWsnrByid?wsid=LM4300000020140417030902158689>>

('Huawei v IDC (Guangdong HPC, No. 306, 21 October 2013) (Redacted)'); However, IDC's bundling of different "generations" of wireless communications systems (e.g. 2G, 3G, etc.), that had been superseded but were required for the operation of later upgrades, was recognised this to be a global industry practice and so not a further instance of anti-competitive tying. Ibid.

⁷ 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province (People's Republic of China)], 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 1).

firm had infringed seven of its US patents.⁸ If IDC had succeeded in its district court action, all Huawei products incorporating the infringing patents could not have been sold or marketed in the US.⁹ If IDC had also obtained an import ban through its action in the USITC, all of Huawei infringing products would have been banned from entering the US market.¹⁰ However, following the Guangdong court decisions, IDC discontinued these injunctive actions.¹¹

The Guangdong HPC likewise affirmed the Shenzhen IPC's decision to award damages against IDC of 20 million RMB (3.2 million USD) with costs.¹²

⁸ The allegedly infringed United States ('US') patents had the US patent numbers 7349540; 7502406; 7536013; 7616070; 7706332; 7706830; and 7970127, 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 15.

⁹ Ibid.

¹⁰ Ibid.

¹¹ The decision of InterDigital Corporation ('IDC') to discontinue its injunctive action in the United States may also have been influenced by an investigation into its licensing practices more generally by what was then China's anti-monopoly enforcement agency ('AMEA') regulating pricing-related issues. In 2014, this investigation was suspended, following IDC's entering into a settlement with the AMEA. In this settlement, the standard-essential patent ('SEP') holder agreed to three conditions. These included: to license its SEPs on (fair), essential and non-discriminatory ('FRAND) terms; not to require standard implementers to grant-back free licensing of their own patents; and to offer to enter into binding arbitration with standard implementers on disputed terms, prior to seeking any injunctive action. 国家发展改革委 [National Development and Reform Commission], 《国家发展改革委对美国 IDC 公司涉嫌价格垄断案中止调查》 [National Development and Reform Commission Suspends Investigation into US IDC Corporation for Alleged Anti-Competitive Pricing] (Media Release, 22 May 2014), <http://Www.Sdpc.Gov.Cn/Gzdt/201405/T20140522_612466.Html>; InterDigital Inc., 'China's NDRC Accepts InterDigital's Commitments and Suspends Its Investigation' (Media Release, 22 May 2014), <<http://Ir.Interdigital.Com/Releasedetail.Cfm?ReleaseID=849959>>.

¹² 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province (People's Republic of China)], 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 1).

As part of its remedial orders, the Shenzhen IPC obliged IDC to grant licensing to Huawei of its SEPs at a rate determined by the first instance court and affirmed by the Guangdong HPC, but that was roundly criticised by foreign commentators as a sub-market value.¹³

In late 2018, the SPC accepted IDC's petition for a retrial and issued a mediation order that terminated the outcome of the 2013 proceedings.¹⁴ In late 2019, it remained unclear when the results of the retrial could be expected. It was also apparent from reports whether the retrial only related to the royalty rate that the Guangdong courts had imposed or whether their findings on IDC's liability generally was to be reassessed.

¹³ The FRAND licensing rate that the Shenzhen Intermediate People's Court imposed on IDC was 0.019 percent on the sale price of every product incorporating its standard-essential patents 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard-essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court], 粤高法民三终字第 305 号 [Intellectual Property Appeal No 305], 16 October 2013 (Unredacted version, on file with author) 75 ('Huawei v IDC (Guangdong HPC), 16 October 2013 (Unredacted)'). Initial responses from commentators to this rate – provided before the Guangdong courts' judgments became publicly available – complained that the imposed licensing rate was significantly below the market pricing and unsubstantiated. One assessment of the imposed licensing rate, complained that it was 'orders of magnitude lower than the single-digit percentage demands' commonly found for large portfolio SEPs in the telecommunications industry.' Leon B. Greenfield et al., 'SEP Enforcement Disputes Beyond the Water's Edge: A Survey of Recent Non-U.S. Decisions', (2013) 28 Antitrust 50, 53, cited in D Daniel Sokol and Wentong Zheng, 'FRAND in China' (2013) 22 Texas Intellectual Property Law Journal 71, 89. However, when the decisions and details of the proceedings became publicly available, it was revealed that the Guangdong courts' calculations had to be based entirely on publicly-available material after IDC refused to provide pricing information to prove that its rates were neither excessive nor discriminatory against Huawei.^{13 13} 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 71–75; 'Interview with Chinese Lawyer (Guangzhou, China, 29 November 2015).'

¹⁴ Polina Noskova, 'Interdigital Granted Huawei Patent Case Retrial by China SPC', Bloomberg Law (online at 26 December 2018) <<https://news.bloomberglaw.com/ip-law/interdigital-granted-huawei-patent-case-retrial-by-china-spc>>.

2.1.1 Enforcement of FRAND Commitments

Consistent with the FRAND solution, the first and second instance *Huawei v IDC* courts each assessed whether the SEP owner, IDC had offered the standard implementer, Huawei licensing terms that were appropriately FRAND.¹⁵

In both cases, the courts determined that none of the four offers that IDC had made to Huawei over the course of their negotiations were FRAND-compliant.¹⁶ In each case, the *Huawei v IDC* courts agreed that, in addition to other aspects of IDC's offers, the royalty rates it proposed exceeded a FRAND value.¹⁷

¹⁵ In fact, in response to Huawei's allegations of discriminatory pricing, IDC refused to provide the Shenzhen IPC with comparative pricing information on the licensing rates that it was charging Huawei's rivals. Therefore, the court calculated nominal rates for the royalties that Apple Inc ('Apple') and the Samsung Group ('Samsung') were likely to be paying, based on aggregated data included in Apple and Samsung's publicly available financial information. 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard-essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court], 粤高法民三终字第 305 号 [Intellectual Property Appeal No 305], 16 October 2013 (Unredacted version, on file with author) 70–75 ('Huawei v IDC (Guangdong HPC), 16 October 2013 (Unredacted)').

¹⁶ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp ('IDC') - Standard Essential Patent Royalty Dispute Case], 深圳中级法院 [Shenzhen Intermediate People's Court, People's Republic of China], 知民初字第 857 号 [Intellectual Property First Instance Decision No 857], 4 February 2013; 《人民司法 案例》[People's Judicature - Cases] 2014, Vol. 4, p. 17 (n 1); 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 47; 71; 75.

¹⁷ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp ('IDC') - Standard Essential Patent Royalty Dispute Case], 深圳中级法院 [Shenzhen Intermediate People's Court, People's Republic of China], 知民初字第 857 号 [Intellectual Property First Instance Decision No 857], 4 February 2013; 《人民司法 案例》[People's Judicature - Cases] 2014, Vol. 4, p. 17 (n 1); 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong

2.1.2 Application of the Unwilling Licensee Test

Both the Shenzhen IPC and the Guangdong HPC recognize and appeared to apply the unwilling licensee test. Each court stated that SEP owners must not refuse to license their FRAND-encumbered SEPs to standard implementers that ‘in goodwill’ (善意) are willing to pay reasonable rates to use a patent holder’s SEPs.¹⁸ They also respectively found that Huawei was negotiating in goodwill at the time that IDC filed for injunctive action in the US.¹⁹

Nonetheless, commentators on the case noted that neither of the Guangdong courts recorded on what evidence they based their finding that Huawei had acted in goodwill during the negotiations and therefore was held not to be an unwilling licensee.²⁰

Provincial Higher People’s Court, People’s Republic of China, 粤高法民三终字第 305 号 [*Intellectual Property Second Instance No 305*], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 47.

¹⁸ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [*Huawei Technologies Co Ltd v InterDigital Corp ('IDC') - Standard Essential Patent Royalty Dispute Case*], 深圳中级法院 [*Shenzhen Intermediate People’s Court, People’s Republic of China*], 知民初字第 857 号 [*Intellectual Property First Instance Decision No 857*], 4 February 2013; 《人民司法 案例》 [*People’s Judicature - Cases*] 2014, Vol. 4, p. 17 (n 1); 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [*Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case*], 广东省高级人民法院 [*Guangdong Provincial Higher People’s Court, People’s Republic of China*], 粤高法民三终字第 305 号 [*Intellectual Property Second Instance No 305*], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 67.

¹⁹ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [*Huawei Technologies Co Ltd v InterDigital Corp ('IDC') - Standard Essential Patent Royalty Dispute Case*], 深圳中级法院 [*Shenzhen Intermediate People’s Court, People’s Republic of China*], 知民初字第 857 号 [*Intellectual Property First Instance Decision No 857*], 4 February 2013; 《人民司法 案例》 [*People’s Judicature - Cases*] 2014, Vol. 4, p. 17 (n 1); 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [*Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case*], 广东省高级人民法院 [*Guangdong Provincial Higher People’s Court, People’s Republic of China*], 粤高法民三终字第 305 号 [*Intellectual Property Second Instance No 305*], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 46.

²⁰ Jill (Yijun) Ge and Benjamin Bai, ‘SEP-Based Injunctions: Down But Not Out’ on Wolters Kluwer, Kluwer Patent Blog (26 April 2016) <<http://Kluwerpatentblog.Com/2016/04/26/Sep-Based-Injunctions-down-but-Not-out/>>; Yabing Cui and Mark Cohen, ‘Across the Fault Lines: Chinese Judicial Approaches to Injunctions and

2.2 2017-18 *IWNComm v Sony* decisions

The first instance court in the *IWNComm v Sony* case, the Beijing Intellectual Property ('IP') Court, issued its decision on 22 March 2017.²¹ The second instance court, the Beijing HPC, provided its judgment on 28 March 2018.²²

IWNComm (as known as Xi'an Xidian Jietong Wireless Network Communication Co Ltd") is the holder of a SEP required to implement the Chinese equivalent to Wi-Fi standard used to secure access and data protected communication over a wireless local area network ('WLAN').²³ Known as the WLAN Authentication and Privacy Infrastructure or 'WAPI' standard, all manufacturers of wireless communications devices in China must implement this technology in their products as a prerequisite for being licensed to offer their devices for sale.²⁴

SEP's', on Mark Cohen, China IPR – Intellectual Property Developments in China (5 June 2018)

<<https://Chinaipr.Com/2018/06/05/across-the-Fault-Lines-Chinese-Judicial-Approaches-to-Injunctions-and-Seps/>>.

²¹ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [*Beijing Intellectual Property Court*], 京知民初字第1194号 [*First Instance Decision No 1194*], 22 March 2017 (n 2).

²² 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [*Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case*], 北京市高级人民法院 [*Beijing Higher People's Court*], 京民终454号 [*Second Instance Civil Court Decision No 454*], 28 March 2018 (n 2).

²³ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [*Beijing Intellectual Property Court*], 京知民初字第1194号 [*First Instance Decision No 1194*], 22 March 2017 (n 2) 2.

²⁴ The relevant patent is registered in China under the patent number ZL02139508. X. The patent is described as a 'method for secure access and data protected communication over a wireless local area network using mobile devices'. 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院(2015)京知民初字第1194号 [*First Instance Civil*

Sony was manufacturing and selling mobile phones in China that IWNComm alleged infringed its WAPI SEP.²⁵ Prior to the dispute between the parties, IWNComm had made a declaration to a Chinese SSO committing itself to license its WAPI SEP on FRAND terms.²⁶

IWNComm gave evidence that it had repeatedly offered Sony terms for the licensing of its SEP, but that Sony had refused to enter into licensing negotiations without IWNComm providing it with claim charts proving the alleged infringements.²⁷ IWNComm stated that it was unwilling to issue Sony with claim charts as Sony had refused to sign a confidentiality agreement in relation to the proprietary information that IWNComm said the claim charts contained.²⁸

The Beijing IP Court held that it was not reasonable for Sony to insist on the provision of claim charts, as the mandatory use of the WAPI standard in China inevitably meant that Sony was implementing IWNComm's SEP without a license.²⁹ The court further held that IWNComm had acted reasonably in refusing to provide Sony with claim charts without a signed confidentiality agreement, as it was established industry practice for negotiating parties to do so, before claim charts were exchanged.³⁰ Therefore, the Beijing IP Court agreed to IWNComm's request for an injunction against Sony's continued unlicensed use of its SEPs.³¹

Court Decision No 1194], 22 March 2017, <<http://wenshu.court.gov.cn/>> 5 ('IWNComm v Sony (Beijing IP Court), 22 March 2017') For details on its use - see Yin Li, Hui Zhang and James Yang, 'New Developments on SEP-Related Disputes in China' on Wolters Kluwer, Kluwer Patent Blog (3 July 2017) <<http://Patentblog.Kluweriplaw.Com/2017/07/03/New-Developments-Sep-Related-Disputes-China/>>.' 3, 3.

²⁵ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷—案》 [IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第1194号 [First Instance Decision No 1194], 22 March 2017 (n 2) 2–3.

²⁶ Ibid 37.

²⁷ Ibid 36.

²⁸ Ibid.

²⁹ Ibid 38–9.

³⁰ Ibid 39.

³¹ Ibid.

In its review decision, the Beijing HPC overturned some of the first instance court's findings.³² Nevertheless, the second instance court upheld the Beijing IP Court's grounds for awarding an injunction to IWNComm in addition to nine million RMB (1.3 million USD) in damages and costs.³³

³² 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case], 北京市高级人民法院（2017）京民终 454 号 [Beijing Municipal Higher People's Court] (2017) Final Instance Beijing Civil Court Decision No 454], 28 March 2018, <<http://wenshu.court.gov.cn/>> 二、索尼中国公司的行为是否侵犯了西电捷通公司的涉案专利权（一） [2. Whether the behavior of Sony China Company infringed the patent rights of Xidian Jietong Company]; see Hui Zhang, Mengling Liu and James Yang, 'Beijing High Court Upholds China's First-Ever SEP Injunction in IWNComm v. Sony' on Wolters Kluwers, Kluwer Patent Blog (29 May 2018) <<http://Patentblog.Kluweriplaw.Com/2018/05/29/Beijing-High-Court-Upholds-Chinas-First-Ever-Sep-Injunction-Iwncomm-v-Sony/>>.

³³ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第 1194 号 [First Instance Decision No 1194], 22 March 2017 (n 2) 41; 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case], 北京市高级人民法院 [Beijing Higher People's Court], 京民终 454 号 [Second Instance Civil Court Decision No 454], 28 March 2018 (n 2) 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case], 北京市高级人民法院（2017）京民终 454 号 [Beijing Municipal Higher People's Court] (2017) Final Instance Beijing Civil Court Decision No 454], 28 March 2018, <<http://wenshu.court.gov.cn/>> 二、索尼中国公司的行为是否侵犯了西电捷通公司的涉案专利权（一） [2. Whether the behavior of Sony China Company infringed the patent rights of Xidian Jietong Company].

2.2.1 Enforcement of FRAND Commitments

As noted above, IWNComm gave evidence that it had offered Sony terms for the licensing of its SEP.³⁴ However, as Sony had disputed IWNComm's infringement allegations, there was no discussion in the case of whether or not the terms that IWNComm had offered to Sony were FRAND-compliant.

Nonetheless, the Beijing IP Court decision refers to the SEP owner's 'FRAND commitment' ('FRAND 许可声明') throughout the judgment.³⁵ The court also twice quotes IWNComm's declaration 'to negotiate a patent license with any applicant willing to apply the SEP under reasonable and non-discriminatory terms and conditions.'³⁶

2.2.2 Application of the Unwilling Licensee Test

Both the first and second instance courts discussed Sony's failings in the terms of an unwilling licensee.

The Beijing IP Court held Sony had unreasonably delayed negotiations by insisting that IWNComm support its infringement claim with technical claim charts. This request for the provision of claim charts was held not to be reasonable, as Sony and every other mobile handset manufacturer in China had to implement the WAPI standard using IWNComm's SEP.³⁷

2.3 2018 *Huawei v Samsung* decision

The first instance Shenzhen IPC decision in *Huawei v Samsung* is dated as having been made on 4 January 2018. However, the written judgement of the case did not become publicly available until March of that same year.³⁸

In the action before the Shenzhen IPC, Huawei sought an injunction against Samsung's continued use of a SEP incorporated into a standard for accessing fourth generation ('4G')

³⁴ IWNComm v Sony (Beijing IP Court), 22 March 2017, 36.

³⁵ Ibid 32.

³⁶ Ibid 32, 37.

³⁷ Ibid 38–9.

³⁸ Yang Li, Christine Yiu and Richard Vary, "Shenzhen Court Issues Written Judgment in Huawei v Samsung Case" on Globe Business Media Group, Lexology (26 March 2018) <<https://www.lexology.com>>.

wireless communications network services.³⁹ Although the SEP was registered in China, the standard in which it was incorporated was an international standard developed by a SSO outside of China.⁴⁰

Ultimately, the Shenzhen IPC granted an injunction to Huawei in relation to the 4G SEP.⁴¹ In doing so, the court determined that Huawei had complied with its FRAND commitments in global cross-licensing negotiations that included the Chinese SEP, while Samsung had behaved as an unwilling licensee.⁴²

2.3.1 Enforcement of FRAND Commitments

To assess Huawei's FRAND compliance, the court determined the value of Huawei's SEP holdings globally – that included the disputed Chinese SEP – and then assessed whether Huawei's offers to Samsung were commensurate to these valuations.⁴³ Based on this

³⁹ Adrian Emch and Zhen Feng, “Huawei v. Samsung — A New Benchmark for Standard-essential Patent Litigation in China?” in Hogan Lovells on Lime Green IP News (19 June 2018) <<https://www.limegreenipnews.com/2018/06/Huawei-v-Samsung-a-New-Benchmark-for-Standard-Essential-Patent-Litigation-in-China/>>’.

⁴⁰ Adrian Emch and Zhen Feng, ‘Huawei v. Samsung — A New Benchmark for Standard-essential Patent Litigation in China?’ in Hogan Lovells on Lime Green IP News (19 June 2018) <<https://www.limegreenipnews.com/2018/06/Huawei-v-Samsung-a-New-Benchmark-for-Standard-Essential-Patent-Litigation-in-China/>>’. The patent is registered in China under the number 201110269715.3 and is described as ‘a wireless network communication device’ 《华为技术有限公司与三星（中国）投资有限公司》 [Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case], 广东省深圳市中级人民法院(2016) 粤 03 民初 816 号 [(2016) Shenzhen Municipal Intermediate People’s Court (2016) Guangdong Third Civil Chamber, First Instance Decision No 816], 4 January 2018, <<http://wenshu.court.gov.cn/>> 2.

⁴¹ 《华为技术有限公司与三星（中国）投资有限公司》 [Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People’s Court], 粤 03 民初 816 号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office Trans) (n 3) 325.

⁴² Ibid 319.

⁴³ Ibid 297.

comparison of these valuations and offered royalty rates, the Shenzhen IPC concluded that Huawei's offers to Samsung were sufficiently FRAND.⁴⁴

2.3.2 Application of the Unwilling Licensee Test

As it had done with Huawei, the court compared Samsung's offers in its cross-licensing negotiations with Huawei against valuations of Samsung's global and Chinese SEP holdings.⁴⁵ However, in Samsung's case, the Shenzhen IPC found that the offers and counter-offers that Samsung had exchanged with Huawei were not commensurate with independent valuations and so were not FRAND.⁴⁶

In addition, the Shenzhen IPC held that the standard implementer, Samsung, was 'obviously at fault and in violation of the FRAND principle' due to certain conduct it engaged in during its negotiations with the standard implementer, Huawei.⁴⁷

This erroneous conduct included:

- 1) interrupting negotiations to advocate for the inclusion of non-SEP licensing;
- 2) not responding to claim charts that Huawei had provided;
- 3) failing to promptly respond to Huawei's offers and counter-offers.⁴⁸
- 4) rejecting a proposal to seek binding arbitration; and
- 5) being unprepared for pre-trial mediation.⁴⁹

2.4 Sub-conclusion: China applies FRAND solution conventional elements

The above sub-sections show Chinese courts enforcing the FRAND commitments of SEP owners and assessing the conduct of standard implementers against the measure of the unwilling licensee test.

⁴⁴ Ibid 310; 310-317.

⁴⁵ Ibid 317-319.

⁴⁶ Ibid 310;317.

⁴⁷ Ibid 273.

⁴⁸ Ibid 273; 276; 284.

⁴⁹ Ibid 288; 291.

Thus, to this degree, the *Huawei v IDC*, *IWNComm v Sony* and *Huawei v Samsung* decisions appear to comply with the two conventional elements of the FRAND solution. Likewise, the outcomes of these cases appear to be comparable to those of the judicial decisions and administrative determinations and guidelines produced in the other five jurisdictions examined in this thesis in section five of chapter four.

The next section considers another aspect of the same Chinese courts' cases above and other developments that do not conform to the conventional elements of the FRAND solution – namely: the imposition of process obligations on FRAND-encumbered SEP owners.

3 Going Rogue? China applies FRAND solution third element

The previous section showed how, in each of the three cases discussed above, Chinese courts have applied the conventional elements of the FRAND solution. As defined above, these conventional elements require SEP owners to comply with their FRAND licensing commitments and standard implementers to demonstrate a genuine intent to enter into a FRAND-compliant license.

However, while the Chinese courts in these cases applied the two conventional elements, they also introduced another factor into their injunction determination processes – process obligations on FRAND encumbered SEP owners. In addition, regulatory provisions – in the form of SPC judicial interpretation and judicial guidelines – precipitated and extended the application of this third element in the injunction determinations that Chinese courts made concerning FRAND-encumbered SEPs.

3.1 2013 *Huawei v IDC* Decision

As set out above, the *Huawei v IDC* decisions found that the proposed royalty rates of the SEP owner, IDC, and its tied portfolio of SEPs and non-SEPs, were both anti-competitive and not FRAND. Finally, the *Huawei v IDC* court also found that in breaching its FRAND duty and seeking injunctive action in the US, IDC had engaged in anti-competitive conduct.⁵⁰

⁵⁰ 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[*Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case*], 广东省高级人民法院 [Higher People's Court of Guangdong Province (People's Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 1) 11(3).

Of all of these findings, the latter finding that IDC's US injunction applications violated Chinese competition law appeared to produce the most uncertainty and anxiety among SEP FRAND-encumbered SEP owners in China.

Writing soon after the Guangdong HPC issued its judgment in the 2013 case, legal practitioners, Michael Han and Kexin Li described the decision as having

created uncertainty regarding to what extent a patent holder ... may protect and enforce its legal rights.⁵¹

Three years later, the plight of injunction-seeking SEP owners in China did not appear to have noticeably improved. In his commentary published in February 2016, the legal practitioner, Benjamin Bai warned SEP owners that they may need to prepare for

the possibility that Chinese courts may refuse requests for any form of injunction based on SEPs encumbered with an irrevocable obligation to license [i.e. FRAND-encumbered SEPs].⁵²

Looking back on this period, legal practitioners, Yin Li, Hui Zhang and James Yang, said they had expected that injunctions would only be granted in 'narrow circumstances'.⁵³ Even in these situations, they had assumed SEP owners would need to think 'very cautious[ly] before seeking [an] injunction, to avoid raising any competition law issues.'⁵⁴

⁵¹ Michael Han and Kexin Li, 'Huawei v. InterDigital: China at the Crossroads of Antitrust and Intellectual Property, Competition and Innovation' on Competition Policy International, CPI Asia Column (28 November 2013) 9 <<https://www.competitionpolicyinternational.com/huawei-v-interdigital-china-at-the-crossroads-of-antitrust-and-intellectual-property-competition-and-innovation/>>.

⁵² Benjamin Bai, 'To Be or Not To Be SEPs' on Wolters Kluwer, Kluwer Patent Blog (23 February 2015) <<http://kluwerpatentblog.com/2015/02/23/to-be-or-not-to-be-seps/>>.

⁵³ Yin Li, Hui Zhang and James Yang, 'New Developments on SEP-Related Disputes in China' on Wolters Kluwer, Kluwer Patent Blog (3 July 2017) <<http://Patentblog.Kluweriplaw.Com/2017/07/03/New-Developments-Sep-Related-Disputes-China/>>.

⁵⁴ Ibid.

Despite this radical uncertainty, in publications released in 2016, Bai and others drew attention to judgments and public statements of senior Chinese judges that indicated that injunctive relief was available to SEP owners in China.⁵⁵

Even so, it would not be until the first granting of an injunction to a SEP owner in China was made in the 2017 *IWNComm v Sony* decision of the Beijing IP Court that this was widely believed to be a legal reality under Chinese law.⁵⁶

3.2 2016 Supreme People's Court Patent Law Interpretation

In January 2016, the SPC issued the '*SPC Patent Law Interpretation II*'.⁵⁷ Formal SPC interpretations, such as this, as to how lower courts should apply national laws and regulations in judicial proceedings are binding on these lower courts, having the effective status of administrative regulations.⁵⁸

⁵⁵ Writing in April 2016, Benjamin Bai and colleague, Jill (Yijun) Ge quoted the 2014 decision of China's Supreme People's Court ('SPC'), *Zhang Jingting v Hengshui Ziyah Construction Co Ltd* in which the court found that: 'Implementing a standard requires obtaining a license from the [patent holder] and paying license fees according to the [FRAND] principle. As a general rule, remedies against patent infringement should not be limited where an implementer who has used [the technology] without the [patent holder's] authorization refuses to pay the licensing fees'. Jill (Yijun) Ge and Benjamin Bai, 'SEP-Based Injunctions: Down But Not Out' on Wolters Kluwer, Kluwer Patent Blog (26 April 2016) <<http://kluwerpatentblog.com/2016/04/26/sep-based-injunctions-down-but-not-out/>>; 朱理 [Zhu Li], '《标准必要专利禁令救济问题的反垄断分析》' In March 2016, the sitting SPC justice, Judge Zhu Li criticised patent holders that engaged in the 'abuse of injunctive action' (滥用禁令救济) but rejected the view that in making a FRAND commitment, a standard-essential patent ('SEP') holder waived its right to seek injunctive action 'under any circumstances'. Judge Zhu also disputed that a SEP owner's 'search for injunctive action must produce anticompetitive effects' [An Antitrust Analysis of the Standard-essential Patent Injunctive Relief Issue] 《中国知识产权》 [China Intellectual Property] (Online), March 2016 (No. 109), <<http://www.chinaipmagazine.com/journal-show.asp?2376.html>>.

⁵⁶ Insert cross ref

⁵⁷ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People's Republic of China) 2016 ('SPC Patent Law Interpretation II').

⁵⁸ 《中华人民共和国法院组织法》 [Organic Law of the People's Courts of the People's Republic of China] (People's Republic of China) National People's Congress (People's Republic of China) Adopted by the Second

In Article 24 of the *SPC Patent Law Interpretation II*, the SPC instructs lower courts on how to adjudicate in disputes concerning SEPs included in non-compulsory national, industry and local Chinese standards.⁵⁹ In the second paragraph of this provision, the SPC directs Chinese courts not to grant an injunction to a SEP owner that has:

deliberately breached its [FRAND] duty ... where this makes the conclusion of a licensing agreement impossible, and where the [standard implementer] was not responsible for any obvious fault during negotiations.⁶⁰

After the uncertainty that prevailed in the wake of the *Huawei v IDC* decision, Article 24 of the 2016 *SPC Patent Law Interpretation II* at least implies that injunctions are available to SEP owners in Chinese standards – albeit subject to their FRAND duty compliance.

Yet, few SEP owners seem to have taken much solace from the SPC interpretation and rushed to file injunction applications.

In a review published soon after the *SPC Patent Law Interpretation II* was released, legal practitioner, Dr Weili Ma suggested that its lack of clarity may make SEP owners even more unsure of their injunction rights and vulnerable to patent users' infringements and refusals to pay.⁶¹

Therefore, the 2016 *SPC Patent Law Interpretation II* may be seen retrospectively to have encouraged the injunction applications resulting in the affirmation of SEP

Session of the 5th National People's Congress on 1 July 1979; Last Amended on 26 October 2018; Implemented on 1 January 2019 <http://Www.Gov.Cn/Xinwen/2018-10/27/Content_5334895.Htm> Art 18.

⁵⁹ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] (n 59) Art 24.

⁶⁰ Ibid Art 24(2).

⁶¹ The term 'reverse patent hold-up' is an alternative to that used in chapter four of this thesis, 'patent hold-out', that describes a situation where a standard implementer, in the absence of injunctive action, freely delays entering licensing negotiations or paying royalties for its use of another's IP. Weili Ma, "China: New Judicial Interpretation on Patent Infringement" on Mondaq, Mondaq Intellectual Property - China (25 July 2016) <<http://Www.Mondaq.Com/China/x/513364/Patent/New+Judicial+Interpretation+On+Patent+Infringement>>.

owners' right in the below Beijing and Shenzhen cases decided in 2017 and 2018. Yet beyond this role in priming these later developments – as is discussed in the next section – the SPC interpretation's contribution to defining the restrictions on FRAND-encumbered SEP owners' injunction rights in China is limited.

Having established that FRAND-encumbered SEP owners will be denied injunctions for breaching their FRAND duty, the 2016 *SPC Patent Law Interpretation II* neither indicates what this duty consists of nor how it can be violated.

3.3 2017-18 *IWNComm v Sony* Decisions

The Beijing IP Court's issue of an injunction to IWNComm in its March 2017 decision was the first time that a Chinese court had awarded an injunction to a SEP owner.⁶² Granted more than four years after the *Huawei v IDC* court had declared a SEP owner's filing for injunctive action anti-competitive, the decision was seen as a watershed moment for SEP owners in China.⁶³

Yet, the decision's next most remarkable outcomes did not in fact influence the result of the case. As set out in the above section, the Beijing courts' decisions essentially turned on the unreasonable and bad faith conduct of the standard implementer, Sony. Yet, prior to granting the first injunction ever issued to a SEP owner in China, both the Beijing IP Court and the Beijing HPC broadly assessed the conduct of the SEP owner, IWNComm, in its dealings with Sony. Specifically, as set out in the previous section, this included determining whether IWNComm had acted reasonably in refusing to issue Sony with claim charts without the parties entering into a confidentiality agreement.

⁶² 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [*Beijing Intellectual Property Court*], 京知民初字第1194号 [*First Instance Decision No 1194*], 22 March 2017 (n 2); LexField Law Offices, “Beijing Intellectual Property Court Grants First Injunction in a SEP Infringement Suit” on Globe Business Media Group, Lexology (22 March 2017) <<https://www.lexology.com>>.

⁶³ Jacob Schindler, “Beijing IP Court Slaps Sony Mobile with Injunction Based on SEP Infringement” on Globe Business Media Group, IAM Media Blog (23 March 2017) <<http://www.i-am-media.com/Blog/Detail.aspx?G=f0c6f49d-487a-4e2a-9fd8-E0ebf5e3c052>>.

However, having concluded that IWNComm's refusal to issue claim charts was reasonable, neither the first instance nor second instance court proceeded any further. Had the Beijing courts held IWNComm's actions were unreasonable, they would have had to apply the Article 24 of 2016 *SPC Patent Law Interpretation II* and determine whether the unreasonableness of these actions had breached the SEP owner's FRAND duty. Therefore, the *IWNComm v Sony* decisions provide little additional information on the content of the FRAND conduct duty and how it could be violated.

Nevertheless, the Beijing courts do offer future courts some general measures for assessing the conduct of FRAND-encumbered SEP owners in making their injunction application determinations.

When the Beijing IP Court held that standard implementers should negotiate in good will, it also recognised that this subjective measure should also be the basis for assessing the conduct of SEP owner during the course of the parties' interactions.⁶⁴ The Beijing HPC, in its *IWNComm v Sony* decision and judicial guidelines, alternatively proposed that the conduct of parties – including of the SEP owner – should be assessed based on the objective good faith standard.⁶⁵

Beyond those broader measures, the Beijing IP Court proposed that the respective faults (过错) of the parties should determine whether or not an injunction should be granted.⁶⁶ Thus,

⁶⁴ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [*Beijing Intellectual Property Court*], 京知民初字第1194号 [*First Instance Decision No 1194*], 22 March 2017 (n 2) 37.

⁶⁵ 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [*Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case*], 北京市高级人民法院 [*Beijing Higher People's Court*], 京民终454号 [*Second Instance Civil Court Decision No 454*], 28 March 2018 (n 2) Part IV; 《专利侵权判定指南》 [*Guidelines for Patent Infringement Determination*] (People's Republic of China), *Beijing Higher People's Court*, 20 April 2017 Art 150.

⁶⁶ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of*

where the standard implementer was at fault and the SEP owner found to be blameless – as in the *IWNComm v Sony* case – the court recommended that an injunction be granted.⁶⁷ Where the SEP owner was at fault and the standard implementer blameless, it was recommended that no injunction be granted.⁶⁸

Otherwise, where both parties shared some blame for the failure of the negotiations, the Beijing IP Court proposed that the relative size of faults of each party:

should be balanced against the (anticipated effect of the injunction determination on the) interests of both parties.⁶⁹

Of particular note, in this latter solution – with which the Beijing HPC concurred – the Beijing IP Court did not simply suggest that adjudicating courts should make their determinations by apportioning blame between the parties for the failure of their licensing negotiations.⁷⁰ Instead, the court asserted that it was legitimate for decision-makers in injunction application determinations in China to consider the impact on the interests of the relevant SEP owner and standard implementer of the granting or denial of an injunction.⁷¹

Patent Dispute Case], 北京知识产权法院 [*Beijing Intellectual Property Court*], 京知民初字第1194号 [*First Instance Decision No 1194*], 22 March 2017 (n 2) 37.

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [*Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case*], 北京市高级人民法院 [*Beijing Higher People's Court*], 京民终454号 [*Second Instance Civil Court Decision No 454*], 28 March 2018 (n 2) Pt IV.

⁷¹ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》 [*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [*Beijing Intellectual Property Court*], 京知民初字第1194号 [*First Instance Decision No 1194*], 22 March 2017 (n 2) 37.

3.4 2018 *Huawei v Samsung* Decision

The January 2018 *Huawei v Samsung* decision was the second time that a Chinese court granted an injunction to a SEP owner, following the Beijing IP Court decision the previous March.⁷² Yet, whereas the *IWNComm v Sony* decision had involved a SEP to a Chinese standard, in the *Huawei v Samsung* decision, the Shenzhen IPC awarded an injunction in relation to a FRAND-encumbered SEP used in an international standard.⁷³

In addition, just as the Beijing IP Court had done in *IWNComm v Sony*, the Shenzhen IPC assessed the negotiations conduct of the SEP owner in making its injunction determination. As in the *IWNComm v Sony* decision, this inquiry extended the Shenzhen IPC's analysis beyond the conventional first element of the FRAND solution that only looks at the licensing content of SEP owner's offers and scrutinized their conduct negotiations.

In fact, *Huawei v Samsung* court structured its decision to underscore the fact that it was assessing the negotiations conduct of both parties as well as the content of their cross-licensing offers. This is done by first considering each party's negotiation conduct, the "procedural aspects" (程序方) of the negotiations, and then examining the parties' offers, the "substantive aspects" (实体方) of the negotiations.⁷⁴

Nonetheless, as in the *IWNComm v Sony* decisions, this break with the conventions of the FRAND solution did not determine the decision's outcome. The court's scrutiny of the SEP owner's conduct did not result in a finding that the SEP owner had breached its FRAND

⁷² 《华为技术有限公司与三星（中国）投资有限公司》[*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People's Court], 粤03民初816号 [First Instance Decision No 816], 4 January 2018 (*Deheng Law Office Trans*) (n 3).

⁷³ The technology, developed and maintained by the international standard-setting organisation, the 3rd Generation Partnership Project ('3GPP'), is also registered in China under the patent number 201110269715.3, 《华为技术有限公司与三星（中国）投资有限公司》[*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院(2016)粤03民初816号 [(2016) Shenzhen Municipal Intermediate People's Court (2016) Guangdong Third Civil Chamber, First Instance Decision No 816], 4 January 2018, <<http://wenshu.court.gov.cn/>> 4. For more information on the international LTE standard and/or 3GPP, see the latter's website at: <http://www.3gpp.org/>

⁷⁴ *Ibid* 273–296; *ibid* 296–319.

duty, so leading the court to demonstrate on what grounds an injunction could be denied a FRAND-encumbered SEP owner in China.⁷⁵

Nonetheless, the case does offer some glimpses into how a Chinese court might assess the conduct violations of a SEP owner in future cases.

Ultimately, the Shenzhen IPC held that Huawei did not violate the FRAND principle.⁷⁶ However, the court did recognise that Huawei was ‘at fault to some extent’ (一定过错) on account of the conduct of its representatives during their negotiations with representatives from Samsung.⁷⁷

In a meeting between the two parties, Huawei’s representatives inferred that the portfolio it was offering to cross-license included a much larger number of patents from a third party than Huawei in fact had access to.⁷⁸ However, rather than concluding that Huawei’s comments were dishonest, the court determined that they were ‘ambiguous’ (模糊) and considered the context and the consequences of their utterance.⁷⁹ In its account of the matter, the court made a special note of the fact that Huawei’s representatives clarified the correct number of the patents soon after the meeting in which the misinformation was provided.⁸⁰ Yet, as the decision also records, the Huawei representatives only corrected themselves after the Samsung representatives raised discrepancies in the patent numbers provided that they discovered through their own research.⁸¹ In addition, the court suggested that it was a more

⁷⁵ Insert cross-reference to IWNComm Facts and Findings in above section.

⁷⁶ 《华为技术有限公司与三星（中国）投资有限公司》[Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People’s Court], 粤03民初816号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office Trans) (n 3) 296.

⁷⁷ Ibid 295–6.

⁷⁸ Ibid 295.

⁷⁹ Ibid 295–295.

⁸⁰ Ibid 295–6.

⁸¹ Ibid.

serious error to misquote a royalty rate than it was to provide inaccurate information about the contents of the patent portfolio, as had occurred here.⁸²

Overall, the Shenzhen IPC seemed reassured that Huawei's conduct had not caused material harm to Samsung as it did not have 'a significant impact on the overall progress of the negotiations between the parties.'⁸³ In light of this conclusion, both SEP owners and standard implementers should be wary of engaging in any activities that could have a 'significant impact' on the progress of the licensing negotiations.

3.5 2017-2018 Higher People's Courts' Guidelines

As noted above, neither of the SEP providers in *IWNComm v Sony* nor *Huawei v Samsung* were held to have violated their FRAND duty.⁸⁴ Therefore, neither decision significantly advanced the understanding of SEP owners in China on the content of this duty nor how it can be violated.

Yet, soon after each of the Beijing IP Court and Shenzhen IPC cases was issued, the higher courts in both those jurisdictions, the Beijing HPC and the Guangdong HPC, released their own sets of non-binding judicial guidelines.⁸⁵

⁸² Ibid 295.

⁸³ Ibid 296.

⁸⁴ Insert cross-ref

⁸⁵ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People's Republic of China) Beijing Higher People's Court (HPC), 20 April 2017 <<http://Bjgy.Chinacourt.Org/Article/Detail/2017/04/Id/2820737.Shtml>> ('2017 Beijing HPC Patent Infringement Guidelines'); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard-essential Patent Disputes (Trial Implementation)] People's Republic of China, Guangdong Higher People's Court (HPC), 26 April 2018 <http://Www.Iprdaily.Cn/Article_18855.Html> ('2018 Guangdong HPC Working Guidelines on SEP Disputes').

TABLE 1: BEIJING HIGHER PEOPLE’S COURT, *GUIDELINES FOR PATENT INFRINGEMENT DETERMINATION*

<p>Article 152</p> <p>[...] In each of the following circumstances, it may be determined that a [SEP holder] has deliberately violated its [FRAND] licensing duty:</p> <ol style="list-style-type: none"> 1) not notifying the [standard implementer] in writing of their patent rights violation and not specifying the scope and specific means of the infringement; 2) not providing the [standard implementer] with patent information or the specific licensing terms in accordance with usual business practice and trade practices, after the [standard implementer] clearly expresses a willingness to enter into negotiations for the licensing of the patent; 3) not proposing a response period to the [standard implementer] in accordance with usual business practice and trade practices 4) hindering or discontinuing the licensing negotiations, without reasonable grounds; 5) insisting on terms that are clearly unreasonable in the course of licensing negotiations, leading to an agreement not being concluded; or 6) where the SEP holder is clearly at fault in the licensing negotiations.
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TABLE 2: GUANGDONG HIGHER PEOPLE’S COURT, WORKING GUIDELINES ON THE TRIAL OF STANDARD-ESSENTIAL PATENT DISPUTES (TRIAL IMPLEMENTATION)

<p>Article 13</p> <p>The following acts are obvious faults that indicate that a [SEP holder] has violated its FRAND duty:</p> <ol style="list-style-type: none"> 1) not inviting [a standard implementer] to negotiate [for a licensing agreement], or issuing an invitation to negotiate but failing to specify the scope of the relevant patent right, as required under usual commercial and industry practice; 2) not providing [the standard implementer] with information about the patent, such as patent lists and claim charts as required under usual commercial and industry practice – after the standard implementer expresses its willingness to enter into licensing negotiations; 3) not submitting specific licensing terms or the proposed methodology for calculating licensing fees to standard implementers, or to insist on licensing terms that are clearly unreasonable, resulting in no licensing agreement being concluded; 4) not responding [to counter-offers, etc.] within a reasonable period of time; 5) hindering or discontinuing the licensing negotiations, without reasonable grounds; 6) [committing] other obvious faults.
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Both sets of guidelines included sections, respectively entitled ‘Defences against injunction actions’ and ‘The issue of liability in the seeking of injunctions on SEPs’, on the FRAND duty of FRAND-encumbered SEP owners.⁸⁶

Listed in each of these sections in the guidelines were process obligations that the higher courts proposed lower courts should assess the behaviour of FRAND-encumbered SEP owners against when assessing their applications for injunctive relief against patent infringements.⁸⁷ The Beijing HPC guidelines, issued on 20 April 2017, are set out in Table 1 of this chapter. The Guangdong HPC guidelines, issued on 26 April 2018, are included in Table 2 of this chapter.

As reassuringly similar as these process obligations may be, neither list is exhaustive. Instead, both conclude with “catch-all” provisions that allow lower courts to determine that other conduct is also ‘at fault’ and so likewise, in breach of the FRAND conduct duty.⁸⁸ In addition, neither set of guidelines offers a definition of the FRAND duty nor a means to assess whether or not it had been violated, beyond their respective incomplete lists of process obligations.

⁸⁶ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 67) arts 149-153; 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 87) arts 9-14.

⁸⁷ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 67) Art 152; 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 87) Art 13.

⁸⁸ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 67) 152(6); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 87) 13(6).

The thesis returns to discuss these HPC process obligations imposed on FRAND-encumbered-FRAND SEPs in section two of chapter seven. This later discussion proposes that insights into the intended regulatory targets of these HPC-listed process obligations can be gained from a comparison of these with cases and regulations in both Chinese and foreign jurisdictions.⁸⁹

3.6 Sub-conclusion: China applies FRAND solution with process obligations

As proposed in the introduction to this chapter, following on the previous section that demonstrated how Chinese courts' applications have applied the two conventional elements of the FRAND solution, this section has identified where they have not complied. As noted in the chapter introduction, the matter of this difference is how Chinese courts have imposed process obligations on FRAND-encumbered SEP owners.

Unrelated to the conventional FRAND solution assessment of the value of the FRAND rate that SEP owners offer, this third element has been applied to the determinations that Chinese courts have made of the injunction application of FRAND-encumbered SEP owners.

Thus, the 2016 *SPC Patent Law Interpretation II* reference to the 'obvious faults' that SEP owners might make in breach of their FRAND duty. Following on from this, the 2017-18 *IWNComm v Sony* and *Huawei v Samsung* cases assessed the conduct of the respective SEP owners for evidence of such obvious faults.

The Beijing HPC and Guangdong HPC guidelines' lists of process obligations for FRAND-encumbered SEP owners are perhaps the most tangible expression of this third element that Chinese courts are applying alongside the FRAND solution's two conventional elements.

In contrast, it is not at all clear from the reasoning of the decision whether the imposition of these process obligations on the SEP owner in the 2013 *Huawei v IDC* case can help to explain the Guangdong courts' findings against IDC's injunctive action.

At the same time, despite the unprecedented awarding of injunctions for SEPs from national and international standards in the *IWNComm v Sony* and *Huawei v Samsung* cases, neither they nor SPC interpretation and HPC guidelines provide answers to basic questions. These questions include how the FRAND duty is determined and its assessment questions.

Therefore, the next section in this chapter proposes answers to those questions in the course

⁸⁹ See section 2 of chapter 7.

of arguing that it is possible that this third “process obligation-imposing” element is being applied alongside the two conventional elements of the FRAND solution according to law.

4 *Going Native?* Mutual transformation via legal transfer

4.1 Difference does not equal corruption or incompetence

This section demonstrates that the third process obligations-imposing element applied in addition the conventional elements of the FRAND solution in the assessment of the injunction applications of FRAND-encumbered SEP owners has its origins in Chinese law.

Instead of seeing Chinese courts as “going rogue” – meaning, not according to law – this section argues that their inclusion of alternative measures alongside the FRAND solution conventional elements is in fact the FRAND solution itself “going native”. As proposed in the theoretical framework set out in section four of chapter two of this thesis, as the FRAND solution legal transfer transforms the legal practices of its recipient jurisdictions, it itself will be transformed by these recipient jurisdictions.⁹⁰

Thus, the FRAND solution is not being corrupted by the alternative measures applied alongside its conventional elements, but instead is simply being integrated into the local legal culture. This may have a good, bad or ambivalent outcome for the intended purpose of legal transfer, nevertheless, it is an inevitable outcome for the imported regulatory method if it is to be assimilated by its recipient legal culture and whereby successfully applied.

4.2 Theorizing FRAND solution’s entry & change in China

4.2.1 Entry through a variety-redundancy pairing

As discussed in section 4.1 of chapter two, for “variety” meaning all new information, including legal transfer, to enter into a legal sub-system it needs to be paired with “redundancy” or information that the system has previously processed and recognizes as its own.

As was also noted in section 4.1 of chapter two, this variety-redundancy pairing is an expedient form of match-making that does not guarantee a significant degree of compatibility between the variety and redundancy. Especially if the redundancy is regularly used, it may

⁹⁰ See section 4.2 of chapter 2.

read a ‘generalized and enriched meaning’ onto the variety information that only adds to its miscomprehension in the recipient jurisdiction.

As explained in section two of chapter two, this thesis rejects a legal evolution theory view of legal development approach on a Western model. It also finds the legal autonomy theory of legal transfers unhelpful to the extent to which it discounts the role of culture and other social factors in the interaction between legal transfers and their recipient jurisdictions.

Instead, the thesis uses systems theory that Niklas Luhmann originally developed, to model how the FRAND solution legal transfer may have entered into Chinese law, also known as the Chinese “legal sub-system”, and at what cost. Redundancy in China’s basic law provisions and pre-contractual duty

This chapter argues that to understand how the variety of FRAND solution legal transfer has entered into China requires some knowledge of Chinese legal concepts that seem to have served as its redundancy information during the course of this process.

It is suggested that the redundancy information that the FRAND solution paired with for its entry into Chinese law included:

- 1) China’s basic law provisions (e.g. the good faith principle)
- 2) Pre-contractual liability

These two concepts seem to have served as the redundancy for the “variety” of the commitment of SEP owners to offer standard implementers terms and conditions that are fair, reasonable and non-discriminatory (‘FRAND’).

While the meaning of FRAND has caused uncertainty in US and European courts, as is discussed further below, Chinese courts readily associated the term with an evocative set of rules and principles governing the exercise of rights and obligations underpinning its civil law system.

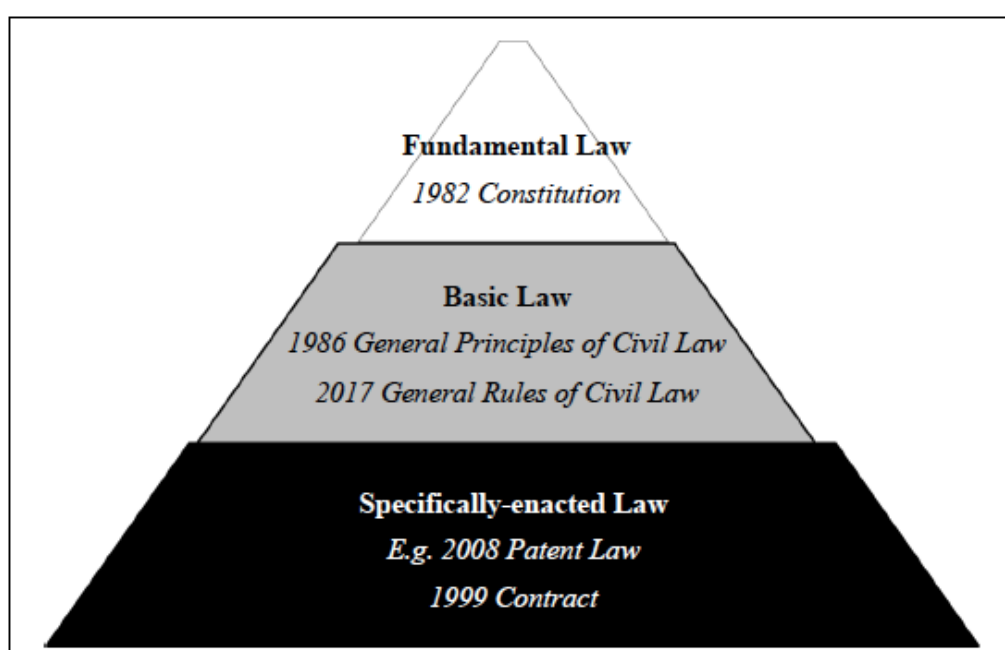
Similarly, an association made between the FRAND solution and concept of pre-contractual liability in China would explain the assumed application of this “FRAND duty” in the parties’ pre-contractual, licensing negotiation interactions. The association of this FRAND duty with the pre-contractual liability of the parties would also explain its extension to all forms of interaction – from licensing offers to all forms of conduct, as discussed below.

1) China's basic law provisions

Chinese academic Tong Rou explains that Chinese law and regulation is divided into a hierarchy, composed of three separate tiers.⁹¹

At the apex of the hierarchy is the Chinese constitution that serves as the nation's fundamental law (根本法) and the highest legal authority.⁹² At the base of the hierarchy is China's 'specifically-enacted law' (单行法). This law includes all Chinese legislation enacted to regulate specific practices in the economy or society. Examples of specifically-enacted laws are China's *Patent Law*, *Contract Law* and *AML*.⁹³

FIGURE 1: THREE TIER HIERARCHY OF CHINESE LAW



In between these upper and lower two tiers of regulation, is China's 'basic law' (基本法).⁹⁴ As regulatory power flows down from the constitution at the top of the hierarchy, through the basic law, to the specifically-enacted law at the bottom, as Tong explains, the basic law has a

⁹¹ Tong Rou, 'The General Principles of Civil Law of the PRC: Its Birth, Characteristics, and Role (Jonathon K. Ocko Trans, 1989)' 52(2) Law and Contemporary Problems 151, 151 ('The "General Principles of Civil Law of the PRC"').

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

legal authority that is ‘subordinate to that of the Constitution but superior to [the specifically-enacted] law.’⁹⁵

Currently, China’s basic law consists of the Chinese *General Principles of Civil Law* (‘GPCL’) and *General Rules of Civil Law* (‘GRCL’), issued in 1986 and 2017 respectively.⁹⁶ However, as scheduled in 2017, in 2020 the NPC will adopt a comprehensive basic law for China in the form of a unified civil law code.⁹⁷

As explained in a report to NPC in early 2017, presented immediately prior to the adoption of the GRCL as law, the complete civil code is expected to consist of the GRCL and separate divisions on specific areas of regulation.⁹⁸ In the 2017 report to the NPC, these separate divisions were expected to set out basic principles to govern Chinese property rights, contract law, tort liability, marriage and family law, and inheritance law.⁹⁹

Although the GRCL was intended to update and ultimately replace the GPCL, its new rules did not immediately repeal the older law’s principles.¹⁰⁰ Instead, it was explained, the GRCL provisions only prevail over those of the GPCL where the two laws conflict – at least prior to the implementation of the finalised civil code.¹⁰¹

⁹⁵ Ibid.

⁹⁶ 《中华人民共和国民法通则》[General Principles of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6595>>; 《中华人民共和国民法总则》[General Rules of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://www.chinalawtranslate.com>>.

⁹⁷ 李建国 [li jianguo], ‘《关于《中华人民共和国民法总则（草案）》的说明》’[“regarding the general rules of the civil law of the people’s republic of china (draft)”] (report delivered to the 8th meeting of the 12th national people’s congress, beijing, 8 march 2017), <http://www.npc.gov.cn/npc/xinwen/2017-03/09/content_2013899.htm>’.

⁹⁸ Ibid.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

Allowing for this concurrent validity, in the below text, the GPCL and the GRCL are collectively referred to as China's basic law provisions ('BLPs').

The practical effect of this elevated status of the BLPs over the specifically-enacted legislation of the *Patent Law* or *Contract Law* is that Chinese courts can apply these BLPs to restrict – and potentially invalidate – any and all rights granted or recognized under the subordinate specific laws.

Basic law prevails over specifically-enacted legal rights: The example of good faith principle

The effect of this hierarchy of laws can be seen in the example of one of the most highly-regarded BLPs, the principle of good faith.

The academic, Wang Liming, a co-drafter of China's 1999 *Contract Law*, has referred to the good faith principle as being seen as 'the highest guiding principle' or 'the royal principle', in both China and other civil law jurisdictions.¹⁰² Accordingly, it also plays a leading role in the proposed assessment process for the determination of FRAND-encumbered SEP injunction applications set out below.

The good faith principle is listed in the Article four of the GPCL, alongside other BLPs that all legal persons in China are obliged to abide by in all civil law activities:

In civil law activities, the principles of voluntariness, fairness, making compensation for equal value and good faith shall be observed.¹⁰³

The two IP-related decisions discussed below demonstrate how Chinese courts have applied the good faith principle to restrict the exercise of rights granted under specifically-enacted laws – in this case, concerning the registration of website domain names and trademarks.

The first of the two model cases applying the good faith principle, was published in the *SPC Gazette* in 1990. The case involved an alcohol distillery that had closely modelled its bottle

¹⁰² Wang Liming and Xu Chuanxi, 'Fundamental Principles of China's Contract Law' (1999) 13 *Columbia Journal of Asian Law* 1, 16.

¹⁰³ 《中华人民共和国民事诉讼法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6595>> (n 98) Art 4.

labelling on a competitor's packaging, but without technically committing a trademark infringement. Nevertheless, the distillery was ordered to amend its labelling after the court implied a prohibition from the good faith principle included in the GPCL against business operators 'imitating one another's commercial packaging'.¹⁰⁴

In the second case, included in the *SPC Gazette* in 2002, a Chinese firm registered the trademark name of the US firm, Du Pont, as a website domain name. Although not a practice that had previously been declared illegal under Chinese law, the presiding court in the case forced the Chinese domain name holder to relinquish its claim. In so doing, the court based its decision on a general obligation on firms in China to act in good faith under the 1993 *PRC Anti-Unfair Competition Law* ('AUCL').¹⁰⁵

Provisions have also been inserted – or proposed for insertion – into Chinese legislation to affirm the regulatory oversight that the good faith principle has in relation to the legal rights of IP holders.

This includes the 2013 amendment to the *1991 PRC Civil Procedure Law* ('Civil Procedure Law') that states that 'Civil procedure shall follow the principle of good faith'.¹⁰⁶ Further, an

¹⁰⁴ GPCL Art 4; 莒县酒厂诉文登酿酒厂不正当竞争纠纷案 ['Jixian Winery v Wendeng Brewery - Unfair Competition Dispute'] 《最高人民法院公报》1990 年第 3 期 [Supreme People's Court Gazette] cited in 郭百顺 [Guo Baishun], '《论诚信原则在民事审判中的适用 — 以<最高人民法院公报> 案例为样》 [On the Application of the Principle of Good Faith in Civil Trials - The Example of Supreme People's Court Gazette Cases]' in 贺荣 [He Rong] (ed), 《司法体制改革与民商事法律适用问题研究—全国法院第 26 届学术讨论会获奖论文集 (上下)》 [Judicial System Reform and Research Issues Concerning the Application of Civil and Commercial Law - 26th National Court Academic Symposium Prize-winning Papers' (Combined volume)] (人民法院出版社 [People's Court Press], 2015) 605.

¹⁰⁵ 《中华人民共和国反不正当竞争法》 [Anti-Unfair Competition Law of the People's Republic of China (People's Republic of China) Standing Committee of the National People's Congress, Order No 77, 4 November 2017 (Lexis Nexis Trans) <http://www.npc.gov.cn/npc/xinwen/2017-11/04/content_2031432.htm> Art 2 ('AUCL'); 美国杜邦公司诉北京国网信息有限公司计算机网络域名侵权纠纷案 ['E I Du Pont De Nemours and Company v Beijing Guowang Information Co Ltd'] 《最高人民法院公报》2002 年第 3 期 [Supreme People's Court Gazette, No 3, 2002]; 郭百顺 [Guo Baishun], above n 188, 605.

¹⁰⁶ 《全国人民代表大会常务委员会关于修改〈中华人民共和国民事诉讼法〉的决定》 [Decision of the Standing Committee of the National People's Congress Revising the Civil Procedure Law of the People's

amendment proposed in 2015 for the next revision of the *Patent Law*, would require that all patent holders ‘in the implementation of patent rights shall abide to the good faith principle’.¹⁰⁷

The Meaning and Scope of Basic Law Principles: The example of good faith principle

Ascertaining the defined meaning of a BLP offers an indication as to its scope and so how to seek compliance with its requirements.

The inclusion of the good faith principle in Article seven of the GRCL refers to two means of practising compliance:

[Legal persons] engaging in civil law activities shall follow the principle of good faith, by uphold the truth and scrupulously abide by their commitments.¹⁰⁸

Yet otherwise, neither the *GPCL* nor the *GRCL* offers a more complete definition for the good faith principle nor for any of the BLPs that make up China’s basic law. Nor are such definitions available from any other official regulatory source in China.

However, semi-official sources explaining these terms do exist. These include explanations of the intended purpose of each provision of the GPCL and the GRCL, as well as on the

Republic of China] (People’s Republic of China) Standing Committee of the National People’s Congress, 1 January 2013; 《中华人民共和国民事诉讼法》 [Civil Procedure Law of the People’s Republic of China] (People’s Republic of China), National People’s Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) Art 13.

¹⁰⁷ 《国务院法制办公室关于《中华人民共和国专利法修订草案（送审稿）》公开征求意见的通知》 [Circular of the State Council Legislative Affairs Office on the Public Consultation on Revised People’s Republic of China Patent Law (Draft)] (2 December 2015) <http://Www.Gov.Cn/Xinwen/2015-12/03/Content_5019664.Htm> Art 14 (‘Patent Law Amendment Circular’).

¹⁰⁸ 《中华人民共和国民法总则》 [General Rules of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://Www.Chinalawtranslate.Com>> (n 98) Art 4.

provisions of every other major law implemented in China since the 1980s.¹⁰⁹

These commentaries are semi-official in the sense that they are produced by university presses and other publishing houses that are operationally separate from China's executive government and legislature. However, the government officials and academics responsible for the drafting of the relevant law, author these commentaries on an uncredited basis.¹¹⁰

Also, in some cases, the leadership of official government bodies are named as the editors of these volumes of analysis on newly-implemented legislation.¹¹¹ For example, beginning in the late 1990s, the successive chairs of the Legislative Affairs Commission of the NPC Standing Committee ('NPCSC') have edited an ongoing series of legislative commentaries.¹¹²

One of the earliest commentaries published, issued in 1987, explained the recently-implemented GPCL.¹¹³ This explains that, under the good faith principle, legal persons in China must:

treat people honestly and prevent and oppose any forms of fraudulent actions ... [including] misrepresentations or concealing facts or actual

¹⁰⁹ Shiyuan Han, 'The Legal Commentary Culture in China' in Michèle Schmiegelow and Henrik Schmiegelow (eds), *Institutional Competition between Common Law and Civil Law* (Springer Berlin Heidelberg, 2014) 331, 13 <recent case concerning>.

¹¹⁰ Ibid.

¹¹¹ Ibid.

¹¹² Ibid; Changhao Wei and Xiaoyuan Zhang, 'The NPCSC Legislative Affairs Commission and Its "Invisible Legislators"', *NPC Observer* (25 June 2018) <<https://npcobserver.com/2018/06/25/scholarship-highlight-the-npcsc-legislative-affairs-commission-and-its-invisible-legislators/>>.

¹¹³ 《中华人民共和国民法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6595>> (n 98).

circumstances.¹¹⁴

The commentary warns that any party injured as a result of a good faith violation, will have ‘the right to seek a court order to hold the responsible party liable for the damage caused.’

In 2017, a series of commentaries edited by the Legislative Affairs Commission of the NPC Standing Committee (‘NPCSC’) was published on the newly-implemented GRCL.¹¹⁵ An influential if obscure advisory agency, the NPCSC Legislative Affairs Commission is understood to play a significant role in China’s legislative process – from agenda-setting to the drafting of major laws and their amendments.¹¹⁶

This GRCL commentary states that, among other things, good faith compliance requires legal persons in China to exercise their rights and obligations ‘in accordance with their commitments ... previously made’.¹¹⁷ Compliant contracting parties are also to co-operate ‘in goodwill ... in order to protect one another’s reasonable expectations and reliance interests.’¹¹⁸ The GRCL commentary further advises legal persons in China of their good faith obligations to respect the legitimate rights of others and the public interest, and not to abuse their own legal rights.¹¹⁹

2) Pre-contractual liability

The Shenzhen IPC in *Huawei v IDC* rejected the view that FRAND commitments be enforceable under the contract law, as was permitted in the US *Microsoft Corp* (‘Microsoft’)

¹¹⁴ 李士伟, 杜西川 [Li Shiwei and Du Xichuan] (ed), 《中华人民共和国民法通则 - 实用简释》 [A Practical Explanation of the General Principles of the Civil Law of the People’s Republic of China] (光明日报出版社 [Guangming Daily Press], 1987) TBA.

¹¹⁵ 《中华人民共和国民法总则》 [General Rules of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://www.Chinalawtranslate.Com>> (n 98).

¹¹⁶ Wei and Zhang (n 115).

¹¹⁷ 李适时 [Li Shishi] (ed), 《中华人民共和国民法总则释义》 [An Explanation of the General Rules of Civil Law of the People’s Republic of China] (法律出版社 [Law Press China], 2017) 27.

¹¹⁸ Ibid.

¹¹⁹ Ibid.

v Motorola Inc (‘*Motorola*’) case discussed in section 5.3.2 of chapter four.¹²⁰ Nonetheless, the first instance *Huawei v IDC* court did recognise the making of a FRAND commitment imposed a separate pre-contractual obligation on SEP owners:

(W)hen a SEP owner joins a standards organization ... the making of a FRAND licensing commitment should not be understood as establishing a contract between the SEP owner and the [standard implementer]. However, it should be understood as the SEP owner accepting a duty to act in accordance with the FRAND terms towards [existing] standard implementers and potential standard implementers ...¹²¹

Likewise, He and Chen referred to the FRAND commitment as creating a duty that ‘engenders a special reliance interest’ between SEP owners and standard implementers.¹²² Such reliance interest, they explain:

imposes a higher duty of care that requires parties that have undertaken a FRAND commitment to bear a contractual duty which applies a ‘pre-contractual liability’.¹²³

The pre-contractual duty the *Huawei v IDC* court imposes on SEP owners closely resembles the pre-contractual obligation to negotiate in good faith that applies to all negotiating parties both in China and in many other civil law jurisdictions.¹²⁴

¹²⁰ *Microsoft Corp v Motorola Inc*, 854 F Supp 2d 993 (WD Wash, 2012) 9–11.

¹²¹ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp (‘IDC’) - Standard Essential Patent Royalty Dispute Case], 深圳中院 [Shenzhen Intermediate People’s Court, People’s Republic of China], 知民初字第 857 号 [Intellectual Property First Instance Decision No 857], 4 February 2013; 《人民司法·案例》[People’s Judicature - Cases] 2014, Vol. 4, p. 17 (n 1).

¹²² 何怀文 [He Huaiwen] and 陈如文 [Chen Ruwen], ‘《技术标准制定参与人违反 FRAND 许可承诺的法律后果》[Liability for the Violation of Standard-Essential Patent FRAND Commitments] (2014), 10 《知识产权》[Intellectual Property] 45’ 46.

¹²³ Ibid.

¹²⁴ See for a comparison of Chinese and European pre-contractual liability doctrine: Barbara Pasa, ‘Pre-Contractual Liability from a Civil Lawyer’s Perspective’ in Larry A DiMatteo and Chen Lei (eds), Chinese

Based on the civil law concept of *culpa in contrahendo* (“liability during contract formation”), in China this pre-contractual duty been incorporated into individual provisions of the Chinese *Contract Law*.¹²⁵

This includes Article 42 of the law, in which a party will be liable for damages if, during contractual negotiations, it engages in any conduct that violates the good faith principle and thereby causes loss to the other party.¹²⁶

Liability under this provision also extends to the specific bad faith actions of negotiating with malicious intent and concealing a material fact or suppling false information.¹²⁷ Article 43 of the *Contract Law*, that prohibits the disclosure and improper use of another party’s trade secrets, also applies at the pre-contractual stage.¹²⁸

Both in its legislation and legal culture, the concept of pre-contractual liability is a well-established in China. Writing in 2014, Chinese academic, Han Shiyuan observed that, at that time, South Korean and Japanese policymakers were working to develop a general pre-

Contract Law (Cambridge University Press, 2018)

<https://www.cambridge.org/core/product/identifier/9781316816912%23CN-bp-7/type/book_part>.

¹²⁵ The concept of ‘*culpa in contrahendo*’ was developed by the 19th century German jurist, Rudolf von Jhering. See Rudolf von Jhering, *Culpa in contrahendo, oder Schadenersatz bei nichtigen oder nicht zur Perfection gelangten Verträgen*, in 1861 *Jahrbücher für die Dogmatik des heutigen römischen und deutschen Privatrechts* (Ger.) cited in Han Shiyuan, ‘*Culpa in Contrahendo in Chinese Contract Law*’ (2014) 6 *Tsinghua China Law Review* 157, 158; 《中华人民共和国合同法》[Contract Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 15, 15 March 1999 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6597>> Art 42; 43; 58 (‘1999 PRC Contract Law’); Han Shiyuan, 158–161. Also see Jorge L. Contreras, ‘A Market Reliance Theory for FRAND Commitments and Other Patent Pledges’ (2015) *Utah Law Review* 479.

¹²⁶ 《中华人民共和国合同法》[Contract Law of the People’s Republic of China] (People’s Republic of China), Presidential Order No 15, 15 March 1999 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6597>> (n 128) Art 42(iii).

¹²⁷ Ibid Art 42(i); 42(ii).

¹²⁸ Ibid Art 43.

contractual liability provision for inclusion in their civil codes.¹²⁹ Towards this, Han suggested that the Chinese experience may be a source of inspiration for these projects.¹³⁰

Thus, as in the case with the BLPs, it may be helpful to observe the result of the variety of the FRAND solution legal transfer through the lenses of the redundancy of the pre-contractual liability and its expansive notions of negotiating parties' mutual responsibilities. This approach would not only slow assumptions that the altered state of the FRAND solution is the result of corruption or incompetence, but also aid FRAND-encumbered SEP owners to recognise some of the scope and character of the FRAND duty in China. To that end, those SEP owners might avoid violations of that duty and retain their injunction claims.

4.2.2 Abuse of rights as a legal irritation in China

In contrast to the variety-redundancy pairing of the FRAND solution and China's BLPs and pre-contractual duty, the contemporary development of an abuse of rights doctrine in China can be seen as the double irritation of legal transfers as theorised by Gunther Teubner.

As discussed in section 4.2.1 of chapter two of this thesis, Teubner argued that legal transfers elicit a double irritation as they interact with both the legal and non-legal aspects of the institutions that they bind with it (i.e. courts, administrative agencies, etc.) in the recipient jurisdiction.

The legal transfer may be able to initially re-contextualise itself on the legal side of the binding institution in the recipient jurisdiction. However, Teubner theorises, on the non-legal side, the alien normative aspects of the legal transfer are likely to trigger a series of profound reactions that affect both the constitution of the imported law and the recipient jurisdiction. Once this process of mutual transformation on the non-legal side of the recipient jurisdiction is completed, its outcomes revert back to legal side of the recipient institution as an irritation. Teubner explains that this irritation on the legal side will continue to unsettle the recipient jurisdiction until the normative values of the legal side of the local binding institution come back into balance with those on its non-legal side.

This section of the chapter argues that the development of an abuse of rights doctrine in China is, at least in part, the result of the FRAND solution's legal transfer into Chinese law.

¹²⁹ Han Shiyuan (n 128) 170.

¹³⁰ Ibid.

It has the potential to facilitate the successful application of the FRAND solution in China, however it is at a relatively early stage of its development. Thus, according to Teubner's timetable, at this point, the FRAND solution legal transfer may be able to superficially re-contextualise itself in Chinese legal culture, but nevertheless it is still likely to have more transformative and transforming processes ahead of it. For now, the abuse of rights doctrine in China is in a process of definition.

He and Chen, hoping to use the abuse of rights doctrine in one proposal for denying an injunction to FRAND duty-breaching SEP owners, cite the comments of a court in a 2010 case in China's north-east coastal province of Shandong.

In that case, the court referred to the abuse of rights prohibition as a 'basic principle of [China's] national civil law' and cited Article 7 of the GPCL that forbids activities in that harm the public interest.¹³¹ The court further claimed support for the abuse of rights prohibition in Article 51 of the Chinese Constitution that states that legal persons must not exercise their rights and freedoms to infringe on:

the interests of the state, of society, and of the collective, or upon the lawful freedoms and rights of other citizens.¹³²

¹³¹ 《中华人民共和国民事诉讼法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6595>> Art 7 cited in 《山东海汇生物工程股份有限公司与谢宜豪股权转让合同纠纷上诉案》 [Shandong Haihui Biological Engineering Co Ltd and Xie Yihao equity transfer contract dispute appeal case], 山东省青岛市中级人民法院 [Intermediate People's Court of Qingdao City, Shandong Province, People's Republic of China], 青民二商终字第 562 号 [Commercial Appeal No 857], 2010; [2011] 12 《人民司法·案例》 [People's Judicature - Cases] 二、权利应依诚实信用原则行使, 不能滥用 [2] The Exercise of a Power Must Comply with the Good Faith Principle and Not be Abusive] ('Shandong Haihui Biological Engineering v Xie Yihao (Qingdao IPC), 2010').

¹³² 《中华人民共和国宪法》 [Constitution of the People's Republic of China] (People's Republic of China) National People's Congress, 4 December 1982 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6634>> Art 51.

Jie Qin, the author of a 2017 master's thesis comparing European Union ('EU') and Chinese measures for countering the exploitative practices of patent assertion entities ('PAEs'), also known as "patent trolls", nominates other bases for an abuse of rights doctrine in China.¹³³

Evoking the doctrine as one of the 'available remedies under [the] Chinese legal framework to catch the real problematic conducts' of PAEs, Qin claims it can be glimpsed in Article 48(2) in the *Patent Law*, Article 55 of the *AML* and Article 132 the *GRCL*.¹³⁴

Article 48(2) of the *Patent Law* allows China's patent regulator to award a compulsory licence where a patent holder has engaged in 'monopolistic or anti-competitive' practices.¹³⁵ However, as Qin admitted in her 2017-published thesis, this provision has never been invoked.¹³⁶

¹³³ Qin, Jie, 'Escaping Erosion of China's Innovation Market - A Comparative Study of Patent Aggregation between Europe and China' (LLM Thesis, Uppsala Universitet, 2017) <<http://www.diva-portal.org/smash/record.jsf?pid=diva2%3A1110480&dsid=-806>>.

¹³⁴ 《中华人民共和国专利法》 [Patent Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order No 8, 27 December 2008 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=5484>> 48(2); 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 4) art 55; 《中华人民共和国民法总则》 [General Rules of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://Www.Chinalawtranslate.Com>> (n 98) art 132; Qin, Jie (n 136) 52–55.

¹³⁵ 《中华人民共和国专利法》 [Patent Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order No 8, 27 December 2008 (World Intellectual Property Organisation Trans) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=5484>> (n 137) Art 48(2).

¹³⁶ Qin, Jie (n 136) 53. In support of this conclusion, Qin cites Meng, Yanbei, 'Research on Theory, Legislations and Practices about Regulating Non-practicing Entities in China' (2016) 11 *Frontiers of Law in China* 515, 526. Qin further notes that 'some Chinese scholars believe that the reason why this article has not yet been applied is that the application thereof could interfere with the notion of private nature of IP rights', citing See Yi, Jiming. 《禁止权利滥用原则在知识产权领域中的适用》 [The application of the principle of prohibition of abuse of rights in the realm of Intellectual Property] 中国法学 [China Legal Science] 2013, Issue 4, 39-52, at p.48.

Article 55 of the *AML* asserts jurisdiction over of the anti-competitive abuse of IP rights.¹³⁷ However, no enforcement or penalties regime is included in the AML for this power, with the details of these being delegated to subordinate regulations. But, after years of public and internal consultations, these regulations are largely yet to be finalised.¹³⁸

The one exception to this lack of progress in regulating abuses of IP rights under the AML are the 2015 *Provisions on Prohibiting the Abuse of Intellectual Property Rights to Preclude or Restrict Competition*, discussed in section 2.3.2 of chapter three of this thesis.¹³⁹

Nevertheless, as noted in the earlier chapter, there has been no significant application of these provisions since their implementation.

Article 132 of the *GRCL* forbids legal persons from ‘abus(ing) their civil rights (‘不得滥用民事权利’) to harm the national interest, public interests or the lawful rights and interests of others’.¹⁴⁰ This seems the most promising expression yet of an abuse of rights doctrine in

¹³⁷ 《中华人民共和国反垄断法》[Anti-Monopoly Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 4) Art 55.

¹³⁸ 《关于滥用知识产权的反垄断指南（征求意见稿）》[Anti-Monopoly Guidelines on Intellectual Property Abuse (Draft for Comment)] (People’s Republic of China) National Development and Reform Commission, 31 December 2015 <http://www.ndrc.gov.cn/gzdt/201512/t20151231_770313.html>, American Bar Association, Joint Comments of the American Bar Association Section of Antitrust Law, Section of Intellectual Property Law, and Section of International Law on the Anti-Monopoly Guideline on Intellectual Property Abuse (Draft for Comments)(Trans), February 4, 2016, <https://www.americanbar.org/content/dam/aba/uncategorized/international_law/aba_sal_sipl_sil_ndrc_ip_guidelines_comments_final_cn_en_package.authcheckdam.pdf> Art III(ii)6 (1)-(4); 关于滥用知识产权的反垄断执法指南（国家工商总局第七稿）[Anti-Monopoly Enforcement Guidelines on Abuse of Intellectual Property Rights (SAIC Seventh Draft)] (People’s Republic of China) State Administration for Industry and Commerce, 4 February 2016 Art 23(6); 28(4).

¹³⁹ 关于禁止滥用知识产权排除、限制竞争行为的规定 [Provisions on Prohibiting the Abuse of Intellectual Property Rights to Preclude or Restrict Competition] (People’s Republic of China), State Administration of Industry and Commerce, Decree No 74, 1 August 2015 2015 arts 7, 13.

¹⁴⁰ 《中华人民共和国民法总则》[General Rules of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://www.chinalawtranslate.com>> (n 98) Art 132.

existing Chinese law. Yet, discussion of the provision in the semi-official commentary on the 2017-issued *GRCL* both supports claims to its established presence in China, while also indicating how unsettled its place was in the hierarchy of Chinese law with the release of the *GRCL*.

The semi-official commentary on the 2017 *GRCL*, that the highly authoritative Legislative Affairs Commission of the Standing Committee of the NPC edited, said that in the discussions among the drafters of the *GRCL*:

Some of the expressed opinions suggested that the prohibition against the abuse of rights is [in fact] a requirement of the principle of good faith. [Therefore] it would be more appropriate to include the abuse of rights prohibition within the meaning of the good faith principle. The proposed rule is that: ‘Legal persons engaged in civil activities should follow the principle of good faith and not abuse their rights [thereby] harming the legitimate rights and interests of others.’¹⁴¹

While seemingly unsettled in 2017, by early 2019, the status of the abuse of rights prohibition appears to be more established. In early 2019, the Standing Committee of the NPC issued a draft of its proposed revisions to China’s *Patent Law*. One of the draft articles the NPC proposed closely matched the subordinate association between the abuse of rights and the good faith principle that the *GRCL* semi-official commentary had reported the drafters of the *GRCL* had discussed:

The application for a patent and exercising of patent rights shall abide by the principle of good faith. Abuse of patents shall not be allowed to harm public interests and others’ lawful rights and interests or to exclude or restrict competition.¹⁴²

¹⁴¹ 李适时 [Li Shishi] (n 120) 26.

¹⁴² The author was unable to find a public copy of the January 2019-proposed revisions to the Patent Law. Therefore, the source used and referred to is the text of the proposed revisions included in the following American Bar Association submission on the draft revisions, dated 5 February 2019. Antitrust Law and International Law Sections of the American Bar Association, ‘Comments of the American Bar Association’s Sections of Antitrust Law and International Law to the National People’s Congress of the People’s Republic of

This proposed balancing of the good faith principle with the abuse of rights prohibition in Chinese patent law is actually very similar to a pairing of the two in the civil codes of South Korea and Japan that underpins their respective abuse of rights doctrines.¹⁴³

Yet, as chapters four and six of this thesis give some indication, the abuse of rights jurisprudence in these jurisdictions is complex and has been developed over decades of judicial and academic processing to produce a form that meets local requirements.

Therefore – as proposed below – the abuse of rights doctrine could potentially play a critical role in applying the FRAND solution legal transfer in China. While the good faith principle has been used as a “positive duty” to encourage and exemplify good practice, its subordinate abuse of rights prohibition can define a “negative duty” in Chinese law of actions not to take.

Yet, as the long development of South Korea and Japan’s respective abuse of rights doctrines demonstrate – and as Teubner’s theory proposes – the abuse of rights doctrine in China still has a significant period of legal and non-legal processing ahead of it.

4.3 A proposal for assessing FRAND-encumbered SEP injunction applications

This section proposes how the FRAND solution legal transfer could be applied in China based on two historical sources.

The first of these is the Guangdong HPC’s reasoning in the 2013 *Huawei v IDC* decision in relation to its apparent finding that the US injunctive action of the SEP owner, IDC was an abuse of dominant market position under China’s AML. The second source is a 2014 Chinese academic article, co-translated by the author, that proposes that Chinese courts could refuse

China on the Draft Amendment of China’s Patent Law (5 February 2019)’ 5

<https://www.americanbar.org/groups/antitrust_law/resources/comments_reports_amicus_briefs/2019/>.

¹⁴³ The South Korean Civil Act states in sub-sections 1 and 2 of Article 2: ‘(1) The exercise of rights and the performance of duties shall be in accordance with the principle of trust and good faith’; ‘(2) No abuse of rights shall be permitted’. The Japanese Civil Code states in sub-section 2 and 3 of Article 1: ‘(2) The exercise of rights and performance of duties must be done in good faith; and (3) No abuse of rights is permitted.’ 민법 [Civil Act] (Republic of Korea), National Assembly of South Korea, Law No 471, 22 February 1958 (Partial Amendment Act No.14409, 20 December 2016) art 2(1); 民法 [Civil Code] (State of Japan), National Diet, Act No 89, 27 August 1896 art 1(2) & (3).

to grant an injunction to a SEP owner in breach of its FRAND duty, essentially based on pre-existing Chinese legal grounds.¹⁴⁴

The Guangdong HPC's reasoning in the 2013 *Huawei v IDC* decision is not complete and so the 2014 academic article offers an abuse of rights-based theory proposal that helps to fill those gaps. At the same time, the authors of the Chinese academic article, He Huaiwen and Chen Ruwen rejected the *Huawei v IDC* decision as a potential model for other Chinese courts to follow in assessing FRAND-encumbered SEP owners' injunction applications.¹⁴⁵

Nonetheless, this chapter draws on reasoning from the Guangdong HPC decision in *Huawei v IDC* that was redacted from the public version of the judgment that was immediately available following the decision. This text, that was subject to redaction in the publicly-issued decision, is discussed below in section 4.3.2 of this chapter.

Due to He and Chen's silence on the abuse of rights-relevant reasoning in this redacted text, it is assumed that they did not have access to this unredacted copy when writing their 2014 article. Nonetheless, this chapter proposes that this text that was redacted from the public version of the *Huawei v IDC* decision, offers insights into the court's reasoning – that He and Chen did not discuss – but that may be useful to Chinese courts.

In addition, with the regulatory and judicial developments of 2016-18 occurring – without warning – after their 2014 publication, He and Chen could not comment on the significance of these events in their proposal. Even so, this thesis argues that a straight line can be drawn between the reasoning in the 2013 *Huawei v IDC* case and the developments of 2016-18, based on He and Chen's proposal of an abuse of rights-based injunction determination regime.

4.3.1 Defining the FRAND duty in China

In its decision in the *Huawei v IDC* case, the Guangdong HPC decision observed that neither international SSOs, nor the foreign jurisdictions to which some are affiliated, had defined SEP owners' FRAND duty.¹⁴⁶ Accordingly, the court held, Chinese courts could apply a

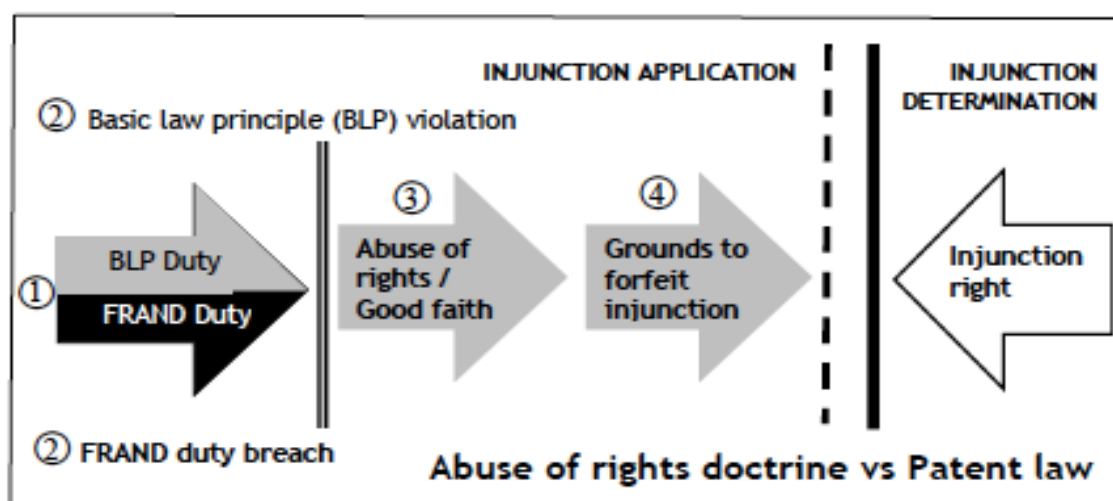
¹⁴⁴ 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125).

¹⁴⁵ Ibid 49.

¹⁴⁶ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong

definition of their own.¹⁴⁷

FIGURE 2: ABUSE OF RIGHTS-BASED INJUNCTION DETERMINATION PROCESS



Recognising that Chinese law did not offer an obvious definition for the term, the Guangdong HPC proposed that:

Article four of the *PRC General Principles of Civil Law* ... and Articles five and six of the *PRC Contract Law* ... can be used to interpret the meaning of the FRAND duty ...¹⁴⁸

The contents of Article four of the GPCL and Articles five and six of the *Contract Law* ('Contract Law') are set out below in Table **Error! Reference source not found.**¹⁴⁹

Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 66–7.

¹⁴⁷ Ibid 59.

¹⁴⁸ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 67.

¹⁴⁹ 《中华人民共和国民法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6595>> (n 98) Art 4; 《中华人民共和国合同法》 [Contract Law of the People's Republic of China] (People's Republic

TABLE 3: CHINESE LAW DEFINING FRAND DUTY IN 2013 *HUAWEI v IDC* JUDGMENT

1986 General Principles of Civil Law
Article 4: In civil activities, the principles of voluntariness, fairness, providing compensation of equal value and good faith shall be observed.
1999 Contract Law
Article 5: The parties shall abide by the principle of fairness when determining their rights and obligations.
Article 6: Parties exercising their rights and obligations should follow the principle of good faith.

Table 4 suggests GRCL provisions that could substitute those in the GPCL that the *Huawei v IDC* court identified, when the former eventually supersede the latter.

TABLE 4: 2017 *GENERAL RULES OF THE CIVIL LAW*

2017 General Rules of Civil Law
Article 4: The legal status of all civil entities in civil actions is equal.
Article 5: Civil entities engaging in civil activities shall follow the principle of voluntariness, establishing, changing, or terminating civil law relationships as they choose.
Article 6: Civil entities engaging in civil activities shall follow the principle of equity to reasonably determine the rights and obligations of each party.
Article 7: Civil entities engaging in civil activities shall follow the principle of good faith, adhere to the truth and honour their commitments.

Consistent with this proposal of the *Huawei v IDC* court, He and Chen likewise suggest that FRAND-encumbered SEP owners would be expected to exercise their rights in compliance with Article four of the GPCL under their abuse of rights-based proposal.¹⁵⁰

Accordingly, as indicated in step one of Figure 2 in this chapter, the duty on SEP owners not to breach their FRAND duty becomes synonymous with the duty of all legal persons in China not to not violate its BLPs.

4.3.2 Breaching the FRAND duty in China

In the 2013 *Huawei v IDC* decision, the Guangdong HPC assessed three non-royalty rate-related terms that the SEP owner, IDC, had offered to the standard implementer, Huawei,

of China), Presidential Order No 15, 15 March 1999 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6597>> (n 128) Art 5;6.

¹⁵⁰ 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) 48.

finding that none of these terms complied with IDC's FRAND duty.¹⁵¹

He and Chen do not discuss this section of the Guangdong HPC judgment, while nevertheless citing this second instance decision in their article's first footnote.¹⁵² This section of the first, FRAND-related judgment of the Guangdong HPC was heavily redacted in its publicly-available version. Therefore, writing in the year following the decision, it is possible that He and Chen did not have access to the unredacted version of this section of the judgment that became privately available thereafter.

Nonetheless, as is discussed in the following sub-section, He and Chen offer a conceptualisation of the breach of the FRAND duty that is consistent the *Huawei v IDC* court's definition of the duty as synonymous with select BLPs included in the *GPCL* and China's *Contract Law*. As importantly for the development of legal basis for assessing the injunction applications of FRAND-encumbered SEP owners in China, He and Chen's conceptualisation of the breach extends the conclusions of the Guangdong HPC towards a legal consequence. Whereas the *Huawei v IDC* court is highly critical of IDC for the breaches found, it does not state what consequences this has for the SEP owner and, in particular, its injunction rights.

This development is represented in Figure 2 as step 2 in which a SEP owner's violation of a BLP is simultaneously a breach of its FRAND duty.

Three Breaches of the FRAND Duty and Violations of China's Basic Law

The first of the non-royalty rate-related terms that IDC sought to impose on Huawei, that the Guangdong HPC discusses, would have required Huawei to license non-SEPs from IDC that it did not want to license, that were 'tied' to the SEPs that Huawei did want to license.¹⁵³

¹⁵¹ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 70.

¹⁵² 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) Fn 1.

¹⁵³ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong

As noted above, having determined that all three of IDC's non-royalty rate-related terms breached its FRAND duty, the Guangdong HPC specifically referred to this term's mandatory tying of IDC's non-SEPs and SEPs as 'illegitimate' (不具有正当性).¹⁵⁴ This finding can be seen as an indirect reference to the BLPs defining China's FRAND duty – via general provisions underpinning the AUCL.¹⁵⁵

The AUCL was implemented in 1993, with a revised version of the law coming into force in 2018.¹⁵⁶ Article one of the law's general provisions states that, among other reasons, the AUCL was implemented to prevent acts of illegitimate or unfair competition (不正当竞争).¹⁵⁷ Most often translated as 'unfair competition', this term is defined in Article two of the AUCL as including activities that 'disrupt the competitive order of the market [or] infringe the legitimate rights and interests of other business operators...'¹⁵⁸ To avoid such disruptions or infringements, Article two further stipulates that all firms operating in China must comply with the principles of voluntariness, equality, fairness, and good faith.¹⁵⁹

The AUCL regulates firms in China with reference to what is determined to be the prevailing industry practices and business ethics. Therefore, in finding IDC's mandatory tying term was 'illegitimate', the Guangdong HPC was declaring the term to be a breach of the FRAND duty in this commercial context. Citing the above BLPs as they appear in Article four of the GPCL, rather than via this reference to Article two of the AUCL, would have been a more direct condemnation of the IDC term. However, it would also have been without an allusion to the commercial context of legitimate industry practices and business ethics.

Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 70–1.

¹⁵⁴ Ibid 71.

¹⁵⁵ 《中华人民共和国反不正当竞争法》 [Anti-Unfair Competition Law of the People's Republic of China] (People's Republic of China) Order No 77, 4 November 2017 (Lexis Nexis Trans) (n 108).

¹⁵⁶ Ibid.

¹⁵⁷ Ibid Art 1.

¹⁵⁸ Ibid Art 2.

¹⁵⁹ Ibid.

The second of the non-royalty rate-related terms that IDC sought to impose on Huawei was the obligation on Huawei to issue licences to all of its patents to IDC on a royalty-free basis.¹⁶⁰ In finding this term in breach of IDC's FRAND duty, the Guangdong HPC stated that: 'Obviously, the licensing terms of the parties are not equivalent' ('显然, 双方的许可条件不对等').¹⁶¹

Chinese contract law requires that the parties share an equal legal status. One of the three elements required to demonstrate equality between the parties to a contract in China is an 'equivalence' ('对等') in the rights and obligations that each of them gain and bear under the agreement.¹⁶² The IDC provision clearly violates the contract equality principle's requirement that the exchange be 'generally equivalent' and its prohibition against any party 'possess(ing) the property of the other without compensation'.¹⁶³

As noted above, in its decision in *Huawei v IDC* case, the Guangdong HPC proposed that the FRAND duty in China should be based on Articles five and six of the *Contract Law*, as well as Article four of the *GPCL* (see Table 3).

Clearly, two articles from the *Contract Law* are included to emphasise the application of the principles of good faith and fairness – already represented in Article four of the *GPCL* – in the making and performance of contracts.

In this context, the Guangdong HPC's reference to contractual equivalence seems intended to cite the requirement under Article five of the *Contract Law*, and so China's FRAND duty, that SEP owners act with fairness in their offering of terms during the negotiation process. The 1999 commentary on the *Contract Law*, that the chair of the NPCSC Legislative Affairs

¹⁶⁰ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 71.

¹⁶¹ Ibid.

¹⁶² National People's Congress (People's Republic of China), '订立和履行合同应当遵守哪些原则? [What Principles Should Be Followed in Entering into and Fulfilling a Contract?]' (22 April 2002) <http://www.npc.gov.cn/npc/flsyywd/flwd/2002-04/22/content_293611.htm>.

¹⁶³ Ibid.

Commission was accredited with editing, further supports this association between contractual equivalence and SEP owners' fairness obligations. The commentary explains that under the *Contract Law*, the fairness principle requires that 'the balance of rights and duties between the contractual parties be equitable'.¹⁶⁴ This requires a giving of 'equal value ... in the distribution of responsibilities and risk under the agreement'.¹⁶⁵

The third non-royalty rate-related term that IDC sought to impose on Huawei stated that any rejection of any term of the SEP licensing contract that IDC has prepared, would be treated as a rejection of the contract as a whole.¹⁶⁶ In other words, the entire agreement that IDC presented to Huawei was non-negotiable.

The Guangdong HPC held that this provision was an 'obvious violation of the principles of voluntariness and equality' (显然该要求违反自愿平等的基本原则).¹⁶⁷

The principle of voluntariness is listed among the BLPs in Article four of the GPCL that the Guangdong HPC proposed should define China's FRAND duty.¹⁶⁸ The principle of equality is included in Article three of the GPCL and so is not included in the *Huawei v IDC* court's definition of the FRAND duty.¹⁶⁹ However, the equality principle does have an additional supporting role in defining the principle of voluntariness.

As the 1987 semi-official commentary on the GPCL states:

¹⁶⁴ 胡康生 [Hu Kangsheng] (ed), 《中华人民共和国合同法释义》 [Interpretation of the Contract Law of the People's Republic of China] ((法律出版社 [Law Press China], First published 1999, 2012 ed).

¹⁶⁵ Ibid.

¹⁶⁶ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People's Court, People's Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 71.

¹⁶⁷ Ibid.

¹⁶⁸ See above section 4.2.1.

¹⁶⁹ 《中华人民共和国民事诉讼法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://www.wipo.int/wipolex/en/details.jsp?id=6595>> (n 98) Art 3.

Parties in a civil action have equal status and the mutually beneficial co-operative relationship between them is based on voluntariness.¹⁷⁰

Beyond that, the commentaries on GPCL and GRCL suggest why the *Huawei v IDC* court found IDC's non-negotiable licensing terms such an obvious violation, in particular, of the voluntariness principle.

Consistent with the non-negotiable terms enabling IDC to unilaterally determine the content of its contract with Huawei, the GPCL commentary states that the voluntariness principle rejects any situation where one party has an excessive influence over the other:

(N)o party should be in a position of dominance over, or submission to, the other. The rights of the parties are to be determined through equal consultation in an independent and voluntary way.¹⁷¹

Likewise, the GRCL commentary observes that to comply with the principle of voluntariness, neither party should be constrained from freely acting to represent its own interests:

Equality before the law is the basis on which the voluntariness, independence and free will to act of legal persons is founded. Thus, it is necessary to respect the autonomy of other legal persons, as the freedom of action that parties enjoy, is based on mutual respect.¹⁷²

Elsewhere, the commentary on the 2017 general rules states that the principle requires that parties are able 'to voluntarily engage in legal activities in accordance with their own intentions [and] to autonomously decide the content of their legal relations ...'¹⁷³

The GRCL commentary further notes that the voluntariness principle obliges parties to present more than a superficial resemblance of equality and mutual autonomy in their

¹⁷⁰ 李士伟, 杜西川 [Li Shiwei and Du Xichuan] (n 117) 5.

¹⁷¹ Ibid 5–6.

¹⁷² 李适时 [Li Shishi] (n 120) 22.

¹⁷³ Ibid 21.

interactions. As it explains, legal persons in China should ‘not only seek voluntariness formally, but also substantively’.¹⁷⁴

Conduct of IDC in its interactions with Huawei, recorded in the Guangdong HPC judgment, may have been an example of behavior that the court considered only sought to project the formal appearance of an equal and voluntary relationship between the parties.

This includes a communication IDC sent to Huawei a week after filing its injunctive action in the Delaware District Court and the US International Trade Commission.¹⁷⁵ In this communication, IDC told Huawei that despite these actions in the US, it was still willing to negotiate licensing terms with the standard implementer.¹⁷⁶ Nevertheless, the two sets of terms that IDC subsequently provided to Huawei – like the two previously sent – were entirely non-negotiable, ensuring that substantively Huawei’s circumstances had not changed, despite IDC’s apparent offer of a more accommodating approach.¹⁷⁷

Three Breaches Preceding the Competition Law-breaking Injunction

Immediately following the Guangdong HPC’s finding that IDC’s non-negotiable terms had breached the voluntariness and equality principles, the court stated:

Moreover, in July 2011, when the two sides were in the process of negotiating the relevant patent licenses, IDC took legal action against Huawei in a US court and the US International Trade Commission, seeking injunctive relief. Clearly, IDC’s proposed terms and its undertaking of a lawsuit, do not comply with the requirements of FRAND, having made it impossible for the two sides to return to negotiations and successfully

¹⁷⁴ Ibid 22.

¹⁷⁵ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People’s Court, People’s Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted Version, on File with Author) (n 1) 15.

¹⁷⁶ Ibid.

¹⁷⁷ Ibid 19–20; 53.

conclude a licensing agreement.¹⁷⁸

As noted in section 2.1 of this chapter, the second instance findings of the Guangdong HPC in the *Huawei v IDC* decision were contained in two separate judgments: one concerned with the case's FRAND-related issues, and the other, its AML-related issues. As noted above, these judgments were respectively issued on October 16 and 21, 2013.

The finding of the Guangdong HPC cited in section 2.1 of the chapter condemning the US injunction applications of the SEP owner, IDC, as anti-competitive, appears in the AML-related judgment.¹⁷⁹ The paragraph immediately above was included in the Guangdong HPC's FRAND issues-related judgment.

Yet, despite their separation, the contents of the two paragraphs seem to almost mirror one another, in particular, in terms of their accounts of IDC's breaking off its negotiations to seek injunctive action in US.

Where they differ is in their findings – with the AML-related judgment finding that IDC's actions amount to anti-competitive behaviour, while the FRAND-related judgment finding the SEP owner in breach of its FRAND duty.

Nevertheless, it is clear in the latter judgment, that the court's reference to 'IDC's proposed terms' that – with the injunctive action – 'do not comply with the requirements of FRAND', means the three non-royalty rate-related terms that the court had assessed immediately above. That being the case, the similarities between the two paragraphs, further suggests that the source of the FRAND duty breach referred to in the later-issued AML-related judgment are also the same three terms found in breach in the earlier FRAND-related judgment.

¹⁷⁸ Ibid 71.

¹⁷⁹ 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People's Court of Guangdong Province (People's Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 1).

4.3.3 Breaching the FRAND duty as an abuse of rights in China

As explained above, the provisions of China's basic law, such as the good faith principle, can be applied to limit rights granted under specifically-enacted law, such as the *Patent Law*.¹⁸⁰

He and Chen explain this limitation on rights that were granted under specifically-enacted law as a result of the rights holder exercising these legal rights 'in excess of the restrictions on [these] rights'.¹⁸¹ The restrictions on rights referred to, are the BLPs, such as the good faith principle, fairness, etc. that contained in Article four of the GPCL and set out in Table 3 above. Rights holders that exceed the BLP-based restrictions on the exercise of their rights, risk losing the ability to enforce those rights on a case-specific basis.

He and Chen apply this conceptualisation of the breach process to the determination of the injunction applications of FRAND-encumbered SEP owners. In that context, the relevant specifically-enacted legal right granted to the SEP owner is the right to seek an injunction. He and Chen propose that, when a SEP owner exercises this injunction right in excess of the restrictions on rights that the BLPs represent, this should have the legal consequence of being held an abuse of rights, which itself is a breach of the good faith principle.¹⁸²

In Figure 2, this violation of a BLP amounting to an abuse of right and so a violation of the good faith principle is represented by step 3.

4.3.4 Abused injunction rights made case-by-case unenforceable in China

This close association between the abuse of rights doctrine and the principle of good faith is consistent with the legal basis that He and Chen construct that would allow Chinese courts to refuse the individual injunction applications of FRAND-encumbered SEP owners.

Making this association, He and Chen propose that:

¹⁸⁰ See text corresponding to footnotes 93-110.

¹⁸¹ 何怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) 48.

¹⁸² Ibid.

the exercise of rights in violation of the good faith principle, namely in excess of the restrictions on rights, constitutes an abuse of rights and results in an ‘unenforceability of rights.’¹⁸³

This point in the assessment process is represented by step 4 in Figure 2.

In support of these grounds for the unenforceability or forfeit of rights in a particular instance, He and Chen cite a 2013 article of the Taiwanese academic and legal theorist, Wang Zejian – and his discussion of the civil law doctrine of *verwirkung*.¹⁸⁴

Originating in Germany’s law of obligations in the late 19th century, *verwirkung* has the literal meaning of ‘forfeiture’. Not a legal action in its own right, *verwirkung* is instead a supporting doctrine to the good faith principle that is applied where the exercise of a legal right would violate the good faith principle.¹⁸⁵

Consistent with the essential elements of the *verwirkung* doctrine, He and Chen argue:

As German law has previously proposed, rightsholders [should only] exercise [their rights] in accordance on the reasonable reliance (合理信赖) of others. To proceed to exercise their rights in conflict [with these expectations] is to act in violation of the good faith principle and can lead to the invalidation of a right. In the exercise [IP] rights, the same legal principles should apply [; IP rights exercised contrary to the reasonable reliance of others or in violation of good faith, risk invalidation].¹⁸⁶

The constitutive components of a *verwirkung* action are: 1) the conduct of a rights holder that infers that it will not enforce its rights; 2) no enforcement action by the rights holder during

¹⁸³ Ibid.

¹⁸⁴ 王泽鉴 [Wang Zejian], ‘《诚实信用与权利滥用》 [Good Faith and the Abuse of Rights] (2013), 6 《北方法学》 [Northern Legal Science] 7’ 10.

¹⁸⁵ Antoni Vaquer, ‘Verwirkung versus Laches: A Tale of Two Legal Transplants’ (2006) 21 Tulane European & Civil Law Forum 53, 61.

¹⁸⁶ 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) 49.

the period at issue; and 3) the reasonable reliance of those subject to the enforcement of rights that the rights holder has abandoned this course of action.¹⁸⁷

Conventionally, the first of these components, has been regarded as requiring that the conduct that creates the expectation that a right has been abandoned, include a considerable period of inertia.¹⁸⁸ However, this ‘running of time’ requirement can be outweighed by the extent to which the harm done to those subject to the enforcement of rights, violates the principle of good faith:

the more the plaintiff’s behavior offends good faith, the less the time needed for successful invocation of *verwirkung*, and conversely.¹⁸⁹

From its German roots, the *verwirkung* doctrine has travelled as a legal transfer – mostly in the form of case law – into other civil law jurisdictions in western and post-socialist eastern Europe, South America and Taiwan.¹⁹⁰

By the early 20th century, the doctrine was already being widely used in actions alleging the forfeiture of rights – including IP rights.¹⁹¹ At one point, the *verwirkung* doctrine was widely used German trademark disputes where it was alleged that the trademark holder had acquiesced to another party’s use of its mark.¹⁹² Where this could be proven, the *verwirkung*

¹⁸⁷ Vaquer (n 192) 61–2.

¹⁸⁸ Thiago Luís Sombra, ‘The Duty of Good Faith Taken to a New Level: An Analysis of Disloyal Behavior’ (2016) 9 Journal of Civil Law Studies 30, 42.

¹⁸⁹ Vaquer, above n 230, 62 quoted in Öhrström, above n 232, 25.

¹⁹⁰ In his 2006 survey of the influence of the *verwirkung* doctrine in civil law jurisdictions, Antoni Vaquer discussed its acceptance and transformation through Spanish case law, and its application in major decisions in Portugal and Greece. Vaquer also notes the doctrine’s reception into post-socialist Estonia and Latvia; its promotion under Brazil’s 2002 civil code and the controversies surrounding its entry in Argentinian law. Vaquer, above n 286, 62–70. Furthermore, Wang gives an account of a series debt and land disputes that have gone before the Supreme Court of the Republic of China (最高法院) in Taiwan since the 1960s. Common to all these cases was the court’s determination that rights holders abused their rights if they sought to enforce their rights after acting to encourage reasonable expectations that this would not occur. 王泽鉴 [Wang Zejian], above n 285, 10–11.

¹⁹¹ Öhrström, Fredrik (n 196) 25.

¹⁹² Ibid 26.

doctrine would apply, in recognition that – through its previous contradictory action – the trademark holder had forfeited its right to an injunction.¹⁹³

In proposing that the *verwirkung* doctrine be applied in China to the injunction applications of FRAND-encumbered SEP owners, He and Chen are suggesting that the making of a FRAND commitment is conduct of a rights holder inferring that it will not enforce its rights. Not a complete abandonment of its rights, the SEP owner in its FRAND commitment is agreed not to enforce its injunction right in a limited set of circumstances – those being, not against a standard implementer that is a willing licensee.

At the same time, He and Chen are proposing that standard implementers are those that are subject to the enforcement action of the rights holder, in the form of an injunction.

Nonetheless, following the *verwirkung* elements, they are seen to have reasonably relied on the SEP owner's commitment that they will not incur injunctive action and be offered FRAND terms, as willing licensees.

Where a SEP owner does not offer FRAND terms and/or seeks an injunction against a willing licensee, this conduct can be interpreted as contradicting its former conduct of committing to offer such terms and to refrain from seeking such actions. As a consequence, consistent with the *verwirkung* doctrine, the SEP owner risks forfeiting its right to receive an injunction and, on that basis, a Chinese court can refuse it such relief.

Deferred enforcement refused – Shandong equity transfer decision

Seeking examples of the *verwirkung* doctrine already applied under Chinese law, He and Chen cite two cases decided in China in 2010.

Unrelated to SEPs or IP generally, the two decisions nevertheless still suggest the application of the German doctrine of forfeiture. This is apparent in their common concern with rights holders that are attempting to enforce a termination clause under contract law after engaging in conduct inferring that they had abandoned this right.

¹⁹³ Ibid. Jorge L. Contreras has also proposed that courts recognise a reliance interest as a basis for standard implementers' claims against standard-essential patent ('SEP') owners that fail to comply by their commitment to license their SEPs on fair, reasonable and non-discriminatory terms: Jorge L. Contreras, 'A Market Reliance Theory for FRAND Commitments and Other Patent Pledges' (2015) *Utah Law Review* 479.

The first of these cases was the Shandong province decision that He and Chen earlier cited for its recognition of the abuse of rights prohibition as a basic principle of Chinese civil law.

This is the *Shandong Haihui Biological Engineering v Xie Yihao equity transfer contract dispute appeal case* ('*Shandong Haihui v Xie Yihao*' case). In the decision, the presiding court refused to support the termination of an equity transfer agreement, after the rights holder deferred enforcing its rights for more than five years.¹⁹⁴

Under the agreement between the original transferee and the original transferor, the former had to pay a fee to the latter within 30 days of agreeing to on-transfer its equity in a commercial firm to a third party.¹⁹⁵ However, after the transfer was made, the original transferee failed to make the payment and, ignorant of this fact, the third party participated in the entity's governance for a period of more than five years, with the full knowledge of the original transferor.¹⁹⁶

In explaining its reasons for refusing to support the termination of the original transfer contract, the Shandong court quoted from another publication of the Taiwanese academic and legal theorist, Wang Zejian.

Consistent with a conventional understanding of the *verwirkung* doctrine, the quoted text argues:

[If] a rights holder does not exercise a right for a considerable period of time ... a [rights user] may reasonably believe that the rights holder will no longer take enforcement action to compel it perform its obligations. [In

¹⁹⁴ *Shandong Haihui v Xie Yihao (Qingdao IPC)*, 2010 (n 134); 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) 48–9.

¹⁹⁵ *Shandong Haihui v Xie Yihao (Qingdao IPC)*, 2010 (n 134) 一、本案原告享有合同解除权 [1] The Plaintiff's right to terminate the contract].

¹⁹⁶ *Ibid* 案情 [Case details].

such a situation,] the rights holder would violate the good faith principle if it renews its demands for the [rights user] to meet its obligations.¹⁹⁷

Deferred enforcement refused – Shanghai case bank IT services case

He and Chen also cited the 2010 *Cathay United Bank Co Ltd v ecSolutions Corporation (Shanghai) Ltd, sales contract dispute case* (‘*Cathay Bank v ecSolutions*’ case), in which a Shanghai court held that the preceding contradictory actions of a rights holder should deny it the right to enforce a contractual termination clause.¹⁹⁸

In the case, a bank and an information technology (‘IT’) firm concluded an agreement for the latter to provide equipment and services to the former for its establishment of a retail banking branch in Shanghai.¹⁹⁹ The agreement included a termination clause that permitted the bank to return the supplied equipment and be reimbursed the services provided, if the bank failed to be licensed to operate in Shanghai within 12 months of signing of its agreement with the IT firm.²⁰⁰

However, for a further ten months after this deadline for the bank to obtain its operating license had expired, the bank continued to request services from the IT firm.²⁰¹ More than four years later, the bank formally informed the IT firm that it was terminating their agreement and eventually took legal action to recover the payments it had made under the contract.²⁰²

¹⁹⁷ 王泽鉴 [Wang Zejian], above n 218, 377 quoted in *Shandong Haihui v Xie Yihao* (Qingdao IPC), 2010, 四、解除权失效及构成要件 [4] The Loss of the Termination Power Loss and Its Constitutive Elements].

¹⁹⁸ 《国泰世华商业银行股份有限公司诉盈达电子商务软件系统（上海）有限公司买卖合同纠纷案》 [*Cathay United Bank Co Ltd v ecSolutions Corporation (Shanghai) Ltd, Sales Contract Dispute Case*] 上海市第一中级人民法院 [*Shanghai First Intermediate People’s Court, People’s Republic of China*] 沪一中民四（商）终字第1509号 [*Commercial Appeal No 1509*], 17 August 2010 (‘*Cathay Bank v EcSolutions (Shanghai No 1 IPC)*, 17 August 2010’); 何怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) Fn 20.

¹⁹⁹ *Cathay Bank v EcSolutions (Shanghai No 1 IPC)*, 17 August 2010 (n 206) 案情 [Case details].

²⁰⁰ Ibid.

²⁰¹ Ibid.

²⁰² Ibid.

The Shanghai court in the *Cathay Bank v ecSolutions* case differed from the Shandong court in *Haihui v Xie Yihao*, in denying the bank's right to terminate the contract after citing the fairness BLP, as opposed to the good faith BLP.²⁰³

Nonetheless, He and Chen asserted that the two cases share a common basis for refusing to enforce the of rights holders, that also suggests the essential components of a *verwirkung* action:

[I]f one of the parties has a legitimate reason for relying on the other party not to exercise its right of termination ... the termination rights holder is no longer permitted to exercise that right.²⁰⁴

4.4 Sub-conclusion: Anti-competitive finding not inevitable but possible

This section of the chapter has argued that in “going native”, the FRAND solution in China has been transformed, by means of the redundancy of China's BLPs and pre-contractual liability, ensuring that FRAND licensing terms extend to licensing conduct. At the same time, the FRAND solution is transforming Chinese legal culture by irritating it to develop an abuse of rights doctrine with the sophistication and legitimacy necessary to restrict legal rights – including injunction rights.

In chapter three of this thesis, it was proposed that prior the 2016 *SPC Patent Law Interpretation II*, Chinese policy had attempted one at least three prior occasions to limit the injunction rights of SEP owners. As discussed in section four of chapter three, these attempts were made in the 2008 *Chaoyang Xinguo* case letter issued by the China's Supreme People's Court and the administrative regulations and decision of 2014 *National Standards Measures* and the 2015 *Qualcomm* Determination.

Despite the break in chronology, the 2013 *Huawei v IDC* decision can be seen as a halfway house between the approach taken in the 2015 *Qualcomm* determination and the 2016 *SPC Patent Law Interpretation II*.

²⁰³ *Cathay Bank v EcSolutions* (Shanghai No 1 IPC), 17 August 2010 (n 206). This was a finding of the first instance court that was affirmed by the second instance court.

²⁰⁴ 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) 48–9.

Like the 2015 *Qualcomm* determination, the *Huawei v IDC* decision largely countered the abuse of SEP rights with the application of unfairly high pricing prohibition under Article 17(1) of the AML. At the same, as has been argued above, the Guangdong courts seem to have found that the negotiation conduct of the SEP owner, IDC, violated China's BLPs and pre-contractual duty, and thus amounted to a breach of its FRAND duty.

Specifically, in the case of the *Huawei v IDC* courts' finding in relation to IDC seeking injunctive action, this was not a breach of its FRAND duty. As He and Chen say:

In these circumstances, the rights of the entity are restricted, not because of the right holder's specific act of [seeking] the current legal action, but rather because of some bad faith activity, separate from and preceding, the litigation.²⁰⁵

Conversely, IDC's US injunctive action was not anti-competitive because of IDC's early FRAND duty breach, i.e. of imposing non-negotiable licensing terms on Huawei that denied the Chinese firm its right to voluntariness and equality. As the Guangdong HPC stated in Article 28 of its 2018 guidelines, a SEP owner's breach of its FRAND duty should not necessarily be held to amount to an abuse of its dominant market power.²⁰⁶ Nonetheless, the same provision does recommend that lower courts review the specific circumstances of the case to determine whether or not the SEP owner's activities have an anti-competitive outcome.²⁰⁷

Thus, a SEP owner in the same circumstances as IDC may still be held to have abused its dominant market position. The 2017-18 *IWNComm v Sony* and 2018 *Huawei v Samsung* decisions reassured FRAND-encumbered SEP owners in China that – despite the decision in *Huawei v IDC* – they would not be held to have acted anti-competitively merely for seeking an injunction.

²⁰⁵ Ibid 48.

²⁰⁶ 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://www.iprdaily.cn/article_18855.html> (n 87) Art 28.

²⁰⁷ Ibid.

The above section proposes how SEP owners in China may be denied an injunction if they violate China's BLPs in their licensing negotiations. Chapter three of the thesis suggests that with the 2016 *SPC Patent Law Interpretation II*, China's policy makers were signaling that they were proposing to use an alternative legal instrument against SEP owners that was not as blunt as a finding of anti-competitive conduct. The abuse of rights doctrine allows courts to find a SEP owner's particular injunctive action against a specific standard implementer to be unenforceable. As He and Chen have proposed, a standard implementer can even seek damages for any resulting harm via the *Anti-Unfair Competition Law* or pre-contractual liability provision under the contract law.²⁰⁸ Nevertheless, as Article 28 of the Guangdong HPC guidelines noted above indicates, findings against FRAND-encumbered SEP owners, such as that that IDC incurred, remain possible.²⁰⁹

Thus, all that has changed with the issue the *SPC Patent Law Interpretation II* and *IWNComm v Sony* and *Huawei v Samsung*, is that – with more regulatory development – Chinese courts will have a choice of law with which to deny FRAND-encumbered SEP owners an injunction.

5 Conclusion

Consistent with the first of its aims, this chapter demonstrated how the decisions of Chinese courts, beginning with the 2013 *Huawei v IDC* case, revealed them to be going along with international practice and applying the two conventional elements of the FRAND solution.

These conventional elements of the FRAND solution require decision-makers assessing injunction applications involving FRAND-encumbered SEPs to ensure that SEP owners have met their FRAND commitments. The conduct of standard implementers must also be

²⁰⁸ 《中华人民共和国反不正当竞争法》[Anti-Unfair Competition Law of the People's Republic of China] (People's Republic of China) Order No 77, 4 November 2017 (Lexis Nexis Trans) (n 108) art 2; 《中华人民共和国合同法》[Contract Law of the People's Republic of China] (People's Republic of China), Presidential Order No 15, 15 March 1999 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6597>> (n 128) art 42; 何 怀文 [He Huaiwen] and 陈如文 [Chen Ruwen] (n 125) 48, 46–7.

²⁰⁹ 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 87) art 28.

assessed through an application of the unwilling licensee test for evidence of their attempt to delay entry into negotiations or payment of royalties owing.

In the following section, the chapter identified Chinese courts possibly going rogue and counter to international practice with their inclusion of a third element in their application of the FRAND solution – an imposition of additional process obligations on SEP owners.

In the final section of the chapter, it was argued that the presence of this third element in the injunction application assessment of Chinese courts did not indicate that they were going rogue, in the sense of corruptly or incompetently applying the FRAND solution. Instead, it was proposed that it was, in fact, the FRAND solution that was going native, in taking on elements of Chinese legal culture – including the rights-regulating force of Chinese basic law provisions and the conduct-inclusive effect of China's pre-contractual duty. Likewise, the previous section proposed that the FRAND solution is transforming Chinese legal culture by driving the development of an abuse of rights doctrine to serve as a legitimate basis for the restriction of injunction rights as a result of a FRAND duty breach.

The sections two to six in the following chapter six re-examines the FRAND solution applications of the five jurisdictions considered in section five of chapter four.

Whereas in chapter four all five of these jurisdictions were found to be applying the two conventional elements of the FRAND solution, chapter six will investigate if – as in China – they are also imposing process obligations on FRAND-encumbered SEP owners. If so, the imposed process obligations will be noted and, in section two of chapter seven, these are compared to the process obligations imposed in China.

This comparison of similarities and differences in process obligations may suggest the extent of China's relative compliance or non-compliance with international practice.

Chapter 6: A Third Element Assessing Standard-Essential Patent Injunction Determinations

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1 Introduction

1.1 Aims of this Chapter

The aims of this chapter are to:

- i) distinguish the application by the five jurisdictions of the conventional elements of the fair, reasonable and non-discriminatory ('FRAND') regulatory solution, as seen in section five of chapter four (i.e. "going along"), from their imposition of additional process obligations on FRAND-encumbered standard-essential patent ('SEP') owners, as China was seen doing in section three of chapter five (i.e. "going rogue");
- ii) explain the basis on which each of the other five jurisdictions is imposing process obligations in their determinations of the injunction applications of FRAND-encumbered SEP owners; and
- iii) at the end of the chapter ready for comparison with the Chinese process obligations in section two of chapter seven of this thesis.

1.2 How the Aims of this Chapter Address the Thesis Topic

In revealing that the five other jurisdictions also impose process obligations on SEP owners, this chapter aims to show that – at least consistent with this cross-jurisdictional comparison – Chinese courts are determining injunctions involving SEPs according to law.

Section two in chapter seven compares whether the specific process obligations that China imposes on SEP owners might be more onerous than those imposed by the five other jurisdictions. This would suggest that, despite the common practices identified in this chapter, the Chinese is nonetheless not consistent with the common practices of the other five jurisdictions.

2 Netherlands

On 22 June 2012, The Hague District Court issued its final decision in the *Apple Inc et al* ('Apple') v *Samsung Electronics Co Ltd* ('Samsung') case, based Dutch patent law and its locally-developed "special circumstances" abuse of rights defence to injunctive action.¹

In its decision, the Netherlands' specialist intellectual property ('IP') court refused to grant a permanent injunction to Samsung, the SEP owner in the case, against the continued use of its FRAND-encumbered mobile telecommunications technology SEPs by the standard implementer, Apple.²

However, on 16 July 2015, the highest court of appeal in the European Union ('EU'), the Court of Justice of the European Union ('CJEU'), issued its final decision in the *Huawei Technologies Co Ltd* ('Huawei') v *ZTE Corp* ('ZTE').³ The 2015 CJEU decision established a new precedent under EU competition law that directed EU national courts how to assess the injunction applications of FRAND-encumbered SEP owners – as discussed in section 5.5 of chapter four of this thesis and below.⁴

¹ *Apple Inc et al* ('Apple') v *Samsung Electronics Co Ltd* ('Samsung')[Final Judgment], *Rechtbank Den Haag* [The Hague District Court], 400385 / HA ZA 11-2215, 22 June 2012.

² *Apple Inc; Apple Sales International; Apple Holding BV; Apple Benelux BV; Apple Netherlands BV; Apple Retail Netherlands BV* ('Apple') v *Samsung Electronics Co Ltd* ('Samsung')[Final Judgment] (Dutch language) [2012] *Rechtbank Den Haag* [The Hague District Court] 400385 / HA ZA 11-2215 (22 June 2012) ('*Apple v Samsung* (The Hague District Court, 12 June 2012)').

³ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015).

⁴ See section 5.5.1 in chapter 4 and below section 6.1.

The *Huawei v ZTE* precedent was first applied under EU competition law in the Netherlands in early 2017.⁵

2.1 2012 *Apple v Samsung* Decision: Abuse of Rights

2.1.1 *Going Along?* Applying the Conventional Elements of the FRAND solution

As set out in section 5.1 of chapter four of this thesis, The Hague District Court in the *Apple v Samsung* decision, applied the first conventional element of the FRAND solution and found that the SEP owner, Samsung, had committed to providing licensing of its SEPs on FRAND terms.⁶ Ultimately however, the court did not make a final determination as to whether the SEP owner had offered FRAND-compliant terms. This was because the court found that Samsung's behaviour in the relevant licensing negotiations had prejudiced the outcome of these proceedings.⁷

Nevertheless, The Hague District Court did complete its assessment of Apple's behaviour in its negotiations with Samsung under the unwilling licensee test.⁸ Applying the second conventional element of the FRAND solution, the court found that Apple was seeking to enter into a FRAND-compliant licensing agreement.⁹ Along with Apple's other actions, this was demonstrated by its counter-offers to Samsung not being 'too unreasonable'.¹⁰

⁵ *Koninklijke Philips NV v Archos SA ('Philips v Archos')*, *Rechtbank Den Haag [The Hague District Court]*, C/09/505587 / HA ZA 16206, 8 February 2017
<<https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025>>.

⁶ Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme, 'A Different Perspective on Samsung v. Apple: Guidance on Enforcing FRAND Pledged Patents in the Netherlands' on De Brauw Blackstone Westbroek Legal Alerts (26 October 2011) <<http://www.debrauw.com/news/legal-alerts/documents/intellectual%20property/intellectual%20property%20legal%20alert%20-%202026%20october%202011.pdf>>.

⁷ Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme, 'A Further Perspective on Apple v Samsung: How to Successfully Enforce Standard Essential Patents in the Netherlands' (2012) 7–8 *Berichten Industriële Eigendom* 222, 225.

⁸ *Ibid* 226.

⁹ *Ibid*.

¹⁰ *Ibid*.

2.1.2 *Going Rogue?* Applying Additional Criterion Alongside the FRAND solution

In its preliminary and final determinations in the *Apple v Samsung* decision, The Hague District Court listed Samsung's offending actions and omissions as including:

- filing for injunctive action before responding to a request for licensing information;¹¹
- proposing extreme licensing terms that are 'very out of line' with the SEP owner's FRAND commitments;¹² and
- failing to respond to the standard implementer's counter-offers.¹³

In particular, local commentators noted that Samsung's failure to respond to two of Apple's counter-offers during their negotiations 'to a great extent determined the outcome of the proceedings'.¹⁴

2.1.3 *Going Native?* The Assimilation of the FRAND solution into Local Law

In the immediate aftermath of the *Apple v Samsung* decision, local legal practitioners Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme reported that many commentators had assumed that it had prohibited all injunctions involving FRAND-encumbered SEPs.¹⁵

However, rejecting this view, Kuipers, Groenevelt and Lamme argued that Samsung had been refused an injunction as the court found that its conduct – listed above – had breached the SEP owner's obligation to negotiate in good faith.¹⁶

In support of this conclusion, the Dutch lawyers note references that The Hague District Court made in its findings in the case to the SEP owner bearing such a process obligation. Notably, in the comment immediately below, the court not only cites such a process obligation, but also implies that Samsung had agreed to abide by this, when it originally agreed to license its SEPs on FRAND terms:

¹¹ Kuipers, Groenevelt and Lamme (n 6).

¹² Ibid.

¹³ Kuipers, Groenevelt and Lamme (n 7) 228.

¹⁴ Ibid.

¹⁵ Kuipers, Groenevelt and Lamme (n 6); Kuipers, Groenevelt and Lamme (n 7) 225.

¹⁶ Kuipers, Groenevelt and Lamme (n 7) 225–7.

[The SEP owner] wielded its powers in violation of its obligation to grant FRAND licences and its commitment to negotiate in good faith about those licences.¹⁷

Despite the apparently transnational origins of this process obligation in Samsung's licensing commitments to standard-setting organisations ('SSOs'), The Hague District Court nevertheless seems to apply only Dutch national law in its assessment of Samsung's breach:

[Samsung's] filing for an injunction during the FRAND licence negotiations should be considered abusive and contrary to the principles of pre-contractual good faith, as the threat of the requested injunction puts Apple under improper pressure in these negotiations to agree to licence terms that are not FRAND.¹⁸

Consistent with The Hague District Court's findings of Samsung's abusive conduct in the course of the parties' negotiations, the civil code of Netherlands prohibits parties from harming one another other through an abuse of rights.¹⁹

The pre-contractual nature of the SEP owner's good faith obligation is also consistent with a general requirement under the Dutch code that all contractual parties act in good faith subject to the standards of 'reasonableness and fairness'.²⁰ The Netherlands' highest court of appeal

¹⁷ Ibid 225.

¹⁸ Ibid.

¹⁹ *Abuse of right*: 1. A person to whom a right belongs may not exercise the powers vested in it as far as this would mean that he abuses these powers; 2. A right may be abused, among others, when it is exercised with no other purpose than to damage another person or with another purpose than for which it is granted or when the use of it, given the disparity between the interests which are served by its effectuation and the interests which are damaged as a result thereof, in all reason has to be stopped or postponed; 3. The nature of a right may implicate that it cannot be abused. 'Burgerlijk Wetboek [Dutch Civil Code] (Kingdom of the Netherlands), States General, 10 April 1838 (Trans Dutchcivillaw.Com, 2017) <<http://Www.Dutchcivillaw.Com/Civilcodebook066.Htm>>' art 3:13.

²⁰ *Legal effects arising from law, usage or the standards of reasonableness and fairness*: 1. An agreement not only has the legal effects which parties have agreed upon, but also those which, to the nature of the agreement, arise from law, usage (common practice) or the standards of reasonableness and fairness; 2. A rule, to be

has confirmed that this good faith obligation applies to parties at the pre-contractual negotiations stage.²¹

In making its 2012 *Apple v Samsung* decision, The Hague District Court applied a “special circumstances” exception, that it had first proposed and then implemented in decisions issued in 2010 and 2011 respectively.²²

This Dutch alternative initiative, rejecting the competition law-based approach applied in the 2009 German *Orange Book Standard* case, continued to assess the injunction applications of FRAND-encumbered SEP owners under the patent law.²³

In principle, the 2010 decision in *Koninklijke Philips NV v SK Kassetten GmbH & Co KG* (*Philips v SK Kassetten*) expected standard implementers to have obtained licensing for all patents prior to their implementation.²⁴ Otherwise, injunctions would be awarded against all proven infringements.²⁵

However, the *Philips v SK Kassetten* precedent also allowed exceptions to this rule in special circumstances.²⁶ In 2011, The Hague District Court determined that because the SEP owner and standard implementer were obliged to submit their disputes to binding arbitration, this

observed by parties as a result of their agreement, is not applicable insofar this, given the circumstances, would be unacceptable to standards of reasonableness and fairness. Ibid 6:248.

²¹ *Baris v Riezenkamp*, *Hoge Raad der Nederlanden* [Supreme Court of the Netherlands], 15 November 1958 reported in (1958) NJ No 67; The Council for the Judiciary (Kingdom of the Netherlands), *The Judiciary System in the Netherlands* (The Council for the Judiciary (Kingdom of the Netherlands), 2010) 130.

²² *Koninklijke Philips NV v SK Kassetten GmbH & Co KG*, *Rechtbank Den Haag* [The Hague District Court], 316533/HA ZA 08-2522; 316535 / HA ZA 08-2524, 7 March 2010; *LG Electronics Inc v Sony Supply Chain Solutions (Europe) BV*, *Rechtbank Den Haag* [The Hague District Court], 389067 / KG ZA 11-269, 10 March 2011; EPLAW Patent Blog, ‘NL Philips v. SK Kasetten / FRAND’, *EPLAW Patent Blog* (17 March 2010) <<http://www.eplawpatentblog.com/eplaw/2010/03/nl-philips-v-sk-kasetten-frand.html>>; Kuipers, Groenevelt and Lamme (n 7).

²³ *Orange Book Standard*, *Bundesgerichtshof* [German Federal Court of Justice], KZR 39/06, 6 May 2009 (IPEG Consultancy trans) <<http://www.ipeg.com/blog/wp-content/uploads/EN-Translation-BGH-Orange-Book-Standard-eng.pdf>>; Kuipers, Groenevelt and Lamme (n 7) 224.

²⁴ Kuipers, Groenevelt and Lamme (n 7) 224.

²⁵ Ibid.

²⁶ Ibid.

created special circumstances in which there was no need to grant an injunction.²⁷ Similarly, the court held that Samsung's failure to negotiate in good faith in the 2012 *Apple v Samsung* case, created special circumstances in which the SEP owner's injunction claims against Apple, should be denied.

3 South Korea

As discussed in section 5.2 of chapter four of this thesis, between late 2012 and early 2017, four major determinations and regulations were issued in South Korea relating to injunctive actions involving FRAND-encumbered SEPs.²⁸

These included the 2012 judicial decision in *Samsung Electronics Co, Ltd* ('Samsung') v *Apple Korea Ltd* ('Apple') case and the administrative determinations made concerning the SEP owners, Samsung and Qualcomm Inc ('Qualcomm'), in 2014 and 2016 respectively.²⁹ Also in 2014, provisions were inserted into the non-binding administrative enforcement

²⁷ Ibid 225.

²⁸ See chapter four of this thesis at section X.X.

²⁹ 《서울중앙지법 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil trial panel 39552], 24 August 2012, [trans Supreme Court Library of Korea, 2012] <http://library.scourt.go.kr/sclib_data/decision/seoul%20central%20disctrict%20court%20decision%202011gahap39552.htm> ('Samsung v Apple (Seoul CDC), 24 August 2012'); Intellectual Property and Standard Setting – Note by Korea, Item VII of the 122nd meeting of the Organisation for Economic Co-operation and Development Competition Committee on 17-18 December 2014, OECD Doc DAF/COMP/WD(2014)115 (20 November 2014) <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD\(2014\)115&dolanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD(2014)115&dolanguage=en)> ('Intellectual Property and Standard Setting – Note by Korea (OECD), 20 November 2014'); In re Alleged Abuse of Market Dominance of Qualcomm Incorporated (Decision and Order) [2016] Case Number: 2015Sigam2118, Decision No 2017-0-25, 20 January 2017 <http://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.pdf>.

measures, the *Review Guidelines on Unfair Exercise of Intellectual Property Rights* ('KFTC IP Guidelines') specifically concerning SEP injunctions.³⁰

In its two determinations and guidelines, the Korea Fair Trade Commission ('KFTC') has proposed to apply, or has applied, penalties under South Korean competition law and unfair business practices law where the KFTC sees the practice of patent hold-up affecting local competition and fair trading:

[a SEP owner] requires the payment of excessive royalty from willing licensees or fil[es] an injunction to impose unfair conditions ... with an intention to exclude competitors or obstruct ...competitors' business activities³¹

The KFTC guidelines propose that this practice is not only anti-competitive and contrary to fair trade, but is an abuse of rights, drawing on the 2012 *Samsung v Apple* decision without expressly citing it. Thus, where such a FRAND-encumbered SEP owner seeks an injunctive action against a willing licensee, the KFTC guidelines propose that this conduct:

can be determined as a behaviour that restricts competition in the relevant market as it exceeds the reasonable extent of [the] exercise of patent right.³²

³⁰ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights ("Unfair IPR Exercise Guidelines")] (Republic of Korea) Korea Fair Trade Commission ("KFTC"), Established Rule No 247, 23 March 2016 (KFTC, trans, 2016) [Consolidated 2016 English version based on 17 December 2014 Unfair IPR Exercise Guidelines and English translation of new provisions appearing in KFTC, 'KFTC Rationalizes Its Regulations on SEPs to Promote Technology Innovation - The Amendment to Review Guidelines on Unfair Exercise of Intellectual Property Rights Is Finalized and Has Taken Effect' (Media Release, 30 March 2016) <<http://www.ftc.go.kr/eng/bbs.do>>.

³¹ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (The Korea Fair Trade Commission (KFTC) Did Not Issue an English Translation of 2016 Revision of Review Guidelines. Commentary on the 2016 Review Guidelines Is Based on the KFTC English Translation of the 2014 Review Guidelines and a 2016 KFTC Press Release Issued with 2016 Revision of Review Guidelines) (n 30) III 5B.

³² Ibid.

2012 Samsung v Apple Decision: Abuse of Rights

The 2012 *Samsung v Apple* court case involved allegations that Apple had made unlicensed use of two SEPs that Samsung owned.³³ In its final determination, the court granted an injunction to Samsung and ordered Apple to pay damages amounting to 40 million South Korean Won ('KRW') (35,000 United States Dollars ('USD')).³⁴

However, this 2012 district court decision was appealed and then settled before the appeal court issued its judgment.³⁵ Therefore, it never became binding on the parties in the dispute.³⁶ Nonetheless, in a 2017 publication, local commentators cited the case as the most authoritative and comprehensive statement of the law in Korea on injunction determinations involving FRAND-encumbered SEPs.³⁷

2014 Samsung Determination: Abuse of Rights and Competition Law

After a two-year investigation, in 2014, the KFTC rejected Apple's allegations and held that Samsung's seeking of injunctions on its FRAND-encumbered SEPs, did not amount to anti-competitive conduct.³⁸ However, as the Commission chose not to initiate a prosecution – as is its practice – the KFTC did not publish a written decision explaining its reasoning for this decision.³⁹

³³ Methods comprising the elements recited in Claim 4 of the '975 Patent, Claim 1 of the '900 Patent and Claim 6 of the '900 Patent, Ibid 2; Attachment 2(4),(6),(7).

³⁴ *Samsung v Apple (Seoul CDC)*, 24 August 2012, 2.

³⁵ Gene-Oh Kim, Dave B Koo and Kyung Yul Lee, 'The Competition Law Regulation of Standard Essential Patents in South Korea' (2017) 62(3) *The Antitrust Bulletin* 465, 468.

³⁶ Ibid.

³⁷ Ibid.

³⁸ 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea) National Assembly of South Korea), Law No. 3320, 31 December 1980 <<http://Www.Wipo.Int/Wipolex/En/Profile.Jsp?Code=KR>>, 3–2(1)3 ('1980 Monopoly Regulation and Fair Trade Act'); *Intellectual Property and Standard Setting – Note by Korea (OECD)*, 20 November 2014, para 16.

³⁹ Youngjin Jung, 'How Intellectual Property Rights Interact with Competition Law and Policy in Korea: QUO VADIS?' (2018) 9(4) *Journal of European Competition Law & Practice* 249, 255–6.

Therefore, the below discussion relies on accounts of a press release that the KFTC circulated on the decision in early 2014.

2014 Intellectual Property Guidelines: Abuse of Rights and Competition Law

The KFTC first issued IP Guidelines in 2000 and extensively amended in 2010 to explicitly include foreign-owned enterprises within its scope, as well as to extend its coverage to emerging issues in patent pools, technology standards, and the abuse of patent litigation.⁴⁰

As noted in section 5.2.3 of chapter four of this thesis, the guidelines are essentially internal regulations for KFTC officers to apply when determining whether the exercise of an IP right constitutes a violation of South Korean competition or unfair business practices law.

Nevertheless, of themselves, the guidelines do not have any legally binding effect on the KFTC enforcement priorities and do not create any grounds for enforcement action in addition to the existing law.⁴¹

In 2014, a media release accompanying amendments of the IP guidelines explained that they were to counter a rise in IP rights abuses led by ‘non-practicing entities and the owners of a standard-essential patent[s]’.⁴²

In 2016, amendments were made to some of the provisions concerning SEPs that were introduced into the guidelines in 2014.⁴³ However, none of the 2014 amendments discussed

⁴⁰ Dae-Sik Hong, ‘Review of Korean Competition Law and Guidelines for Exercise of Standard-Related Patents Special Articles on Fair Trade Law’ (2015) 15 *Journal of Korean Law* 117, 118.

⁴¹ Kim, Koo and Lee (n 35) 472.

⁴² Korea Fair Trade Commission, ‘Legal Basis Established for Regulation on Patent Trolls, Abuse of Standard-Essential Patents, Etc.: KFTC Amends “Guidelines for Examination of Improper Exercise of Intellectual Property Rights” (Media Release, 24 December 2014) <<http://Www.Ftc.Go.Kr/Eng/Bbs.Do>>.

⁴³ The 2016 amendments to the Review Guidelines on Unfair Exercise of Intellectual Property Rights (‘KFTC IP Guidelines’ limited the definition of standard technologies to those that standard-setting organisations (‘SSO’) and other similar institutions had defined as such. The guidelines also restricted their definition of a standard-essential patent (‘SEP’) to a patent that had been incorporated into a standard and that a SEP owner had voluntarily committed to licensing on [fair,] reasonable and non-discriminatory (‘FRAND’) terms. Finally, he revised guidelines were amended to demonstrate how the Korea Fair Trade Commission would distinguish in the prosecution of matters involving FRAND-encumbered, as opposed to de-facto SEPs. Korea Fair Trade Commission (n 30) 3.

below were changed in the 2016 revision of the guidelines.⁴⁴

2017 Qualcomm Determination: Abuse of Rights and Competition Law

In early 2017, the KFTC fined Qualcomm Inc (‘Qualcomm’) a total of 1.01 trillion KRW (900 million USD), having found the SEP owner in breach of both South Korean competition and unfair business practice law.⁴⁵

However, distinct from the other determinations and regulations discussed in this chapter, the Commission’s investigation did not cite evidence of the SEP owner abusing its right to seek injunctive action on FRAND-encumbered SEPs. Instead, the KFTC held that Qualcomm’s business model itself had ‘virtually the same effect’ as abusive injunctive action, while also effectively circumventing its FRAND commitments and denying standard implementers the basic protections of a judicial process.⁴⁶

3.1 2012 Samsung v Apple: Abuse of Rights

3.1.1 Going Along? Applying the Conventional Elements of the FRAND solution

As discussed in section 5.2.1 of chapter four of this thesis, in its 2012 *Samsung v Apple* decision, the Seoul Central District Court applied both of the conventional elements of the FRAND solution in assessing Samsung’s injunction applications relating to two SEPs.⁴⁷

Having compared the royalty rates that the SEP owner, Samsung, had offered to the standard implementer, Apple, with those offered for SEPs in the same standard, the court held that

⁴⁴ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (The Korea Fair Trade Commission (KFTC) Did Not Issue an English Translation of 2016 Revision of Review Guidelines. Commentary on the 2016 Review Guidelines Is Based on the KFTC English Translation of the 2014 Review Guidelines and a 2016 KFTC Press Release Issued with 2016 Revision of Review Guidelines) (n 30).

⁴⁵ 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_kftc-decision_2017-0-25.pdf> (Accessed 20 November 2019) (n 29) 2–5.

⁴⁶ Ibid [394]; [394]–[398].

⁴⁷ See section 5.2.1 in chapter four.

these complied with its FRAND licensing commitments.⁴⁸ However, the Seoul Central District Court concluded that the standard implementer, Apple, had acted like an unwilling licensee.⁴⁹

The court found that Apple's offending behaviour as included:

- refusing to acknowledge the validity or the infringement of the SEPs in dispute;⁵⁰
- failing to deposit any security for the disputed royalty payments;⁵¹
- substantially undervaluing the SEPs in dispute in its counter-offers;⁵² and
- requesting commercial information while delaying entry into a confidentiality agreement.⁵³

3.1.2 *Going Rogue?* Applying Additional Criterion Alongside the FRAND solution

The Seoul Central District Court, although ultimately granting injunctions and damages to Samsung for Apple's infringement of its SEPs, was highly critical of the SEP owner for:

- not making another proposal after its initial licensing offer;⁵⁴
- not disclosing the licensing terms granted to other standard implementers;⁵⁵

⁴⁸ 《서울중앙지법] 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://Library.Scourt.Go.Kr/SCLIB_data/Decision/Seoul%20Central%20Disctrict%20Court%20Decision%202011GaHap39552.Htm> (Accessed 20 November 2019) (n 29) 180.

⁴⁹ *Ibid.*

⁵⁰ *Ibid* 187.

⁵¹ *Ibid* 188.

⁵² *Ibid* 187; 188.

⁵³ *Ibid* 189.

⁵⁴ *Ibid* 178.

⁵⁵ *Ibid.*

- not disclosing the methodology used for the calculation of offered royalty rates;⁵⁶
- filing its injunctive action in retaliation for injunctive action that the standard implementer had previously filed;⁵⁷ and
- insisting that the standard implementer agree to cross-license non-SEPs in exchange for its licensing of FRAND-encumbered SEPs (“mandatory tying”).⁵⁸

3.1.3 *Going Native? The Assimilation of the FRAND solution with Local Laws*

The South Korean court in *Samsung v Apple* criticized the above conduct of the SEP owner, Samsung, as breaching its FRAND duty:

A standard patent owner who has made a FRAND declaration, as an expression of an explicit intention of granting a license to third parties who desire to practice the standard patent on fair, reasonable and non-discriminatory (FRAND) terms, has an obligation to negotiate in good faith with a person who requests for the practice of the standard patent after making the FRAND declaration.⁵⁹

Having identified Samsung’s FRAND declaration as the origin of its duty to negotiate in good faith, ultimately the Seoul Central District Court’s decision whether or not to grant the SEP owner an injunction was an application of South Korea’s abuse of rights doctrine.⁶⁰

Apple had alleged that Samsung’s actions were both an abuse of rights under the Korean civil code and separately an abuse of its patent rights. Each of these offences have their own specific requirements to be made out.

In finding that Samsung had not committed an abuse of rights under the Korean civil code, the court factored in Samsung’s failure to negotiate in good faith based on the conduct listed

⁵⁶ Ibid.

⁵⁷ Ibid 179.

⁵⁸ Ibid.

⁵⁹ Ibid 177.

⁶⁰ Ibid, see 168-190.

in the section above.⁶¹ Nevertheless, the court held that Samsung's injunctive action was not merely intended to harm Apple – this intention being a necessary element of the offence.⁶²

In finding that Samsung had not committed an abuse of its patent rights, the Seoul Central District Court again noted the SEP owner's failure to negotiate in good faith.⁶³ Yet, the court found that Samsung had not otherwise: engaged in 'unfair competition'; violated the commercial or the social order; or breached its good faith obligation to other industry actors or consumers.⁶⁴

Therefore, despite finding Samsung had failed to meet its good faith negotiation obligation ultimately the court rejected Apple's defence against Samsung injunctive action based on the above abuse of rights grounds.⁶⁵

⁶¹ Ibid 184–5.

⁶² Ibid 185. Ibid 176–7 citing 대법원 [Supreme Court] 《선고 2011 다 12163》 [Case No 2011 Da 12163], 28 April 2011 (Korean) <http://library.scourt.go.kr/SCLIB_data/case_pdf/2011%B4%D912163.pdf>; In determining that the standard-essential patent ('SEP') owner, Samsung, was not an abuse of rights under the South Korean civil code, the Seoul Central District Court additionally considered that: Samsung had offered a FRAND-compliant royalty rate to Apple, the standard implementer; Apple had infringed Samsung's SEPs; Samsung had incurred losses as a result of Apple's infringements; and that innovations in telecommunications technology require substantial financial investments and technical expertise and so deserves a relatively high degree of legal protection. *Samsung v Apple (Seoul CDC)*, 24 August 2012, 185.

⁶³ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans, 2012] <http://library.scourt.go.kr/sclib_data/decision/seoul%20central%20district%20court%20decision%202011gahap39552.htm> (Accessed 20 November 2019) (n 29) 185–6.

⁶⁴ Ibid 186; 대법원 [Supreme Court] 《선고 2005 다 67223》 [Case No 2005 Da 67223], 25 January 2007 (trans Supreme Court Library of Korea) <http://library.scourt.go.kr/SCLIB_data/case_eng/2_842005Da67223.htm> cited at *Samsung v Apple (Seoul CDC)*, 24 August 2012 177.

⁶⁵ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil Trial Panel 39552], 24 August 2012 [Supreme Court Library of Korea Trans,

Furthermore, in its final analysis, the *Samsung v Apple* court not only considered the SEP owner's conduct and its failure to meet the elements of the two abuse of rights offences. The Seoul Central District Court also set out again the bad faith behaviour of the standard implementer, Apple in the parties' negotiations, and weighed this up against that of the SEP owner, Samsung, before finally deciding to allow the injunctive action.⁶⁶

3.2 2014 Samsung Determination: Abuse of Rights and Competition Law

3.2.1 Going Along? Applying the Conventional Elements of the FRAND solution

As discussed in chapter four, in considering Apple's complaint against Samsung's injunctive action – lodged during the above 2012 litigation – the KFTC applied both conventional elements of the transnational FRAND solution.

Thus, consistent with the first conventional element, the Commission's conclusions, issued in 2014, found that Samsung had offered the standard implementer, Apple, FRAND-compliant licensing terms.⁶⁷ As noted in section 5.2.2 of chapter four, this was based on the KFTC finding that the offered rates were based on a clear and reasonable set of factors.⁶⁸ These included: the technological value of the patent to be licensed; the scope and duration of the license; whether a cross license was to be granted; and the turnover of the related products.⁶⁹

Similarly, applying the second conventional element of the FRAND solution, the KFTC assessed the standard implementer's behaviour during the parties' negotiations and found

2012]

<http://library.scourt.go.kr/sclib_data/decision/seoul%20central%20disctrict%20court%20decision%202011gahap39552.htm> (Accessed 20 November 2019) (n 29) 186.

⁶⁶ Ibid 186–9.

⁶⁷ Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014, DAF/COMP/WD(2014)115, 20 November 2014 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd(2014)115&doclanguage=en)> (n 29) [23].

⁶⁸ See section 5.2.2 in chapter 4.

⁶⁹ Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014, DAF/COMP/WD(2014)115, 20 November 2014 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd(2014)115&doclanguage=en)> (n 29) [23].

Apple to have been an unwilling licensee. The Commission based this conclusion on Apple's actions of:

- seeking litigation while negotiations between the parties were ongoing;⁷⁰
- severely undervaluing of Samsung's SEPs in counter-offers;⁷¹ and
- refusing to pay security on the disputed SEPs as negotiations continued.⁷²

3.2.2 *Going Rogue? Applying Additional Criterion Alongside the FRAND solution*

While deciding in the SEP owner's favour, the KFTC nevertheless considered Samsung's conduct in the course of the parties' licensing negotiations.

This included Samsung's actions of:

- offering the standard implementer, Apple, a variety of licensing terms during the negotiations – both before and after filing its injunction request;⁷³ and
- making 'substantive' efforts to eliminate the gap between the proposed royalty rates in its offers and the standard implementer's counter-offers.⁷⁴

3.2.3 *Going Native? The Assimilation of the FRAND solution with Local Laws*

As noted in the introduction above, as the KFTC decided not to prosecute in this case – as is its general practice – it did not publish a formal written decision explaining its reasoning for making this determination.⁷⁵ Therefore, accounts of the Commission's reasoning in this case

⁷⁰ Ibid [22].

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid [23]; Youngjin Jung, 'How Intellectual Property Rights Interact with Competition Law and Policy in Korea: QUO VADIS?' 11, 255–6; Seong-Sig Kim, Sean Sinsung Yun and Ryu Song, 'Recent Case Concerning the Korea Fair Trade Commission's Regulation of Standard Essential Patents', *Lexology* (Globe Business Media Group, 24 September 2015) 471–2 <<http://www.lexology.com>>.

⁷⁴ *Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014*, DAF/COMP/WD(2014)115, 20 November 2014 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd(2014)115&doclanguage=en)> (n 29) [23]; Jung (n 73) 255–6; Kim, Yun and Song (n 73) 471–2.

⁷⁵ Jung (n 39) 255–6.

rely on commentary on a press release the KFTC released on the matter in early 2014, and a report on technical standards that the South Korean government presented to an international organization later that year.⁷⁶

None of these sources refer to the KFTC making explicit reference to the Seoul Central District Court imposing a good faith negotiation obligation onto SEP owners in the 2012 *Samsung v Apple* decision. Nevertheless, the South Korean government account of the Commission's decision refers to the KFTC considering whether the accused SEP owner, Samsung, had engaged in negotiations in good faith.⁷⁷ The government report also notes the KFTC's conclusion that Samsung had negotiated in good faith, based on the frequency and sincerity of its exchanges with Apple, as set out in the section immediately above.⁷⁸

As noted above, the KFTC ultimately decided that the SEP owner, Samsung, had negotiated in good faith in its licensing negotiations with the standard implementer, Apple. However, it is also acknowledged that this is the first case in which the Commission considered finding that a FRAND-encumbered SEP owner had acted anti-competitively in seeking of injunctive action.⁷⁹

⁷⁶ Jung (n 39); *Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014*, DAF/COMP/WD (2014)115, 20 November 2014 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd(2014)115&doclanguage=en)> (n 29).

⁷⁷ The English version of the South Korean government report, in fact refers to the Korea Fair Trade Commission assessing whether the standard-essential patent owner, Samsung had engaged in licensing negotiations with the standard implementer, Apple, 'in earnest'. Yet, a separate commentator's account of the decision makes clear that the inquiry of the Commission was into whether the SEP owner, Samsung, had acted in good faith. *Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014*, DAF/COMP/WD(2014)115, 20 November 2014 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd(2014)115&doclanguage=en)> (n 29) [23]; Jung (n 39) 256.

⁷⁸ *Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014*, DAF/COMP/WD (2014)115, 20 November 2014 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=daf/comp/wd(2014)115&doclanguage=en)> (n 29) [23].

⁷⁹ Jung (n 39) 256.

The KFTC has argued that any breach by a SEP owner of its FRAND commitments is anti-competitive and should be prosecuted as such under South Korea's *Monopoly Regulation and Fair Trade Act* ('MRFTA').⁸⁰ The Commission insists this should be the case as, after a technology becomes an industry standard, other competing technologies, most likely become obsolete and fall out of use as the industry re-aligns its processes to the new standard.⁸¹ Therefore, the KFTC reasons, as a result of the standardization process, industry has no technical substitutes to which it can revert, if those in possession of the chosen standard – the SEP owners – abuse their technology-based monopoly.⁸² As a consequence, the only protection that standard implementers have against SEP owners abusing their technology-based monopoly is their FRAND commitment made to SSOs not to do so.⁸³

In 2009, the KFTC determined that licensing terms that the SEP owner, Qualcomm Inc ('Qualcomm') had imposed on standard implementers were discriminatory, implemented a loyalty rebates program and forced the payment of royalties on expired patents.⁸⁴ Finding that this breached Qualcomm's commitment to offer its SEPs on FRAND terms, the Commission held that Qualcomm had acted anti-competitively and fined the SEP owner 273.2 billion KRW (243 billion USD).⁸⁵

In 2017, in a second decision against Qualcomm discussed in section 5.2.4 of chapter four of this thesis and below, the KFTC held that other licensing practices by the SEP owner had

⁸⁰ 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea), National Assembly of South Korea, Law No. 3320, 31 December 1980 (n 38); Jung (n 39) 7–8.

⁸¹ 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/Wp-Content/Uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.Pdf> (Accessed 20 November 2019) (n 29) [30]; [385].

⁸² Ibid.

⁸³ Ibid.

⁸⁴ In Ho Lee, 'Chapter 4: Qualcomm's Abuse of Dominance KFTC Decision, No. 2009-281 (23-Page English Language Summary), Seoul National University, <www.ftc.go.kr/www/cmm/fms/filedown.do?atchfileid=file_000000000079793&filesn=0> 7–8 ('2009 Korea Fair Trade Commission Qualcomm Decision (Seoul National University), Undated').

⁸⁵ Ibid 1.

denied standard implementers the ability to engage in good faith negotiations.⁸⁶ Finding that Qualcomm's FRAND commitments obliged it to engage in good faith negotiations with standard implementers, the Commission determined that the SEP owner's failure to do so, breached these commitments and so was *per se* anti-competitive.⁸⁷ As noted in section 5.2.4 of chapter four and above, this determination led to the KFTC imposing a second fine on Qualcomm of 1.01 trillion KRW (900 billion USD).⁸⁸

Qualcomm appealed against the Commission's decisions in both its 2009 and 2016 decisions against the SEP owner.⁸⁹ A decision on the South Korean Supreme Court on the KFTC's 2009 decision was issued in February 2019, with press reports claiming that it substantially supported the Commission's reasoning.⁹⁰ However, at the time of writing, neither peer-reviewed commentary nor a full version of the court's decision was available in English.

In any case, in its 2014 decision, in considering whether Samsung's actions amounted to anti-competitive conduct, the KFTC was most likely assessing whether the SEP owner had breached its FRAND commitments. This would be consistent with its earlier and later, 2009

⁸⁶ See section 5.2.4 in chapter 4 and below section 3.4.

⁸⁷ 퀄컴의 시장지배적지위남용 행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/Wp-Content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.Pdf> (Accessed 20 November 2019) (n 29) [30]; [385].

⁸⁸ See section 5.2.4 in chapter 4 and below section 3.4.

⁸⁹ *Seoul High Court, Case No 2010 Nu 3932, 19 June 2013*. Commentators, writing in 2017, had reported that the Seoul High Court 'largely sustained' the Korea Fair Trade Commission's decision on appeal, but also admitted that, at that time, a full text of the court's judgment had not yet been publicly released. Kim, Koo and Lee, above n 36, 478; Qualcomm Technologies Inc, 'Qualcomm Stay Appeal Denied by Seoul High Court on Absence of Irreparable Harm; Appeal to Seoul High Court on Merits of the Case to Proceed' (Media Release, 5 September 2017) <<https://www.qualcomm.com/news/releases/2017/09/04/Qualcomm-Stay-Appeal-Denied-Seoul-High-Court-Absence-Irreparable-Harm>>.

⁹⁰ Park Soon-chan, 'Qualcomm Loses Appeal Against Huge Fine from Korean Watchdog', *Chosun Ilbo* (online at 12 February 2019) <http://english.chosun.com/site/data/html_dir/2019/02/12/2019021201734.html>; 'Supreme Court Orders Reconsideration of FTC's \$243m Penalty Ruling on Qualcomm', *The Korean Herald* (online at 11 February 2019) <http://www.koreaherald.com/view.php?ud=20190211000591&ACE_SEARCH=1>.

and 2017 actions above, in which the Commission found that a SEP owner had acted anti-competitively as a result of its breaching of its FRAND commitments.

In the *Samsung v Apple* decision, the Seoul Central District Court had cited the FRAND declaration of the SEP owner as the basis for its additional process obligation and then applied the South Korean abuse of rights law. In its 2014 determination, had the KFTC found Samsung in breach of its good faith negotiation obligation, it also proposed to apply domestic South Korean law to assess and penalize the SEP owner for breaching this obligation. In this case, that law would have been South Korea's competition law under the MRFTA.

3.3 2016 Intellectual Property Guidelines: Abuse of Rights and Competition Law

3.3.1 Going Along? Applying the Conventional Elements of the FRAND solution

As discussed in section 5.2.3 of chapter four, the KFTC's *Review Guidelines on Unfair Exercise of Intellectual Property Rights* ('KFTC IPR Guidelines') apply the conventional elements of the FRAND solution.⁹¹

Consistent with the first conventional element, The KFTC IP guidelines make clear that attempts to impose excessive royalties or other 'unfair conditions' on standard implementers may be treated as 'restrict[ing] competition in the relevant market'.⁹² Likewise, consistent with the second conventional element of FRAND solution, the KFTC IP guidelines allow that injunctions may be permitted where a standard implementer:

- has not negotiated in good faith or delays paying royalties;
- has refused to abide by terms determined by a court or arbitrator; or
- is otherwise unlikely to pay royalties owing, e.g. as it is near bankrupt.⁹³

⁹¹ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (The Korea Fair Trade Commission (KFTC) Did Not Issue an English Translation of 2016 Revision of Review Guidelines. Commentary on the 2016 Review Guidelines Is Based on the KFTC English Translation of the 2014 Review Guidelines and a 2016 KFTC Press Release Issued with 2016 Revision of Review Guidelines) (n 30) art 5B.

⁹² Ibid Article 5(3)B.

⁹³ Ibid Art 5B, Note 2(1)-(2).

3.3.2 *Going Rogue? Applying Additional Elements to the FRAND solution*

In addition, the KFTC IP guidelines further propose that, in assessing whether the injunction application of a FRAND-encumbered SEP owner is anti-competitive, the KFTC will consider the SEP owners' conduct in their licensing negotiations with standard implementers.

The guidelines do not provide an exhaustive list of conduct that will determine whether or not the KFTC SEP owner's injunction will be found to be anti-competitive. Instead, the IP guidelines only cite, by way of example, a small number of 'matters [that] can be include[d]' in the KFTC's considerations.⁹⁴

The KFTC IP guidelines list these matters as including – whether the SEP owner:

- invited the relevant standard implementer to enter into licensing negotiations;⁹⁵
- permitted an appropriate period for negotiations before seeking injunctive action;⁹⁶
and
- sought to have any disputed terms resolved by a court or arbitral institution.⁹⁷

⁹⁴ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) [Consolidated English Version Based on 17 December 2014 Review Guidelines on Unfair Exercise of Intellectual Property Rights and 30 March 2016 Korea Fair Trade Commission Media Release on File with Author]', above n 50, 5B [Note 1].

⁹⁵ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) [Consolidated English Version Based on 17 December 2014 Review Guidelines on Unfair Exercise of Intellectual Property Rights and 30 March 2016 Korea Fair Trade Commission Media Release on File with Author]', above n 50, 5B [Note 1].

⁹⁶ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) [Consolidated English Version Based on 17 December 2014 Review Guidelines on Unfair Exercise of Intellectual Property Rights and 30 March 2016 Korea Fair Trade Commission Media Release on File with Author]', above n 50, 5B [Note 1].

⁹⁷ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) [Consolidated English Version Based on 17 December 2014

3.3.3 *Going Native?* The Assimilation of the FRAND solution with Local Laws

The KFTC IP Guidelines do not explicitly cite the 2012 *Samsung v Apple* decision of the Seoul Central District Court nor its basing of SEP owners' additional conduct duty on their making of FRAND commitments to SSOs.

Nevertheless, as was likewise implied in KFTC Samsung determination above, the guidelines recognise that SEP owners bear such a good faith negotiation obligation:

If a [SEP owner] commit[s] to license standard essential technologies on FRAND terms, it means the SEP owner has an obligation to negotiate faithfully with willing licensees concerning a licensing degree on FRAND terms.⁹⁸

The guidelines also state that:

SEP owners' acts of filing an injunction while not performing [their] negotiation obligation [are] highly likely to be determined as an unfair behaviour.⁹⁹

As the guidelines recognise, such a finding would allow SEP owners to be held in breach of competition law and unfair business practices provisions included in the MRFTA.¹⁰⁰

Under the competition provisions of the MRFTA, if a SEP owner's injunction is held to be an abuse of its dominant market position, the SEP owner could incur fines of up to three percent

Review Guidelines on Unfair Exercise of Intellectual Property Rights and 30 March 2016 Korea Fair Trade Commission Media Release on File with Author', above n 50, 5B [Note 1].

⁹⁸ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) [Consolidated English Version Based on 17 December 2014 Review Guidelines on Unfair Exercise of Intellectual Property Rights and 30 March 2016 Media Release on File with Author], Pt 5B.

⁹⁹ Ibid art 5B Note 1.

¹⁰⁰ Ibid Article I, 1.

of its turnover in the period in which the violation occurred.¹⁰¹ The SEP owners' executives also risk criminal penalties, including up to three years' in prison and personal fines of up to 200 million KRW (175,000 USD).¹⁰² Under the unfair business practices provisions of the MRFTA, if a SEP owner's injunction is found to amount to an unfair business practice, it could include fines of up to two per cent of its turnover in the period in which the violation occurred.¹⁰³

In making its determinations, the guidelines propose that the KFTC will have some discretion when deciding whether or not to punish SEP owner's conduct in negotiations as in breach of the MRFTA.

This is done through the use of relative terms in the assessment elements the Commission is to apply. Therefore, as quoted above, if SEP owners file injunctions while not performing their good faith negotiation obligation, it is only 'highly likely' to be determined to be unfair behaviour in breach of the MRFTA.¹⁰⁴ Similarly, as noted above, the guidelines recognise circumstances in which a FRAND-incumbered SEP owner may be justified in seeking an injunction against a standard implementer. Even so, the guidelines only refer to SEP owners filing injunctions in these circumstances as being 'less likely' to be seen as engaging in unfair behaviour.¹⁰⁵

¹⁰¹ 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea), National Assembly of South Korea, Law No. 3320, 31 December 1980 (n 38) Art 5; 6; 《독점규제 및 공정거래에 관한 법률시행령》 [Enforcement Decree of the Monopoly Regulation and Fair Trade Act] (Republic of Korea), National Assembly of South Korea, Law No. 24697, 1 April 1981 1981 Art 9.

¹⁰² 《독점규제 및 공정거래에 관한 법률》 [Monopoly Regulation and Fair Trade Act] (Republic of South Korea), National Assembly of South Korea, Law No. 3320, 31 December 1980 (n 38) art 66(1)1.

¹⁰³ Ibid Art 24; 24-2.

¹⁰⁴ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (The Korea Fair Trade Commission (KFTC) Did Not Issue an English Translation of 2016 Revision of Review Guidelines. Commentary on the 2016 Review Guidelines Is Based on the KFTC English Translation of the 2014 Review Guidelines and a 2016 KFTC Press Release Issued with 2016 Revision of Review Guidelines) (n 30) art 5B Note 1.

¹⁰⁵ Ibid 5B [Note 2].

3.4 2017 Qualcomm Determination: Abuse of Rights and Competition Law

3.4.1 Going Along? Applying the Conventional Elements of the FRAND solution

Section 5.2.4 of chapter four discussed the KFTC's application of the FRAND solution's two conventional elements in its 2017 determination that found Qualcomm, the SEP owner and modem chipset ('MC') manufacturer, guilty of anti-competitive and unfair business practices.¹⁰⁶

As noted in the earlier chapter, the KFTC held that Qualcomm had breached its obligation to license to standard implementers on FRAND terms, due to the following actions:

- a) prior to 2008, imposing restrictions on the licensing of FRAND-encumbered SEPs to rival MC manufacturers – so requiring the latter:
 - to only sell their MCs to handset manufacturers that had entered into licensing agreements with Qualcomm;¹⁰⁷
 - to report to Qualcomm data on their own MC sales;¹⁰⁸ and
 - to cross-license all of their patents to Qualcomm, free of any obligation to pay royalties and of any threat of injunction action.¹⁰⁹
- b) after 2008, refusing to license its FRAND-encumbered SEPs to rival MC manufacturers.¹¹⁰

Chapter four of this thesis also notes that the 2017 KFTC decision applies the second conventional elements of the FRAND solution – the unwilling licensee test. However, while

¹⁰⁶ See section 5.2.4 in chapter 4.

¹⁰⁷ 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.Pdf> (Accessed 20 November 2019) (n 29) [79].

¹⁰⁸ Ibid [80].

¹⁰⁹ Ibid [81].

¹¹⁰ Ibid [84].

the decision implies that such an analysis was undertaken, it does not state on what grounds the KFTC concluded that the relevant MC manufacturers were not unwilling licensees.¹¹¹

3.4.2 *Going Rogue? Applying Additional Elements to the FRAND solution*

The reasoning in the 2017 KFTC *Qualcomm* Determination referred to the above licensing practices of Qualcomm towards its rival MC manufacturers as ‘Misconduct 1’.¹¹² A further two practices, referred to as ‘Misconduct 2’ and ‘Misconduct 3’, are also identified and penalised in the decision.¹¹³

Both ‘Misconduct 2’ and ‘Misconduct 3’ concern Qualcomm’s transactions with manufacturers of portable telecommunications devices (e.g., mobile phones and tablets), referred to in the decision as “handset manufacturers”.¹¹⁴ These handset manufacturers purchase Qualcomm’s MCs in order to incorporate these as components within their devices.

The KFTC defined Misconduct 2 as Qualcomm’s requirement that handset manufacturers seeking to purchase its MCs, enter into a separate licensing agreement with the SEP owner.¹¹⁵

¹¹¹ For example, the decision refers to the standard-essential patent (‘SEP’) owner, Qualcomm licensing its SEPs to five modem chipset (‘MC’) manufacturers on restricted terms prior to 2008. The names of these firms are redacted from the public decision, however the 2017 Korea Fair Trade Commission (‘KFTC’) determination explicitly identifies the other MC manufacturers as ‘willing licensees’. The KFTC decision also referred to three other MC manufacturers – again in redactions – that Qualcomm refused to grant SEP licensing after 2008. Again, in its 2017 decision, the KFTC likewise described these firms are also being ‘willing licensees ... with the capability and willingness to pay royalties’. Ibid [329]-[330].

¹¹² Ibid [77]-[123].

¹¹³ Ibid [124]-[141]; [142]-[153].

¹¹⁴ *In re Alleged Abuse of Market Dominance of Qualcomm Incorporated (Decision and Order) [2017] Case Number: 2015 Sigam 2118, Decision No 2017-0-25, 20 January 2017*

<http://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.pdf> [3] (‘KFTC *Qualcomm* Determination - Reasoning, 23 January 2017’).

¹¹⁵ 퀄컴의 시장지배적지위남용 행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_kftc-decision_2017-0-25.pdf> (Accessed 20 November 2019) (n 29) 46.

The KFTC found that this mandatory linking of Qualcomm’s supply of MCs with this licensing agreement (“no license, no chips”) imposed several onerous obligations on the handset manufacturers – that included those of:

- making the sale of products incorporating Qualcomm’s MCs subject to the handset manufacturers’ continued compliance with its licensing agreement;¹¹⁶ and
- permitting Qualcomm to terminate or suspend the supply of MCs if it determined that the handset manufacturer had breached either its supply or licensing agreement.¹¹⁷

The KFTC defined ‘Misconduct 3’ as Qualcomm’s imposition of certain contract terms on handset manufacturers under the above licensing agreement.¹¹⁸

The KFTC held that these imposed terms included:

- ‘comprehensive’ licensing terms that required handset manufacturers to license portfolios of unidentified contents, including unwanted non-SEPs and other patents, that handset manufacturers nevertheless had to pay value for;¹¹⁹
- unilaterally-determined royalty terms that granted Qualcomm a very generous royalty rate based on the total price of the sold handset ‘without regard to the intentions of the handset companies’;¹²⁰
- royalty-calculating methodologies that awarded Qualcomm the same rates for its contributions to more recent cellular standards as it received for earlier standards, despite the marked decline in the number, importance and value of its SEPs;¹²¹
- ‘long-term and permanent contract terms’ that attempted to continue to enforce the payment of royalties on patents that had been invalidated or that had expired;¹²² and

¹¹⁶ Ibid [127].

¹¹⁷ Ibid [129].

¹¹⁸ Ibid 49.

¹¹⁹ Ibid [144].

¹²⁰ Ibid [145];[424].

¹²¹ Ibid [146].

¹²² Ibid [147].

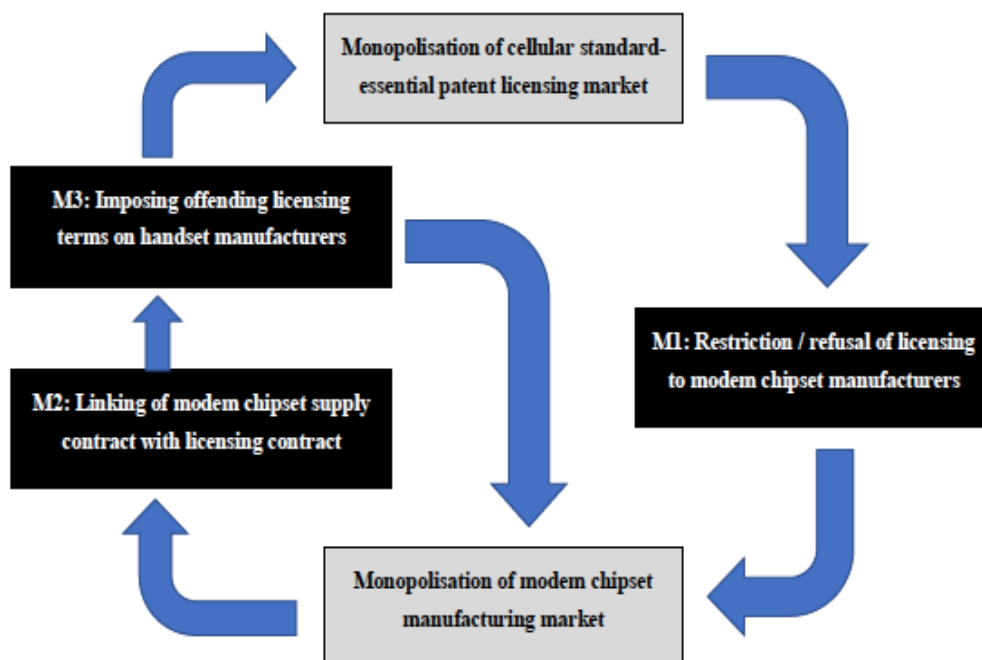
- free-of-charge cross-licensing terms that required standard implementers to permit Qualcomm to use and sub-license their SEPs and other patents – without any royalty charge and without any pro-rata offsetting of the royalties owed to Qualcomm.¹²³

These three misconducts combine to form the broader target of the KFTC 2017

Determination – Qualcomm’s business model.

Figure 1 sets out a modified version of the Commission’s own representation of Qualcomm’s business model. Through this model, the KFTC saw Qualcomm as engaging in Misconduct 1, 2 and 3 in order to monopolise two separate but related markets: 1) the market for the manufacturing of MCs; and 2) the market for the licensing of cellular SEPs.¹²⁴

FIGURE 1: KOREA FAIR TRADE COMMISSION REPRESENTATION OF QUALCOMM’S BUSINESS MODEL



Firstly, the KFTC held, by restricting and then refusing to grant its FRAND-encumbered SEPs to rival MC manufacturers (Misconduct 1 or ‘M1’ in the Figure 1), Qualcomm monopolised the market for the MCs essential to handset manufacturers.¹²⁵

¹²³ Ibid [148]; [149].

¹²⁴ Ibid 32, Table 23.

¹²⁵ Ibid [73].

Next, the Commission found that, as handset manufacturers were without an alternative source of MCs, Qualcomm would only agree to supply MCs after these manufacturers had entered into separate licensing agreement governing their use of the MCs (Misconduct 2 or ‘M2’).¹²⁶

Finally, the KFTC found that, just as Qualcomm had forced handset manufacturers into entering into these licensing agreements, so too the SEP owner imposed disadvantageous terms on handset manufacturers under the terms of these agreements.¹²⁷

Of a wider relevance, in finding that Qualcomm’s linking its MC supply and licensing contracts had coerced handset manufacturers into accepting disadvantageous licensing terms, the KFTC provided what may be its definition of good faith negotiations.

The Commission stated that under ‘ordinary negotiations procedures’, SEP owners should provide standard implementers with the ‘basic materials for license negotiations’ – that include:

- a patent list, claim charts and other materials specifying the scope of the patent license and rights;
- an opportunity to confirm the validity and value of the patent; and
- a confirmation of the infringement of the patent.¹²⁸

¹²⁶ Ibid [74].

¹²⁷ The Korea Fair Trade Commission (‘KFTC’) further held that Qualcomm’s use of comprehensive portfolio licensing terms also assisted the standard-essential patent (‘SEP’) owner in ‘extending its dominance’ from earlier to later cellular standards, as they restricted handset manufacturers’ ability to choose. Ibid [438]. This is the meaning of the arrow in Figure 1 from M3 (Misconduct 3) to the ‘Monopolisation of the cellular SEP licensing market’. In addition, the Commission held, some of these terms had wider deleterious effects on competition. For example, the KFTC notes, Qualcomm’s requirement that handset manufacturers grant it the right to license their SEPs free-of-charge, has enabled the SEP owner to offer these to its potential MC purchasers as a free and comprehensive ‘patent umbrella’. Thus, the ability of other MC manufacturers to rival Qualcomm’s dominance of the MC manufacturing market was further limited on account of their inability to offer their customers similar protections from the threat of injunctive action. Ibid [76].

¹²⁸ 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-

The KFTC also cited the obligations imposed on SEP owners in the EU. As discussed below, these require that these SEP owners:

- alert standard implementers of their infringement;
- specify the patents involved and the means of the alleged infringement; and
- offer licensing terms complete with a proposed royalty rate and its means of calculation.¹²⁹

Notably, neither the KFTC’s “ordinary negotiations procedures” nor its account of those applied in the EU, refer to any obligation on alleged infringers to provide security for unpaid royalties while they continue negotiations or challenge a SEP validity or infringement.¹³⁰

3.4.3 *Going Native: FRAND solution Transformed while Transforming Local Law*

The 2017 findings of the KFTC against Qualcomm’s licensing practices immediately above (Misconduct 2 and Misconduct 3) are a further application of the obligation on FRAND-encumbered SEP owners in South Korea to negotiate in good faith.

Citing the 2012 decision of the Seoul Central District in *Samsung v Apple*, the decision likewise asserted that SEP owners bear this obligation as a consequence of their licensing commitments made to SSOs:

After pledging FRAND commitments to offer license to potential SEP licensees on fair, reasonable, and non-discriminatory terms, a SEP owner

025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_KFTC-Decision_2017-0-25.Pdf> (Accessed 20 November 2019) (n 29) [417]; [422].

¹²⁹ Ibid [418].

¹³⁰ This security obligation has been an essential element of the “FRAND solution” since the 2009 *Orange Book Standard* decision and is a key component of the current European Union regime: “[The standard implementer], for the time that [it] is already using the subject matter of the patent, must comply] with the obligations that the license agreement yet to be concluded ... in return for the use of the licensed subject matter. 2009 *German Orange Book Standard Case*, Judgment summary; *Huawei v ZTE (CJEU, 16 July 2015)* [2015] Court of Justice of the European Union C-170/13 (16 July 2015) [67].

bears the obligation to engage in good-faith negotiations with those who request to obtain a license for the SEPs.¹³¹

Similarly, the 2017 decision penalised Qualcomm under the MRFTA for breaching its obligation to negotiate in good faith, as the KFTC had first considered doing in its *Samsung Determination* and then codified in anti-IP abuse guidelines, both in 2014.

In its 2017 determination, the KFTC found that Qualcomm's linking of the MC supply contracts of handset manufacturers with licensing agreements (Misconduct 2) and its imposing of disadvantageous licensing terms (Misconduct 3), were both anti-competitive and unfair business practices.¹³²

The Commission cited Qualcomm's obligation to negotiate in good faith in finding that Qualcomm had committed these anti-competitive abuses of dominant market position and unfair business practices of abusing its superior trading position. Nevertheless, the below account of the 2017 decision focuses on the KFTC's application of the good faith negotiation obligation to Qualcomm's latter two licensing misconducts under the competition law.

This focus was chosen due to the extent to which the Commission infused its application of the good faith negotiation obligation with the conventional elements to be proven in making out an abuse of market dominance offence. In particular, this is seen with its assessment of the anti-competitive effects in Qualcomm's failure to negotiate in good faith in breach of the South Korean definition of SEP owner's conduct-related FRAND commitment. Nevertheless, in assessing whether Qualcomm had abused its dominant market position, the KFTC applied the below four standard elements of the offense.

The first two elements of the offence required the Commission to establish that Qualcomm had a dominant market position in the relevant market(s) and that the SEP owner had abused this dominance. In relation to both Misconduct 2 and Misconduct 3, the abusive activity the

¹³¹ *Samsung v Apple (Seoul CDC)*, 24 August 2012; cited in *KFTC Qualcomm Determination - Decision and Order*, 20 January 2017 [346] [fn 274].

¹³² 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_kftc-decision_2017-0-25.pdf> (Accessed 20 November 2019) (n 29) [413]; [451]; [470]; [477].

KFTC found Qualcomm had engaged in, was that of: ‘unfairly coerced the other party to accept a disadvantageous transaction; or engage in a disadvantageous act’.¹³³ The third and fourth elements to be established to make out the abuse of dominant market position, required the KFTC to show that Qualcomm’s actions had an anti-competitive intent or purpose and that they had had an anti-competitive effect.¹³⁴

1) Assessing Market Dominance

As required, the Commission defined the relevant markets and showed evidence of Qualcomm’s effective dominance of these, in relation to Misconduct 2 and 3, in finding that the SEP owner dominated the markets for all cellular communications standards in which it held a SEP and that handset manufacturers were required to license.¹³⁵

2) Assessing Evidence of Abuse (Unfair Coercion of Disadvantage)¹³⁶

In applying the second element of the abuse of market dominance offence, the KFTC determined that Qualcomm’s linking the MC supply contracts to licensing contracts and offensive licensing terms, had each forced two distinct disadvantages on handset

¹³³ As the Korea Fair Trade Commission explained in its 2017 determination, despite this reference to ‘unfairness’, to prove an abuse of dominant market position allegation, it is not enough that a firm with a dominant market position discriminates against individual firms. To substantiate the offence, an accuser must further show that dominant firm had the intent to increase or maintain their dominance and sought to do so by means that would have had the effect of harming existing or potential market competition. Ibid [343].

¹³⁴ Ibid [342]-[343].

¹³⁵ Ibid [183]; [183]-[185]. The relevant product market was determined to be all of Qualcomm’s standard-essential patent (‘SEP’) licenses for each individual standard as each of these is required for the implementation of the standard. The relevant geographical market was determined to be global, as all of the standards for which Qualcomm’s SEPs are required are deployed internationally, regardless of the network’s location. [159]; [159]-[162].

¹³⁶ As the Korea Fair Trade Commission explained in its 2017 determination, despite this reference to ‘unfairness’, to prove an abuse of dominant market position allegation, it is not enough that a firm with a dominant market position discriminates against individual firms. To substantiate the offence, an accuser must further show that dominant firm had the intent to increase or maintain their dominance and sought to do so by means that would have had the effect of harming existing or potential market competition. Ibid [343].

manufacturers.¹³⁷ In both cases, one of these disadvantages incurred was that of the handset manufacturers being deprived of the ‘opportunity for FRAND negotiations’.¹³⁸

As cited in the section above, the KFTC established a standard for ‘ordinary negotiations procedures’ and drew on the obligations EU SEP owners must discharge prior to seeking an injunction.¹³⁹ The Commission then follows this by demonstrating how the imposed terms of Qualcomm’s licensing contracts had denied handset manufacturers these ordinary and EU standards of negotiations. In doing so, the KFTC re-affirms its view that the primary abuse of Qualcomm’s business practices is their denial of the good faith ‘FRAND negotiations’ that it maintains the SSO commitments of SEP owners oblige them to provide:

Consequently, due to the [Qualcomm’s] comprehensive license terms and unilateral royalty terms, etc., the handset companies were deprived of the opportunity for [FRAND] negotiations during the process of obtaining license on the SEPs from [Qualcomm], and were blocked from choosing between non-SEPs and other patents as the licensee.¹⁴⁰

3) Assessing Anti-competitive Intent

In assessing the third and fourth elements of the abuse of dominance offence in its 2017 decision against Qualcomm, the KFTC re-applied the approach it had first taken in its first determination against the SEP owner in 2009.¹⁴¹

As in this earlier case, the Commission held that a SEP owner that breached its FRAND commitments had engaged in conduct that was *per se* anti-competitive. In its 2009 decision, the KFTC held that Qualcomm had breached its commitments due to its offer to standard implementers of non-FRAND terms. In its 2017 decision, the Commission had determined

¹³⁷ Ibid [346]-[356]; [416]-[426].

¹³⁸ Ibid [353];[350]-[353]; [425];[420]-[425].

¹³⁹ See above section 3.4.2.

¹⁴⁰ 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_kftc-decision_2017-0-25.pdf> (Accessed 20 November 2019) (n 29) [425].

¹⁴¹ See above section 3.2.3.

that the commitment-breaching conduct was the SEP owner's failure to negotiate in good faith.

Therefore, having determined that Qualcomm's mandatory linking of its MC supply contracts with a licensing contract (Misconduct 2) in order to avoid 'fair negotiations', the KFTC concluded that this of itself proved the anti-competitive intent of this action.¹⁴² Similarly, the Commission cited Qualcomm's avoidance of good faith negotiations as evidence of its intent to extend its dominance over the SEP licensing market by anti-competitive means, through the licensing terms it had imposed on handset manufacturers (Misconduct 3).¹⁴³

4) Assessing Anti-competitive Effects

In determining the anti-competitive effects of Qualcomm's practices, the KFTC held that the linking of its MC supply contracts to licensing contracts (Misconduct 2) 'deprived (handset manufacturers) of FRAND negotiations'.¹⁴⁴ Thus, this practice had a *per se* anti-competitive effect.

The KFTC also recognized that the terms Qualcomm had imposed on the handset manufacturers (Misconduct 3) as having a *per se* anti-competitive effect. Again, this was because the imposed terms had enabled the SEP owner to 'evad[e] the obligation to negotiate

¹⁴² KFTC *Qualcomm Determination - Decision and Order*, 20 January 2017 [370]-[371]. The Korea Fair Trade Commission also found in Qualcomm's linking of its supply and licensing contracts, an anti-competitive intent: to leverage its vertically integrated manufacturing and licensing divisions; to deter handset manufacturers from using other modem chipset (MC) manufacturers' products; to threat the supply of its MC components as a negotiating tool; and in the anomalous nature of Qualcomm's business model. Ibid [368]; [372]-[374]; [375]; [376].

¹⁴³ 퀄컴의 시장지배적지위남용행위 등에 대한 건 [In Re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 <https://www.theamericanconsumer.org/wp-content/uploads/2017/03/2017-01-20_kftc-decision_2017-0-25.pdf> (Accessed 20 November 2019) (n 29) [435]. The Korea Fair Trade Commission also recognized that Qualcomm's imposed terms had had the intent of excluding other modem chipset manufacturing from the market, Ibid [436]-[437].

¹⁴⁴ Ibid [351]; [350]-[353]. The Korea Fair Trade Commission also found that Qualcomm's linking of its modem chipset ('MC') supply contracts with a licensing agreement had the anti-competitive effect of risking the continuance of handset manufacturers' businesses' if Qualcomm interrupted their supply of MCs. Ibid [354]-[356].

in good faith under FRAND commitments.’¹⁴⁵ Specifically, the Commission saw this as occurring as Qualcomm’s portfolio licensing terms had rendered FRAND-encumbered SEPs ‘indistinguishable’ from other patents to which no obligations attached.¹⁴⁶ Thus, consistent with the views it first expressed in 2009, the Commission concluded that these terms breached Qualcomm’s FRAND commitments as ‘the benefits of standardization have been lost and [only the] harmful consequences of monopolization remain’.¹⁴⁷

4 United States

The following section provides accounts of two prominent United States (‘US’) cases that have recognized obligations on SEP owners in their licensing negotiations with standard implementers – beyond the offering of FRAND-compliant licensing terms.

Both cases were decided in 2013, with one was based on administrative law and the other, on judicial case law.

2013 FTC Google Order: Unfair Methods of Competition

In the administrative matter, Google Inc and its subsidiary, Motorola Mobility LLC (collectively ‘Google’) entered into a settlement with the US Federal Trade Commission (‘FTC’) in which it would ‘cease and desist’ all injunctive action involving FRAND-encumbered SEPs.¹⁴⁸

¹⁴⁵ Ibid [440]. The Korea Fair Trade Commission (‘KFTC’) also held that the anti-competitive effects of the licensing terms that Qualcomm had imposed on the handset manufacturers was Qualcomm’s consolidation of its dominance over all of the patents it held through its comprehensive (unidentified portfolio) terms [438]-[439]. The KFTC further held that the imposed terms had the anti-competitive effects of: permitting Qualcomm to engage in patent hold-up; excluding other modem chipset manufacturers from the market; impeding technological innovation and harming the consumer welfare of end-users [441]-[442]; [443]; [444]-[447]; [448].

¹⁴⁶ Ibid [440].

¹⁴⁷ Ibid.

¹⁴⁸ *In the Matter of Motorola Mobility LLC and Google Inc (Decision and Order)*, United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 II B.

The FTC decision and order (‘decision’) setting out the terms of the settlement did not refer to specific SEPs, however it did define the term ‘standard’ as including cellular communications, wireless data transmission and video compression standards.¹⁴⁹

The 2013 FTC decision was based on Section 5 of the *Federal Trade Commission Act* (‘FTC Act’). This article of the statute that established the FTC, permits the Commission to prosecute and take actions to prevent the practice of ‘unfair methods of competition (‘UMC’) ... in or affecting commerce’.¹⁵⁰

2013 *Microsoft v Motorola* Decision: Duty of Good Faith and Fair Dealing

In the judicial case law decision, the US District Court for the Western District of Washington (‘Washington State District Court’) held that a SEP owner’s failure to offer FRAND terms, amounted to a breach of its contractual duty of good faith and fair dealing.¹⁵¹

The 2013 case, *Microsoft Corp v Motorola Inc* is otherwise best known as the first US decision in which the court calculated an exact FRAND value for the licensing of the SEPs subject to dispute.¹⁵²

The SEPs subject to the dispute were for implementation in the wireless local area network 802.11 (‘wi-fi’) standard and the advanced video coding technology H.264 standard.¹⁵³

The SEP owner, Motorola, had alleged that in implementing the 802.11 standard, Microsoft had infringed 23 of the US patents.¹⁵⁴ In implementing the H.264 standard, Motorola alleged that the standard implementer, Microsoft, had infringed 16 of its US patents.¹⁵⁵

¹⁴⁹ Ibid I. AA.

¹⁵⁰ *Federal Trade Commission Act of 1914* s 5.

¹⁵¹ *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 24 September 2013) slip op 2; *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 12 November 2013) slip op 4.

¹⁵² *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 25 April 2013) slip op 207; [95]ff.

¹⁵³ Ibid 3.

¹⁵⁴ Ibid [565].

¹⁵⁵ Ibid [163].

4.1 2013 FTC Google Order: Unfair Methods of Competition

4.1.1 Going Along? Applying the Conventional Elements of the FRAND solution

As set out in section 5.3.1 of chapter four, the 2013 FTC decision against Google imposed a regime on Google that included requirements consistent with those assessed under the conventional elements of the FRAND solution. This included requirements on the SEP owner that, like the first element of the FRAND solution, obliged Google to comply with its commitment to SSOs to offer to license its SEPs to standard implementers on FRAND terms.

For example, the FTC order obliged Google to enter into binding arbitration with a standard implementer, where the latter alleged that Google's offered licensing terms were not FRAND-compliant.¹⁵⁶

The FTC-imposed regime applied the second element of the FRAND solution in permitting Google to seek injunctions against a standard implementer that was acting in the manner of an "unwilling licensee".

This included a standard implementer that refused to enter into a licensing agreement or to accept licensing terms determined by a court or through binding arbitration.¹⁵⁷ Standard implementers could also lose the protection of a FRAND defence against injunctive action, if they failed to respond to an offer of licensing terms after thirty days.¹⁵⁸

4.1.2 Going Rogue? Applying Additional Criterion Alongside the FRAND solution

Beyond the conventional FRAND solution requirement that SEP owners offer FRAND-compliant terms, the FTC Decision and Order required the SEP owner, Google, to meet a number of additional obligations.

The additional obligations the FTC Decision and Order imposed on Google included:

- to provide licensing terms and begin negotiations within sixty days of receiving a request from a standard implementer for a license;¹⁵⁹

¹⁵⁶ *In the Matter of Motorola Mobility LLC and Google Inc (Decision and Order)*, United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 (n 148) Art IV B 2 (c).

¹⁵⁷ *2013 FTC Google Mobility Decision and Order II*, E, 4.

¹⁵⁸ *Ibid.*

¹⁵⁹ *Ibid* Art V A.

- not to require standard implementers to license any non-SEPs as a condition for licensing them its SEPs (i.e. no mandatory tying of SEPs and non-SEPs);¹⁶⁰
- to negotiate with standard implementers for a minimum of six months;¹⁶¹
- to submit any allegedly non-FRAND terms to a court or binding arbitration within sixty days of presenting the terms to the standard implementer;¹⁶²
- to provide standard implementers with a copy of the FTC Order and licensing terms for the alleged infringed SEPs six months before to seeking injunctive action;¹⁶³
- to provide standard implementers with an offer to enter into binding arbitration sixty days before seeking injunctive action;¹⁶⁴
- not to file injunctive action against a standard implementer in retaliation for its filing of injunctive action against Google;¹⁶⁵
- not to sell or assign any FRAND-encumbered SEP to a third party unless the third party agrees to meet the FRAND commitments pertaining to the relevant SEP.¹⁶⁶

¹⁶⁰ Ibid Art IV B1.

¹⁶¹ Ibid Art III A.

¹⁶² Ibid Art III C2; III D.

¹⁶³ Ibid Art IV B1.

¹⁶⁴ Ibid Art IV B2.

¹⁶⁵ Ibid Art IV F. Exceptions to this prohibition allow Google to seek injunctive action where a standard implementer has refused two offers of licensing that comply with all the other requirements of the imposed regulatory regime set out in Article IV B and D of the FTC Order. Google is also permitted to seek injunctive action after a court or arbitrator has confirmed that the terms of the offered licensing agreement are FRAND-compliant. Ibid Art IV F1; F2.

¹⁶⁶ *Google Decision and Order (US FTC, 23 July 2013)* [2013] (23 July 2013) Art V B. The US Federal Trade Commission ('FTC') further obliged the standard-essential patent ('SEP') owner, Google Inc ('Google') to ensure that future assignees of its FRAND-encumbered SEPs agree not to seek injunctive action in contravention of the FTC Decision of Order. Google is also to ensure that that the assignee of its FRAND-encumbered SEPs ensures that later assignees of its SEPs likewise abide by their FRAND commitments and the further licensing obligations imposed under the FTC order. Ibid.

4.1.3 *Going Native?* Assimilating the FRAND solution with Local Law

In its 2013 *Google* decision, the US FTC imposed the above additional obligations on the SEP owner, Google and its subsidiaries, under Section five of the *Federal Trade Commission Act of 1914* ('FTC Act').¹⁶⁷ Section five of the FTC Act grants the FTC an exclusive power to prosecute legal persons practising 'any unfair method of competition or unfair or deceptive act' that affects commerce' ('UMC').¹⁶⁸

Where the FTC finds that a legal person has engaged in UMC activities, the FTC can issue an order on a party.¹⁶⁹ If a legal person violates the conditions of a UMC order, it can incur a fine of up to US\$10,000 for each individual violation.¹⁷⁰ US district courts may also grant injunctions and other equitable relief to enforce the conditions of the order.¹⁷¹ In the *Google case*, the SEP owner avoided the above sanctions by agreeing to enter into a settlement ('an agreement containing consent order') with the US FTC that included a compliance regime stipulating how it was to negotiate with standard implementers.¹⁷²

A statement by the majority of FTC Commissioners that decided the *Google* case, asserted that FTC's application of its UMC power was justified:

(w)here opportunistic behaviour ... harms, or threatens to harm, competition, the competitive process, and consumers.¹⁷³

Specific to the licensing practices of FRAND-encumbered SEP owners, the FTC Commissioner majority expressed their belief that

¹⁶⁷ *Federal Trade Commission Act of 1914* (n 150) s 5(a); 15 USC § 45(a).

¹⁶⁸ *Ibid.*

¹⁶⁹ *Ibid* s 5(b); 15 USC § 45(b).

¹⁷⁰ *Federal Trade Commission Act of 1914*, 15 US Code §45(l) (2017).

¹⁷¹ *Ibid.*

¹⁷² *In the Matter of Motorola Mobility LLC and Google Inc* (Decision and Order), United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 (n 148) 1.

¹⁷³ *In the Matter of Motorola Mobility LLC and Google Inc* (Decision and Order), United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 (n 148) 1.

a breach of a FRAND commitment in the context of standard setting poses serious risks to the standard-setting process, competition, and consumers.¹⁷⁴

Thus, the FTC concluded that the injunctive action of Google and its subsidiaries against willing licensees – in contravention of their FRAND commitments – ‘tended to impair competition’ in local markets for electronic devices using the relevant standards.¹⁷⁵

Yet, in enforcing UMC power, the FTC claimed to be doing more than simply applying antitrust law in the US. Rather, the *Google* decision asserted that section five of the FTC Act granted the Commission an authority that ‘both Congress and the Supreme Court have expressly deemed to extend beyond the *Sherman Act*’, the foundational statute of US antitrust law.¹⁷⁶

However, following ‘much thoughtful dialogue inside and outside of the agency ... about the precise contours of [the UMC prohibition]’, the FTC issued a set of guidelines in 2015 to further explain the scope of the UMC power and its relationship with antitrust law.¹⁷⁷

The resulting *Statement of Enforcement Principles Regarding “Unfair Methods of Competition” Under Section 5 of the FTC Act* (‘*UMC Enforcement Principles*’) proposed

¹⁷⁴ Ibid. In stating this belief, the majority of Federal Trade Commission (‘FTC’) Commissioners also refer to a FTC decision from earlier in 2013 involving the German technology firm, Robert Bosch GmbH and its US subsidiaries: *In the Matter of Robert Bosch GmbH (Statement of the Federal Trade Commission), File Number 121-0081, (24 April 2013)* <<https://www.ftc.gov/enforcement/cases-proceedings/1210081/bosch-robert-bosch-gmbh>> 3 cited in *Google Decision Statement (FTC, 3 January 2013)*, fn 10.

¹⁷⁵ 2013 *FTC Google Mobility Decision - Commission Statement* 1.

¹⁷⁶ *Google Decision and Order (US FTC, 23 July 2013)* [2013] (23 July 2013) 2; cites the following authorities in support of its claim to a jurisdiction beyond that of US competition (also known as “antitrust”) law: *FTC v R F Keppel & Bros Inc*, 291 US 304, 310-313 (1934); *FTC v Cement Inst*, 333 US 683, 693 & n 6 (1948); *FTC v Sperry & Hutchinson Co*, 405 US 233, 241-244 (1972) *Google Decision Statement (FTC, 3 January 2013)* [2013] (3 January 2013) fn 8; cited in *Google Decision and Order (US FTC, 23 July 2013)* [2013] (23 July 2013) 2.

¹⁷⁷ *Commission Statement on Section 5 of the Federal Trade Commission Act ‘Unfair Methods of Competition’ Enforcement Principles*, Federal Trade Commission (United States of America), Federal Trade Commission, 13 August 2015, <https://www.ftc.gov/system/files/documents/public_statements/735381/150813commissionstatementsection5.pdf> 2.

that, in determining whether to apply its power against alleged UMC conduct, the FTC would:

- seek to promote consumer welfare;¹⁷⁸
- evaluate the relevant conduct ‘under a framework similar to the rule of reason’;¹⁷⁹ and
- be ‘less likely’ to challenge conduct that could be addressed under the antitrust law.¹⁸⁰

In the text that accompanied the 2015 principles, the FTC further explained that it regards its jurisdiction over UMC power as extending to any conduct that violates ‘the spirit’ of the antitrust law, or that would violate this law ‘if allowed to mature or complete’.¹⁸¹ Moreover, the Commission argued that US Congress had deliberately left the elements of a UMC breach undefined, in order to allow the FTC the ability to apply the offence subject to ‘changing markets and business practices’.¹⁸²

¹⁷⁸ Ibid 1; ‘[The consumer welfare principle] declares that antitrust principles should be evaluated by considering the impact on consumers, largely ignoring effects on producers or others.’ Phillip E Areeda and Herbert Hovenkamp, *Fundamentals of Antitrust Law* (Wolters Kluwers, 4th ed, 2018) 6–17.

¹⁷⁹ *Statement of Enforcement Principles Regarding ‘Unfair Methods of Competition’ Under Section 5 of the Federal Trade Commission Act 2015* 1 (‘Unfair Methods of Competition Enforcement Principles (FTC, 13 August 2015)’). In a 2010 presentation to the Organisation for Economic Co-operation and Development, a delegation from the United States defined a ‘rule of reason’ analysis in the context of commercial information exchanges between competing firms as: ‘a method of antitrust analysis that distinguishes legitimate information exchanges from illegal ones by balancing the information exchanges’ anticompetitive effects with their potential procompetitive benefits’, ‘Roundtable on Information Exchanges between Competitors under Competition Law - Directorate for Financial and Enterprise Affairs, Competition Committee’ (DAF/COMP/WD(2010)117, Organisation for Economic Co-operation and Development, 21 October 2010) 2.

¹⁸⁰ *Statement of Enforcement Principles Regarding ‘Unfair Methods of Competition’ Under Section 5 of the Federal Trade Commission Act, (United States of America), Federal Trade Commission, 13 August 2015* <https://www.ftc.gov/system/files/documents/public_statements/735201/150813section5enforcement.pdf> (n 179) 1.

¹⁸¹ Ibid.

¹⁸² Ibid.

4.2 2013 *Microsoft v Motorola* Decision: Duty of Good Faith and Fair Dealing

4.2.1 *Going Along? Applying the Conventional Elements of the FRAND solution*

As set out in section 5.3.2 of chapter four, to determine whether the SEP owner, Motorola, had satisfied the first conventional element of the FRAND solution, the Washington State District Court determined a FRAND rate for the respective SEPs. Having found that Motorola had offered licensing rates in excess of the FRAND rates calculated by the court, Washington state court determined that the SEP owner had breached its FRAND commitments and the first conventional elements of the FRAND solution.¹⁸³

The account of the 2013 *Microsoft v Motorola* case in chapter four also notes that the possibility that the standard implementer, Microsoft, was an unwilling licensee was also raised during proceedings.¹⁸⁴ However, ultimately, the Washington state court did not apply this second conventional element of the FRAND solution.¹⁸⁵

Nevertheless, as discussed in the earlier chapter, in its 2014 decision in *Apple Inc* ('Apple') v *Motorola Inc* ('Motorola'), the US Court of Appeals for the Federal Circuit ('CAFC') recognised that injunctions could be granted to FRAND-encumbered SEP owners. This included in situations where the standard implementer 'unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.'¹⁸⁶

The CAFC also endorsed a policy statement that the US Department of Justice ('US DOJ') and US Patent and Trademark Office ('USPTO') jointly issued in 2013. This *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments* ('2013 DOJ-USPTO SEP Policy Statement') was originally only intended to apply to the administrative determinations of the US International Trade Commission ('USITC').¹⁸⁷ The CAFC proposed that US courts could use the 2013 DOJ-USPTO SEP

¹⁸³ *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 25 April 2013) Slip Op (n 152) [456]; [459].

¹⁸⁴ *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 24 September 2013) Slip Op (n 151) 17–18.

¹⁸⁵ Ibid.

¹⁸⁶ *Apple Inc v Motorola Inc* 757 F 3d 1286 (Fed Cir, 2014) 71–72.

¹⁸⁷ *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments* United States Department of Justice and United States Patent and Trademark Office (United State of America), 8 January 2013 ('Policy Statement on Standard Essential Patent Remedies'). In December 2018, the head of the

Policy Statement to identify unwilling licensee behaviour that would justify awarding an injunction to a FRAND-encumbered SEP owner.

4.2.2 *Going Rogue? Applying Additional Criterion Alongside the FRAND solution*

In addition to examining whether Motorola had offered licensing terms consistent with the first conventional element of the FRAND solution, the Washington State District Court asked if the SEP owner had abided by a further six elements.

These additional elements inquired into:

- whether [the SEP owner's] actions were contrary to the reasonable and justified expectations;
- whether [the SEP owner's] conduct would frustrate the purpose of the contract;
- whether [the SEP owner's] conduct was commercially reasonable;
- whether and to what extent [the SEP owner's] conduct conformed with ordinary custom or practice in the industry;
- to the extent the contract vested [the SEP owner] with discretion in deciding how to act, whether that discretion was exercised reasonably; and
- subjective factors such as [the SEP owner's] intent and motive.¹⁸⁸

After Microsoft presented a 'substantial amount of evidence' alleging that Motorola had failed to meet at least three of the six elements above, the district court jury determined that the SEP owner should pay damages totalling US\$14.52 million.¹⁸⁹

Antitrust division of the US Department of Justice ('DOJ') formally stated that the DOJ was withdrawing its assent to the 2013 policy statement and was seeking to draft a new joint statement with the US Patent and Trademark Office that 'better provides clarity and predictability with respect to the balance of interests at stake when an SEP-owner seeks an injunctive order'. 'Assistant Attorney General Makan Delrahim Delivers Remarks at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute', 7 December 2018, <<https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-19th-annual-berkeley-stanford>>.

¹⁸⁸ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) 1184–5.

¹⁸⁹ The court notes the substantial amount of evidence provided went to proving that the action of the standard-essential patent ('SEP') owner, Motorola were contrary to reasonable and justified expectations; had frustrated the purpose of its contracts with the standard-developing organisations; and did not conform with industry

However, before the jury made that finding, the Washington State District Court noted that determining whether Motorola's licensing offers met the additional elements of being 'commercially reasonable',

require[d] more than a simple comparison between the royalty rate included in the offer letters and the determined RAND rate.¹⁹⁰

Instead, the court encouraged the jury to examine: the actual language of Motorola's licensing offers; any earlier exchanges between the parties; and accounts of industry custom and practice in similar transactions.¹⁹¹

Likewise, to assess whether Motorola's injunctive action had frustrated the purpose of the contract, the court warned the jury against viewing Motorola's actions 'in a vacuum'; and separated from the surrounding circumstances of the litigation.¹⁹²

4.2.3 *Going Native?* Assimilating the FRAND solution with Local Law

In the *Microsoft v Motorola* case, the court assessed the SEP owner's compliance with its process obligations, based on the duty of good faith and fair dealing, applying under the US state contract laws of Washington state and California.¹⁹³ The non-binding but influential *Restatement of Contracts*, that seeks to distil US common law into a set of more easily consumable rules and principles, also recognises such a duty.¹⁹⁴

custom and practice: *Microsoft v Motorola (Wash State Dist Ct)*, 24 September 2013 12–18. Of the US\$14.52 million awarded to the standard implementer, Microsoft in damages, US\$11.49 million was to compensate it for the cost of re-locating its European distribution centre from Germany to avoid Motorola's injunctive action, whereas the remaining US\$3.03 million was to refund Microsoft its legal costs. *Microsoft v Motorola (9th Cir, 2015)* 1034.

¹⁹⁰ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 188) 1186.

¹⁹¹ *Ibid*.

¹⁹² *Ibid* 1187.

¹⁹³ *Ibid* 1185.

¹⁹⁴ 'Every contract imposes upon each party a duty of good faith and fair dealing in its performance and its enforcement.' *Restatement of the Law (Second) of Contracts (1981)* § 205. For more information, see: American Law Institute, *How the Institute Works: What are ALI Projects?* (2019) <<https://www.ali.org/about-ali/how-institute-works/>>. Notably, the *Restat 2d of Contracts*, only refers to the good faith and fair dealing duty applying at the performance and enforcement stages of contractual relations. As in US case law generally, this

In a 2014 decision, the US Supreme Court noted that most US states recognise ‘some form of the good faith and fair dealing doctrine’.¹⁹⁵ Nevertheless, the court conceded that there did not seem to be ‘any uniform understanding of the doctrine's precise meaning’.¹⁹⁶

All six additional elements that the jury used in *Microsoft v Motorola* to assess the SEP owner’s actions, were based on either US federal or state court case law.¹⁹⁷ Furthermore, most of the elements instruct local courts to draw on the decisions of Washington state courts in the making of their determinations.¹⁹⁸

One characteristic that every US state contractual duty of good faith and fair dealing is understood to share in common is the rejection of ‘a free-floating duty of good faith, unattached to the underlying legal document’.¹⁹⁹ US courts have proven reluctant to endorse any good faith doctrine that would ‘create rights and duties not otherwise provided for in the existing contractual relationship’.²⁰⁰

duty is not recognized as incumbent on the actions of parties at the pre-contractual stage. Nevertheless, the good faith and fair dealing duty could be applied in *Microsoft v Motorola* – as it can be in other US cases applying a “FRAND contract” approach. This is because a FRAND-encumbered standard-essential patent (‘SEP’) owner’s making of licensing commitments effectively creates contractual relations between it and the relevant standard-developing organisation and all future third-party beneficiaries, the standard implementers. Therefore, the subsequent negotiations between SEP owners and standard implementers are in effective the performance of a FRAND contract and so are covered by the contractual duty of good faith and fair dealing under US state law.

¹⁹⁵ *Northwest Inc v Ginsberg* 134 S Ct 1422 (2014) 1431.

¹⁹⁶ Ibid.

¹⁹⁷ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 188) 1185.

¹⁹⁸ For example, the former two of the following federal court decisions are to assist Washington state courts in determining whether a party’s actions in breach of the good faith and fair dealing duty in light of being not commercially reasonable. The latter two of the following cases are Washington court cases that are to assist local courts in determining whether a party’s actions have frustrated the purpose of the contract: *Craig v Pillsbury Non-Qualified Pension Plan*, 458 F 3d 748 (8th Cir, 2006) 752; *Vylene Enterprises Inc v Naugles Inc*, 90 F3d 1472 (9th Circuit, 1996) 1477; *Aventa Learning Inc v K12 Inc*, 830 F Supp 2d 1083 (WD Wash, 2011) 1101; *Cavell v Hughes*, 629 P2d 927 (Wash Ct App, 1981) 929.

¹⁹⁹ *Raymond Badgett et al v Security State Bank*, 807 P2d 356; 116 Wn 2d 563, 570 (Wash, 1991) cited in *Microsoft v Motorola* (Washington DC), 12 August 2013, 1184.

²⁰⁰ *Uno Restaurants Inc v Boston Kenmore Realty Corporation* 441 Mass 376, 385 (2004) followed in *Weiler v PortfolioScope Inc*, 469 Mass 75 (2014); *James Foundation v Meyers*, 87 Mass App Ct 85 (2015).

Thus, to make out a case for Motorola's breach of such a duty, Microsoft had to show that its actions breached a term of the FRAND contract between the SEP owner and the SSO that Microsoft was entitled to enforce as a beneficiary. Microsoft was able to demonstrate such a term in the form of Motorola's commitment to 'march ... toward a FRAND license'.²⁰¹

However, while the jury in *Microsoft v Motorola* found the SEP owner, Motorola, in breach of this specific commitment, it was not required to identify which of the six elements – alone or in combination – it believed Motorola had failed to meet. The jury could be non-specific in its finding, the Washington State District Court explained, as 'the good faith standard ... is multi-faceted and no single factor is dispositive'.²⁰²

Therefore, it is not possible to definitively identify the actions that the SEP owner, Motorola, committed in breach of good faith and fair dealing duty. However, in rejecting Microsoft's application for a summary judgment that would have avoided the need for a full trial, the Washington State District Court referred to additional evidence that may have persuaded it to pre-empt such jury-determined proceedings.

This evidence included language in Motorola's licensing offers that the court said suggested that the SEP owner's insistence on an 'exorbitant royalty rate' was motivated by its 'hopes of receiving a cross-license agreement from Microsoft'.²⁰³ In this comment, the district court suggests that it was at least willing to consider that Motorola's exorbitant royalty offer intended to force Microsoft to alternatively enter into a cross-licensing arrangement was a breach of its good faith and fair dealing duty.

The Washington State District Court also acknowledged that Microsoft had made a 'persuasive' case that Motorola's injunctive actions had breached its good faith and fair dealing duty.²⁰⁴

²⁰¹ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 188) 1190; *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 24 September 2013) Slip Op (n 151) 16.

²⁰² *Microsoft Corp v Motorola Inc* (WD Wash, C10-1823 JLR, 24 September 2013) Slip Op (n 151) 14.

²⁰³ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 188) 1186.

²⁰⁴ *Ibid* 1187.

Ultimately, the court required Microsoft to present more evidence at trial to support its claims.²⁰⁵ Nevertheless, it was willing to consider Motorola's injunctive actions – pursued simultaneously through litigation in US district courts, the US International Trade Commission ('ITC') and in German court – as enabling it to impose non-FRAND licensing rates.²⁰⁶

Furthermore, the Washington State District Court recognised that the circumstances of the seeking of an injunctive action, may determine whether it should be regarded as a breach of the SEP owner's good faith and fair dealing duty. The court cited the example of the circumstances or timing of an injunctive action playing a determining factor, in the example of a SEP owner that had filed for an import ban against a standard implementer before offering a FRAND license to the willing licensee.²⁰⁷ In the case before it, the district court recognised that in filing for injunctive action after being made aware of Microsoft's action against it, Motorola risked being seen as seeking this action in retaliation and so in breach of its duty:

(I)t may very well be the case that seeking injunctive relief absent a pending lawsuit is good faith, whereas seeking the same relief during the pendency of litigation over a FRAND rate is bad faith.²⁰⁸

5 Japan

The following section includes a further examination of the 2014 decision of the Intellectual Property High Court of Japan ('IPHCJ') and the 2016 administrative provisions of the Japan Fair Trade Commission ('JFTC'), previously discussed in chapter four of the thesis.

This return to the IPHCJ decision and the JFTC provisions will examine the additional obligations that both impose on SEP owners in their licensing negotiations with standard implementers and the source of this obligation.

²⁰⁵ Ibid 1186.

²⁰⁶ Ibid 1187.

²⁰⁷ *Realtek Semiconductor Corporation v LSI Corporation and Agere Systems LLC*, 946 F Supp 2d 998 (ND Cal, 2013) 1015 cited in *Microsoft v Motorola (Wash State Dist Ct)*, 12 August 2013, 1187.

²⁰⁸ *Microsoft Corp v Motorola Inc*, 963 F Supp 2d 1176 (WD Wash, 2013) (n 188) 1191.

2014 Apple v Samsung Decision: Abuse of Rights

In the 2014 *Apple Japan* ('Apple') v *Samsung Electronics Co Ltd* ('Samsung') action, the patent in dispute, was a FRAND-encumbered SEP, that Samsung held and that the IPHCJ found Apple had infringed in two of its products sold in Japan, a smartphone and a tablet.²⁰⁹

In the first instance judgment in the case in 2013, the Tokyo District Court judgment held that, despite Apple's infringement, it had been an abuse of right for Samsung to seek damages and an injunction, and so the court denied Samsung both claims.²¹⁰

On appeal, as discussed in section 5.4.1 of chapter four of the thesis, the IPHCJ also denied Samsung its claim to injunctive action as the SEP owner had failed to prove that Apple was an unwilling licensee.²¹¹ Nevertheless, the court did award Samsung damages for Apple's infringement, determining that these should total 9,955,854 JPY (90,0000 USD).²¹²

²⁰⁹ The FRAND-encumbered SEP was a Japanese patent, No. 4642898 with the title: 'Process and device for sending and receiving certain packet data with predetermined length indication in a system of mobile communication'. Apple Limited v. Samsung Inc. Patent Act, Sec. 102, "'Apple v. Samsung": Decision of the Intellectual Property High Court 16 May 2014 – Case No. 2013 (Heisei 25) (Ne) 10043' (2015) 46(1) *IIC - International Review of Intellectual Property and Competition Law* 116 ('Apple v. Samsung').

²¹⁰ Hirokazu Honda, 'The Intellectual Property High Court Grand Panel Cases on the Enforcement of Patents Subject to a FRAND Declaration' [2015] (40) *Journal of the Japanese Group of A.I.P.P.I.* 316, 317.

²¹¹ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》[Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 2.

²¹² Ibid.

2016 Intellectual Property Guidelines: Abuse of Rights and Competition Law

The JFTC IP guidelines are similar to the KFTC IP Guidelines discussed above, in terms of their intended use and legal effect. Like the KFTC IP Guidelines, the JFTC IP Guidelines are essentially internal regulations for JFTC officers to use to determine whether the exercise of an IP right constitutes a violation of Japanese competition or unfair business practices law. Nonetheless, of themselves, the JFTC IP guidelines do not have any legally binding effect on the JFTC's enforcement priorities and do not create any grounds for enforcement action in addition to the existing law.

The JFTC first issued its *Guidelines for the Use of Intellectual Property under the Antimonopoly Act* ('JFTC IP Guidelines') in 2007.²¹³ The 2016 revision of the guidelines was, in part, a response to the 2014 IPHCJ decision in *Apple v Samsung*, and a 2015 Tokyo District Court decision that applied the High Court's reasoning.²¹⁴

The influence of the 2014 IPHCJ decision on the content of the 2016 amendments to the guidelines was a prominent issue in the public consultation responses during the amendment drafting process.²¹⁵ One response noted that the guidelines apply the reasoning of the IPHCJ decision without acknowledgement and impose the penalties of Japanese competition and unfair business practice law against offending SEP owners that the court had not done.²¹⁶

²¹³ Japan Fair Trade Commission, 'Partial Amendment of 'Guidelines for the Use of Intellectual Property under the Antimonopoly Act' (Media Release, 21 January 2016) <<http://www.jftc.go.jp/en/pressreleases/yearly-2016/january/160121.html>>.

²¹⁴ 《イメーション株式会社対ワンブルー， エルエルシー》 [*Imation Corporation Japan v One-Blue LLC*] 東京地方裁判所民事第 29 部 [Tokyo District Court, 29th Civil Division, State of Japan] 平成 25 年(ワ)第 21383 号 [2013 Civil Case No 21383], 18 February 2015 <http://www.ip.courts.go.jp/app/files/hanrei_en/930/001930.pdf> (Summary of the Judgment) [*Intellectual Property High Court, trans*] ('*Imation v One-Blue (Tokyo DC)*, 18 February 2015 (Court Summary)'); Yuko Kimijima, 'Standard Essential Patents in Japan' in Jorge L Contreras (ed), *The Cambridge Handbook of Technical Standardization Law* (Cambridge University Press, 1st ed, 2017) 327, 333 <https://www.cambridge.org/core/product/identifier/9781316416723%23CN-bp-20/type/book_part>.

²¹⁵ Kimijima (n 215) 333.

²¹⁶ Ibid.

5.1 *Apple v Samsung*: Abuse of Rights

5.1.1 *Going Along? Applying the Conventional Elements of the FRAND solution*

As discussed in section 5.4.1 of chapter four, the IPHCJ applied the first of the conventional elements of the FRAND solution, finding Samsung in breach of its SSO commitments for seeking injunctive action without first offering to license its SEPs to Apple on FRAND terms.²¹⁷

The court also assessed the conduct of the standard implementer, Apple, consistent with the second of the FRAND solution's conventional elements. Based on this assessment, the IPHCJ found that Apple was not an unwilling licensee, as it had made prompt and 'fairly reasonable' counter-offers to the SEP owner, Samsung, during their negotiations.²¹⁸

5.1.2 *Going Rogue? Applying Additional Criterion Alongside the FRAND solution*

The IPHCJ identified four grounds for finding that the SEP owner, Samsung 'did not facilitate the execution of a license agreement with Apple Inc', the standard implementer.²¹⁹

These included the SEP owner:

- delaying its response to the standard implementer's counter-offers;²²⁰
- not sufficiently explaining the basis of its royalty calculations;²²¹

²¹⁷ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 212) 122; 128.

²¹⁸ *Ibid* 129.

²¹⁹ *Ibid* 126.

²²⁰ The standard-essential patent ('SEP') owner, Samsung did not respond to the counter-offer of the standard implementer, Apple, for eighteen months. However, after that time it did re-engage in the negotiations and made 'a continuous effort toward the conclusion of an agreement. *Ibid*.

²²¹ The Intellectual Property High Court of Justice held that the standard-essential patent ('SEP') owner, Samsung did not 'provide a sufficient explanation to support [the] consistency of the proposed licensing terms with the FRAND Terms [sic].' *Ibid*.

- insisting on licensing its SEPs on a portfolio-basis rather than an individual patent-basis;²²² and
- refusing to disclose the licensing terms that the SEP owner has granted to other standard implementers.²²³

However, on further reflection, the court recognized that licensing SEPs as part of a portfolio was a common practice within the telecommunications industry.²²⁴ Furthermore, it conceded that disclosing the details of its transactions with other standard implementers, could conflict with the confidentiality that SEP owners owed to these existing licensees and their need to protect their own commercially-sensitive data.²²⁵

Therefore, the IPHCJ acknowledged that SEP owners' refusals to license SEPs separate from a portfolio did 'not immediately result in the breach' of their legal obligations.²²⁶ Likewise, the court held that a SEP owner should not be 'immediately' refused an injunction simply for refusing to disclose 'the terms and conditions of [their] license agreements with other licensees'.²²⁷ Thus, the IPHCJ confirmed that the use of portfolios or a refusal to disclose the details of licensing agreements entered into with other standard implementers would not result in an immediate or "automatic" denial of an injunction. Nonetheless, this language clearly allows that these practices could result in a FRAND-encumbered SEP owner being refused an injunction in some, undefined circumstances.²²⁸

²²² *Ibid* 127.

²²³ *Ibid*.

²²⁴ *Ibid*.

²²⁵ *Ibid*.

²²⁶ *Ibid*.

²²⁷ *Ibid*.

²²⁸ In this particular case, the SEP owner, Samsung was not refused an injunction due to its commitment of any action or omission during the licensing negotiations. The IPHCJ refused to issue Samsung with an injunction as it had failed to prove – as is required – that the standard implementer, Apple was an unwilling licensee. *Ibid* 129.

5.1.3 *Going Native? The Assimilation of the FRAND solution with Local Laws*

The source of the additional elements applied to negotiations conduct of the SEP owner, Samsung, in the 2014 *Apple v Samsung* decision, was Article one of the Japanese civil code.²²⁹ Sub-sections two and three of the Article state:

- 2) The exercise of rights and performance of duties must be done in good faith.
- 3) No abuse of rights is permitted.²³⁰

In making its decision, the IPHCJ held that as a consequence of their making of FRAND commitments, SEP owners in Japan are also obliged to negotiate with standard implementers in good faith and to avoid abuses of their patent rights:

In light of the fact that the [SEP owner] has made the [FRAND commitment], the court finds that [the SEP owner] at least has an obligation to have a good-faith negotiation with [the standard implementer] for the execution of a FRAND license agreement, based on the principle of good faith under the Civil Code of Japan.²³¹

Local commentators have suggested that the Japanese high court reverted back to this ‘fundamental principle of civil law regulating all private contracts’, as there was ‘no other adequate means available ... to balance the interests of SEP owners and implementers.’²³²

²²⁹ 民法 [Civil Code] (State of Japan), National Diet, Act No 89, 27 August 1896 Art 1.

²³⁰ Ibid Art 1(2); 1(3).

²³¹ 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 (n 212) 126.

²³² Yuzuki Nagakoshi and Katsuya Tamai note that once an infringement is proven, the other defences under Japanese law to an injunction is a finding that the action is a government-granted compulsory license or the assertion that the action is anti-competitive. Yuzuki Nagakoshi and Katsuya Tamai, ‘Japan without FRANDS? Recent Developments on Injunctions and FRAND Encumbered Patents in Japan’ (2016) 44 *American Intellectual Property Law Association (AIPLA) Quarterly Journal* 243, 251.

Even so, the same two observers, Yuzuki Nagakoshi and Katsuya Tamai, have been critical of the IPHCJ's application of the Japanese abuse of rights doctrine in the course of making its findings. Citing Supreme Court precedent and 'prevailing legal theory', Nagakoshi and Tamai demonstrate how the court failed to assess the subjective element of the offence and misapplied its objective element.²³³

Nagakoshi and Tamai note how the IPHCJ should have asked if the predominant subjective intent of either the SEP infringement or the injunctive action was to obtain 'unjust interests with malicious intent to take advantage of the patent system'.²³⁴ Conversely, Nagakoshi and Tamai claim the court should also have applied the objective element of the offence and asked whether the harm that the injunctive action of the SEP owner, Samsung would have caused to the standard implementer, Apple, was excessive.²³⁵

Instead, Nagakoshi and Tamai observed, the court concluded that there was less need to protect Samsung's injunctive right as the SEP owner had voluntarily agreed to license its SEPs under its FRAND commitment and would benefit from the standardisation.²³⁶

Nagakoshi and Tamai also argue that the IPHCJ neglected to apply the objective element to assess the harm that Samsung's refusal to meet its FRAND commitments had done to Apple and the Japanese public in undermining trust, and potentially innovation.²³⁷

Yet, despite these expressed doubts about its basis in Japanese abuse of rights law, in 2018, the Japan Patent Office cited the 2014 *Apple v Samsung* decision in its *Guide to Licensing Negotiations Involving Standard Essential Patents*, as authority for the following:

In Japan, a FRAND declaration made by [a SEP owner] to an [SSO] is not regarded as a contract for a third-party beneficiary (i.e., an implementer), and the [SEP owner] is regarded as having the obligation to negotiate in good faith with the [standard implementer] under the principle of good

²³³ Ibid 250.

²³⁴ Ibid 253.

²³⁵ Ibid 254.

²³⁶ Ibid.

²³⁷ Ibid.

faith prescribed by civil law. If this obligation is not met, the exercise of injunction rights may be restricted as an abuse of rights.²³⁸

5.2 2016 Intellectual Property Guidelines: Abuse of Rights and Competition Law

5.2.1 Going Along? Applying the Conventional Elements of the FRAND solution

As established in section 5.4.2 of chapter four of this thesis, the Japan Fair Trade Commission ('JFTC') *Guidelines for the Use of Intellectual Property under the Antimonopoly Act* ('JFTC IP Guidelines') apply both of the conventional elements of the FRAND solution.²³⁹

The JFTC IP Guidelines demonstrate this in relation to the first element by proposing to prosecute SEP owners that bring injunctions against willing licensees.²⁴⁰ The guidelines also assess the willingness of standard implementers to enter into licensing agreements, based on their conduct in negotiations and the consistency of this with normal business practices.²⁴¹

5.2.2 Going Rogue? Applying Additional Criterion Alongside the FRAND solution

The JFTC IP Guidelines apply additional elements to the determination of FRAND-encumbered SEPs by proposing to expand the scope of conduct to be considered in the making of such a determination.

In a conventional determination applying the FRAND solution, the only conduct that a decision-maker was to consider was that which demonstrated the willingness or unwillingness of a standard implementer. As seen in the 2014 IPHCJ decision, where a standard implementer is found to be a willing licensee, an injunction will be denied.²⁴²

²³⁸ Japan Patent Office, '《標準必須特許のライセンス交渉に関する 手引き》 [Guide to Licensing Negotiations Involving Standard Essential Patents] (State of Japan), Japan Patent Office, 5 June 2018 <http://www.jpo.go.jp/torikumi_e/kokusai_e/files/seps-tebiki_e/guide-seps-en.pdf> Fn 4.

²³⁹ 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/ipgl_frands.pdf> Link to ch 4.

²⁴⁰ *Ibid* Pt 3 (1) (i) (e); Pt 4 (2) (iv).

²⁴¹ *Ibid* Part 3(1)(i)(e).

²⁴² See above 5.1.1.

However, the JFTC IP Guidelines propose that, in making an injunction determination, the Commission will make this critical assessment of the standard implementer's conduct 'in light of the behaviour of the both sides in [the] licensing negotiations.'²⁴³ Therefore, as a result of this alteration, both the conduct of the SEP owner and the standard implementer will determine whether the standard implementer is found to be an unwilling licensee.

Thus, the conduct of both the parties not only determines whether an injunction is granted, but also where this does not occur, whether in seeking an injunction the SEP owner will be held to have brought such an action against a willing licensee. Where the latter occurs, the JFTC IP guidelines proposes that SEP owners risk being held to be in breach of both Japanese competition and unfair business practices law.²⁴⁴

Such anti-competitive behaviour and unfair business practices attract penalties under the Japanese *Act on the Prohibition of Private Monopolization and the Maintenance of Fair Trade*] ('AMA').²⁴⁵ The penalties under the AMA for anti-competitive behaviour include corporate fines up to six percent of annual business turnover, and personal fines of up to five million yen (45,000 USD) with maximum prison terms of five years.²⁴⁶ Penalties under the AMA for firms engaging in unfair competition include corporate fines of up to three percent of annual business turnover.²⁴⁷ The JFTC is also empowered under the AMA to impose injunctions and other measures on firms as necessary to eliminate the offending activity.²⁴⁸

²⁴³ 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016
<http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/ipgl_frاند.pdf> (n 240) Pt 3(1)(i)(e).

²⁴⁴ Ibid Pt 3(1)(i)(e); Pt 4(2)(iv).

²⁴⁵ 《私的独占の禁止及び公正取引の確保に関する法律》 [Act on Prohibition of Private Monopolization and Maintenance of Fair Trade] (State of Japan), National Diet, Act No 54, 14 April 1947, art 3 ('Anti-Monopoly Act').

²⁴⁶ 《私的独占の禁止及び公正取引の確保に関する法律》 [Act on Prohibition of Private Monopolization and Maintenance of Fair Trade] (State of Japan), National Diet, Act No 54, 14 April 1947, art 7-2(4); 89 ('Anti-Monopoly Act').

²⁴⁷ Ibid art 20-2.

²⁴⁸ Ibid art 20.

To avoid contributing to a finding that a standard implementer is a willing licensee, SEP owners cannot draw on a definitive code of conduct in the JFTC IP guidelines to instruct their behaviour in their licensing negotiations with standard implementers. Instead, the guidelines only propose examples of appropriate SEP owner negotiations conduct.

These cited examples include those proposing that SEP owners:

- specify the allegedly infringed SEP(s) and the means of its alleged infringement;²⁴⁹
- identify the methodology for calculating of the proposed royalty rate;²⁵⁰
- provide prompt and reasonable counter offers;²⁵¹ and
- negotiate in good faith in light of normal business practices.²⁵²

5.2.3 *Going Native?* The Assimilation of the FRAND solution with Local Laws

The JFTC guidelines do not refer to the 2014 decision of the IPHCJ in *Apple v Samsung*, nor its finding that the FRAND commitments of SEP owners should serve as a basis for assessing whether they have negotiated in good faith with their potential licensees.

However, the guidelines do propose as a general principle for determining whether a standard implementer is a willing licensee, the measure of both parties having undertaken ‘the licensing negotiations in good faith in light of the normal business practices.’²⁵³

²⁴⁹ The literal description of this conduct in the guidelines is: ‘the presence or absence of the presentation of the infringement designating the patent and specifying the way in which it has been infringed’: 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016
<http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/ipgl_frاند.pdf> (n 240) pt 3(1)(i)(e).

²⁵⁰ The literal description of this conduct in the guidelines is: ‘the presence or absence of the offer for a license on the conditions specifying its reasonable base’: Ibid.

²⁵¹ The literal description of this conduct in the guidelines is: ‘the correspondence attitude to the offers such as prompt and reasonable counter offers’: Ibid.

²⁵² The literal description of this conduct in the guidelines is: ‘undertake licensing negotiations in good faith in light of the normal business practices’. Ibid.

²⁵³ Ibid.

Without any indication otherwise in the guidelines, it seems fair to assume that the JFTC would apply the good faith obligation to the negotiations conduct of SEP owners, as the IPHCJ proposed courts could do, under Article one of the Japanese civil code.

Thus, the JFTC IP guidelines propose that the Commission enforces the obligation on SEP owners to negotiate in good faith – derived from their FRAND commitments – in accordance with its domestic civil code and competition and unfair business practices laws.

6 European Union

The following section discusses three EU court decisions issued between 2015 and 2018 that all concern the determination of injunction applications of FRAND-encumbered SEP owners.

The first decision, *Huawei Technologies Co Ltd* ('Huawei') *v* *ZTE Corp* ('ZTE') case, was decided by the Court of Justice of the European Union ('CJEU').²⁵⁴ The CJEU is the final court of appeal in the EU.²⁵⁵

The two other decisions discussed are the first and second instance decisions in the same matter and so are reviewed together below.

In the first instance, the Patent Court in the Chancery Division of the England and Wales High Court ('EWHC') heard the *Unwired Planet International Ltd* ('UP') *v* *Huawei* case.²⁵⁶ In the second instance, the Civil Division of the England and Wales Court of Appeal ('EWCA') heard the *Huawei v UP* case on appeal.²⁵⁷

²⁵⁴ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 3).

²⁵⁵ The Court of Justice of the European Union ('CJEU') is responsible for ensuring that the treaties of the European Union ('EU') are interpreted and applied according to law. *Treaty on the Functioning of the European Union* ('TFEU'), Opened for Signature 7 February 1992, [2009] OJ C 115/199 (Entered into Force 1 November 1993) Art 19(1); *ibid* Art 19(3).

²⁵⁶ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017).

²⁵⁷ *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018).

Huawei v ZTE: Competition Law

In the 2015 *Huawei v ZTE* decision, the CJEU provided a preliminary judgment to the Düsseldorf District Court in response to the German court's questions as to under what circumstances an injunction could be granted to a FRAND-encumbered SEP owner.²⁵⁸

The relevant injunctive action concerned a European patent, granted in Germany, that is essential for the implementation of the Long Term Evolution ('LTE') cellular communications standard.²⁵⁹ Huawei alleged that ZTE had infringed its patent in telecommunications equipment that ZTE sold in the EU.²⁶⁰ In 2009, Huawei provided a declaration to the SSO, the European Telecommunications Standards Institute ('ETSI') confirming that the patent was essential to the LTE standard and that it would license it to standard implementers on FRAND terms.²⁶¹

As set out below, the 2015 CJEU decision established a process for SEP owners to complete prior to seeking an injunction. The process also set out required actions for standard implementers to take to avoid being held to be unwilling licensees.²⁶²

²⁵⁸ Ibid, preamble. European Union courts can request preliminary judgments from the Court of Justice of the European Union ('CJEU') on the interpretation of treaties and 'the validity and interpretation of acts of the institutions, bodies, offices or agencies of the [EU]' TFEU (EU Parliament, 1 November 1993) 1993 Art 267. In its decision, the CJEU examined the Convention on the Grant of European Patents (European Patent Convention) of 5 October 1973 as revised by the Act revising Article 63 EPC of 17 December 1991 and the Act revising the EPC of 29 November 2000[1] *Charter of Fundamental Rights of the European Union*, OJ C 326, 26.10.2012; *Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights* [2004] (OJ L 157, 30.4.2004). The questions that the Düsseldorf District Court referred to the CJEU for its preliminary judgment are set out at *Huawei v ZTE* (CJEU, 16 July 2015) [2015] Court of Justice of the European Union C-170/13 (16 July 2015) [40]-[44].

²⁵⁹ The patent is registered under the reference EP 2 090 050 B 1 and bears the title 'Method and apparatus of establishing a synchronisation signal in a communication system'. The Federal Republic of Germany is a Contracting State of the European Patent Convention. *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 3) [21]-[22].

²⁶⁰ Ibid [24]-[26].

²⁶¹ Ibid [22].

²⁶² Ibid [61]-[69].

Unwired Planet v Huawei: Competition Law / Contract Law

The injunctive action in the *UP v Huawei* case concerned two European patents, granted to UP in the United Kingdom ('UK').²⁶³ At trial, it was established that both were SEPs in a technical trial that also confirmed the patents' validity and infringement.²⁶⁴ The patents have also been declared with the SSO, ETSI, and commitments have been made to offer their licensing to standard implementers on FRAND terms.²⁶⁵

To resolve the dispute, the parties negotiated towards a licensing agreement. However, Huawei insisted that a UK-only license was FRAND, whereas UP was only prepared to offer a global license that included the infringed UK SEPs.²⁶⁶

The EWHC determined that a global license was FRAND, due to the inefficiency of licensing on a country-by-country basis. The court also determined that none of the global license offers of UP, the SEP owner, were FRAND.²⁶⁷ Therefore, the court determined a global FRAND licensing rate for the parties to apply.²⁶⁸

Nevertheless, as Huawei continued to refuse to accept a global license as FRAND, the court determined that the standard implementer was an unwilling licensee and granted UP its requested injunctions after a separate hearing later in 2017.²⁶⁹

²⁶³ The two patents are registered with the references EP (UK) 2 229 744 and EP (UK) 1 230 818. They are respectively implemented in the telecommunications network technologies of poll triggers and interRAT handover. *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 257) [807] (18).

²⁶⁴ Ibid [2].

²⁶⁵ Ibid [4].

²⁶⁶ Ibid [807] (1).

²⁶⁷ Ibid.

²⁶⁸ Ibid [582-595].

²⁶⁹ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 1304 (7 June 2017).

Huawei appealed the EWHC decision to the EWCA. In late 2018, the EWCA issued its decision, dismissing Huawei's appeal and upholding the first instance court's findings on all substantive issues.²⁷⁰

6.1 Competition Law: *Huawei v ZTE*

6.1.1 *Going Along?* Applying the Conventional Elements of the FRAND solution

As discussed in section 5.5 of chapter four of this thesis, the CJEU applies both of the conventional elements of the FRAND solution in the *Huawei v ZTE* case.²⁷¹

The advisory decision proposed that SEP owners be compelled to meet their FRAND commitments on account of the 'legitimate expectations' that these public declarations created among third parties that the relevant SEP(s) will be available for licensing on FRAND terms.²⁷² If a SEP owner later reneged on these commitments, the *Huawei v ZTE* decision proposed to treat this as an abuse of the SEP owner's dominant market position under EU competition law.²⁷³

Likewise, the *Huawei v ZTE* decision applied the FRAND solution's second conventional elements, to assess the conduct of standard implementers in order to determine whether they were willing licensees. The CJEU proposed to do this, by requiring standard implementers:

- to express a willingness to enter into a FRAND-compliant license on being notified of their alleged SEP infringement;²⁷⁴
- to respond promptly to the SEP owner's initial licensing offer in writing in good faith and consistent with relevant industry practice;²⁷⁵ and

²⁷⁰ *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018) (n 258).

²⁷¹ See section 5.5.2 in chapter 6.

²⁷² *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 3) [53].

²⁷³ *Ibid.*

²⁷⁴ *Ibid* [63]; [65].

²⁷⁵ *Ibid* [63]; [65].

- to deposit ‘appropriate security’ with a third party that is equivalent to the alleged royalties owing, if they chose to reject the SEP owner’s initial licensing offer and elect to continue to negotiate towards agreed FRAND terms.²⁷⁶

6.1.2 *Going Rogue? Applying Additional Criterion Alongside the FRAND solution*

In addition to offering standard implementers FRAND-compliant terms to be – consistent with their SSO commitments and the conventional elements of FRAND solution, before seeking an injunction, the *Huawei v ZTE* decision also requires SEP owners to:

- alert standard implementers of their alleged infringement;²⁷⁷
- identify the SEP(s) allegedly infringed and how;²⁷⁸ and
- provide a licensing offer in writing to the standard implementer, after the latter has expressed a willingness to license the SEP(s) on FRAND terms.²⁷⁹

Included in the third step above – the providing of an initial licensing offer – is the requirement that these offers stipulate a proposed royalty rate for licensing the relevant SEP(s) and the methodology used to calculate this rate.²⁸⁰

6.1.3 *Going Native? The Assimilation of the FRAND solution with Local Laws*

SEP owners that fail to meet the above additional process obligations, risk incurring the same penalty for failing to offer FRAND terms: a finding that they had abused their dominant market position.²⁸¹ Under Article 102 of the *Treaty Establishing the European Community*

²⁷⁶ Ibid [66]; [67].

²⁷⁷ Ibid [61].

²⁷⁸ Ibid.

²⁷⁹ Ibid [63].

²⁸⁰ Ibid.

²⁸¹ Note that an infringing standard implementer must first prove that the SEP owner has a DMP – not assumed on the basis of its holding of a SEP.

(‘TFEU’),²⁸² firms that abuse their dominant market position can incur fines up to the equivalent of ten percent of their annual turnover in the EU.²⁸³

The CJEU justified imposing the first of the FRAND solution conventional elements on the potential harm that SEP owners’ reneging on their SSO commitments would cause to market competition and ‘legitimate expectations’ of standard implementers.²⁸⁴

However, in imposing the above additional requirements on SEP owners, the CJEU did not refer to any further doctrinal or regulatory policy outcome being served – for example, to ensure that SEP owner negotiated in good faith or did not to abuse their IP rights. Instead, the *Huawei v ZTE* decision simply imposes the above additional obligations on SEP owners on the basis of their original commitments to SSOs to offer FRAND licensing terms to standard implementers:

[The SEP owner’s] irrevocable undertaking to grant licences on FRAND terms given to the standardisation body, justif[ies] the imposition on that [SEP owner] of an obligation to comply with specific requirements when bringing actions against alleged infringers for a prohibitory injunction or for the recall of products.²⁸⁵

Uniquely, the obligations that the CJEU proposed be imposed on SEP owners in the EU were not based on any pre-existing domestic or regional conduct code or elements. Nevertheless, the EU court in *Huawei v ZTE* appears to have freely defined the conduct that it held should

²⁸² *Treaty on the Functioning of the European Union*, Opened for Signature 7 February 1992, [2009] OJ C 115/199 (Entered into Force 1 November 1993) (“TFEU”) <<http://eur-lex.europa.eu/legal-content/en/txt/?uri=celex%3A12012E%2Ftxt>>, art 102.

²⁸³ *Treaty on the Functioning of the European Union*, Opened for Signature 7 February 1992, [2009] OJ C 115/199 (Entered into Force 1 November 1993) (“TFEU”) <<http://Eur-Lex.europa.eu/Legal-Content/EN/TXT/?uri=celex%3A12012E%2FTEXT>> art 102; Council Regulation No 1/2003 of 16 December 2002 on the Implementation of the Rules on Competition Laid Down in Articles 81 and 82 of the Treaty [2003] L 1/1 <<http://eur-lex.europa.eu/legal-content/en/all/?uri=celex:32003r0001>> art 23(2) (‘2003 EU Competition Regulations’).

²⁸⁴ See above section 6.1.1.

²⁸⁵ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 3) [59].

apply to FRAND-encumbered SEP owners, without being reliant on any transnational or other source, derived from the FRAND solution.

6.2 Competition Law / Contract Law: *Unwired Planet v Huawei*

6.2.1 *Going Along? Applying the Conventional Elements of the FRAND solution*

The EWHC applied both of the conventional elements of the FRAND solution to the facts of the case in its first instance decision in *UP v Huawei*.

In the decision, the court found that the SEP owner, UP, had failed to comply with its commitments to SSOs to offer FRAND-compliant licensing terms to standard implementers – with none of offers to Huawei being found to be FRAND-compliant.²⁸⁶

Furthermore, the court applied the second of the conventional elements of the FRAND solution to find that the standard implementer, Huawei, was an unwilling licensee, due to its refusal to enter into a worldwide license for UP's SEPs.²⁸⁷ In rejecting this position, the court determined that only a worldwide license was FRAND, based on the size and scope of its portfolio and the inefficiency of negotiating for the licensing its content on a country-by-country basis.²⁸⁸ As a consequence, the first instance court granted the standard implementer, UP, an injunction in respect to the two SEPs in which Huawei had been found in breach.²⁸⁹

Reviewing this issue on appeal, the EWCA affirmed the finding of the first instance court, including its determination that a global license was FRAND, due to its greater efficiency and consistency with industry practice.²⁹⁰

²⁸⁶ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 257) [522].

²⁸⁷ *Ibid* [524].

²⁸⁸ *Ibid* [524]; [543]; [572].

²⁸⁹ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 1304 (7 June 2017) (n 270).

²⁹⁰ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 257) [55]; [56].

6.2.2 *Going Rogue? Applying Additional Criterion Alongside the FRAND solution*

The first instance court in the *UP v Huawei* case applied the three-step pre-injunction process that the CJEU had proposed in the *Huawei v ZTE* decision.

As set out above, these included the obligations on SEP owners:

- 1) to alert standard implementers of their alleged infringement;
- 2) to identify the allegedly infringed SEP(s); and
- 3) to provide a licensing offer complete with a royalty rate and method of calculation.²⁹¹

However, under the facts of the case in *UP v Huawei*, the application of these steps was complicated by the fact that the actions of the SEP owner, UP, before seeking injunctive action, did not strictly comply with the process set out in *Huawei v ZTE*. This was hardly surprising, as much of the negotiation between UP and Huawei occurred prior to the CJEU decision being made.²⁹²

Nevertheless, regardless of this fact, the first instance court took the position that the CJEU had never intended that the steps it described be treated as ‘a series of rigid predefined rules, compliance with which is never abusive whereas deviation from which is always abusive’.²⁹³ Rather, the EWHC argued, the process of interaction proposed in *Huawei v ZTE* was to act as a ‘standard of behaviour against which both parties can be measured to decide in all the circumstances if an abuse has taken place.’²⁹⁴

Examining this issue on appeal, the EWCA agreed with the first instance court that the schema as set out in *Huawei v ZTE* was not intended to be applied in a formulaic way.²⁹⁵

²⁹¹ See above section 6.1.2.

²⁹² *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 257) See the timeline for the parties’ negotiations set out at [678].

²⁹³ *UP v Huawei* (EWHC) (Pat), 5 April 2017 EWHC 711 See the timeline for the parties’ negotiations set out at [678].

²⁹⁴ *Ibid* [744] v).

²⁹⁵ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344 (23 October 2018) 48, [277]; [279].

The EWCA recognised that SEP owners were obliged to give some form of notice to alleged infringers prior to seeking an injunction.²⁹⁶ Yet, in affirming the reasoning of the first instance judgment, the review court emphasised that the three-step schema proposed in *Huawei v ZTE*, should only be regarded as a “safe harbour”.²⁹⁷

SEP owners could fully comply with all three steps in the schema to ensure themselves of protection against an abuse of dominant market position finding. However, less than full compliance with this schema did not equate to an abuse of dominant market position. Instead, as the second instance court affirmed, a SEP owner’s partial compliance with *Huawei v ZTE* procedures, simply obliged courts to consider whether circumstances preceding the filing of an injunction had made the omitted procedures obsolete or still essential.²⁹⁸

Notably, as an alternative to the CJEU’s three-step schema, the first instance court in *UP v Huawei* alternatively proposed that SEP owners should be obliged to take a ‘FRAND approach’ in their negotiations with standard implementers.

The EWHC did not fully define what such a FRAND approach would require of SEP owners. Instead, the first instance court in the *UP v Huawei* case only cited two examples of conduct that it proposed were contrary to this FRAND approach to negotiations.

These included SEP owners:

- ‘making extreme offers’; or
- ‘taking an intransigent approach’

that ‘prejudice[s a FRAND] negotiation’.²⁹⁹

²⁹⁶ Ibid [271].

²⁹⁷ Ibid [270].

²⁹⁸ Ibid [277]; [278]; The EWCA also cited German decisions in which courts had considered the wider circumstances of the parties’ interactions rather than applying the three-step schema from *Huawei v ZTE* in a formulaic way: *St Lawrence Communication v Vodafone* [2016] Oberlandesgericht Düsseldorf [Düsseldorf Regional Court of Appeal] 1-15 U 36/16 (9 May 2016); *Sisvel v Haier* [2017] Oberlandesgericht Düsseldorf [Düsseldorf Court of Appeal] 66/15 (15 March 2017).

²⁹⁹ Ibid [806] (6); ‘Intransigence’ is used elsewhere in the judgment to describe accusations the parties had made against one another following the failure of court-mediated negotiations after the commencement of litigation.

6.2.3 *Going Native? The Assimilation of the FRAND solution with Local Laws*

In *UP v Huawei*, the EWHC and EWCA both ultimately imposed the three-step schema on the SEP owner, UP, that the 2015 *Huawei v ZTE* decision had imposed on SEP owners, based on their ‘irrevocable undertakings’ to SSOs to grant licensing on FRAND terms.³⁰⁰

However, the EWHC in its first instance decision in the *UP v Huawei* case, also proposed an alternative element under which the negotiations conduct of SEP owners could be assessed. Under this alternative element, that court suggested that:

FRAND characterises [not only] the terms of a licence but also refers to the process by which a licence is negotiated.³⁰¹

The first instance court in the *UP v Huawei* case further proposed that the FRAND commitments of SEP owners could be enforced under contract law.³⁰² Under this construction of the legal arrangements between the parties, FRAND licensing commitment of a SEP owner to a SSO was its acceptance of the SSO’s offer to permit it to participate in its standard-setting activities on these terms.³⁰³

If the SEP owner subsequently breached these commitments and failed to offer FRAND terms or to take the FRAND approach to negotiations, the court recognized the standard implementers as the intended third-party beneficiaries of the SEP owner-SSO contract.³⁰⁴ Accordingly, the court proposed, these standard implementers would have standing to take direct legal action against the SEP owner for breach of its contractually-binding FRAND licensing commitments.³⁰⁵

In that case, despite these allegations, the court nevertheless took the view that it was ‘obvious that both sides would be prepared to enter into a licence if only agreement could be reached’. Ibid [711].

³⁰⁰ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 3) [59].

³⁰¹ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 257) [806](6).

³⁰² Ibid [806] (1).

³⁰³ Ibid [122].

³⁰⁴ Ibid [138].

³⁰⁵ Ibid.

Thus, in combination, the first instance *UP v Huawei* court's restructurings of the responsibilities of FRAND-encumbered SEP owners under the contract law, would see them 'obliged by contract to take a FRAND approach to [their licensing negotiations]'.³⁰⁶

Yet, again, the FRAND commitments that SEP owners enter into with transnational SSOs are the basis for an additional obligation applying to the SEP owners' conduct in their licensing negotiations. Likewise, the elements for assessing the compliance of SEP owners with this obligation is domestic law – specifically, in this case, domestic contract law.³⁰⁷

7 Conclusion

As proposed in the aims of this chapter, the review of the other five jurisdictions' cases and regulations above, shows that they too have assessed the conduct of FRAND-encumbered SEP owners in their injunction determinations – as section four of chapter five proposed occurs in China.

Thus, while the above cases and regulations apply the conventional elements of the FRAND solution in their determinations ('going along'), the inclusion of this third element into their assessment introduces an alternative element into the process ('going rogue').

Also as seen above, while many of these assessments of SEP owners' negotiations cite the FRAND declaration as the source of this additional obligation, the element they apply is not based on SSO by-laws or some other transnational source. Instead, they assess the conduct of FRAND-encumbered SEP owners according to their local (domestic and regional) laws and expose the transnational constants of the FRAND solution to their individual and alternate doctrines and standards ('going native?').

³⁰⁶ Ibid [806] (1); [163].

³⁰⁷ In proposing that the [fair,] reasonable and non-discriminatory ('FRAND') commitments of standard-essential patent ('SEP') owners can be enforced under contract law, the first instance court in the *Unwired Planet International Ltd ('UP') v Huawei Technologies Co Ltd ('Huawei')* case, specifically refers to actions under the French contract law: Ibid [122]. The court notes that this is because one of the relevant standard-setting organisations in the decision, the European Telecommunications Standards Institute ('ETSI') states that French law governs its FRAND declaration forms and other documentation. Ibid [100]. Even so, despite this link to the transnational law of FRAND declarations, as will be discussed in chapter seven of this thesis, this continued reliance on the idiosyncrasies of a domestic law ensures the "legal irritations" between this jurisdiction and that of the transnational jurisdiction of the FRAND solution, will persist regardless.

Finally, the below table presents the results of this process. These results show the domestic laws of these five jurisdictions producing distinctive sets of process obligations that cannot be assumed to be mutually compatible nor readily interchangeable.

TABLE 1: PROCESS OBLIGATIONS IMPOSED ON STANDARD-ESSENTIAL PATENT OWNERS IN FIVE JURISDICTIONS – EXCLUDING CHINA

SEP owner Process obligations	N'lands	S. Korea	US	Japan	EU
Offer FRAND terms*	O				
Provide royalty calculation method*					
Practice and permit “active negotiation”	O		FTC		
Not demand excessive terms	O				
Offer 3 rd party dispute resolution			FTC		
Not seek injunctions in retaliation			FTC		
Disclose other licensees’ terms					
Not impose mandatory tying			FTC		
Not otherwise breach FRAND duty					

‘O’ cells represent process obligations that are now effectively obsolete. Table 1 represents process obligations that The Hague District Court recognised in its 2012 *Apple v Samsung* decision based on good faith and the abuse of rights doctrine (see section 2.1.3 in this chapter). However, in 2015, the Court of Justice of the European Union established the EU wide precedent in *Huawei Technologies Co Ltd v ZTE Corp* (‘*Huawei v ZTE*’) that injunction determinations involving SEPs should be decided under EU competition law (see section 6 in this chapter). The first Dutch case to follow the *Huawei v ZTE* precedent was decided in 2017 (see introduction to section 2 in this chapter).

‘FTC’ cells represent process obligations that the United States (‘US’) Federal Trade Commission (‘FTC’) has imposed on US SEP owners under section 5 of the *Federal Trade Commission Act*.³⁰⁸ Alternatively, process obligations that US courts have imposed on US SEP owners appear as shaded cells. It should be noted that the FTC has no power to make law – this capacity being reserved to US Congress and US courts. Nevertheless, the enforcement action of the FTC against individual US SEP owners – does have the potential to change the behaviour of these SEP owners, including their conduct in licensing negotiations.

³⁰⁸ *Federal Trade Commission Act of 1914* (n 150) s 5.

Astericked cells (*) represent process obligations imposed on SEP owners in the EU SEP owners under the 2015 *Huawei v ZTE* decision, but also recognised in other jurisdictions – both before and since the EU decision.³⁰⁹

Hashed cells represent only process obligations proposed to be imposed on SEP owners. For example, the 2014 Japanese *Apple v Samsung* decision held that refusing to disclose licensing terms granted to other parties, is not an ‘immediate’ FRAND duty breach. But this suggests that such a refusal could be a FRAND duty breach under certain circumstances (see section 5.1.2 in this chapter).

³⁰⁹ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 3).

Chapter 7: Comparisons and critiques of China’s determination process

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1 Introduction

1.1. Aims of this chapter

The aims of this chapter are to:

- i) compare the process obligations imposed on standard-essential patent (‘SEP’) owners subject to fair, reasonable and non-discriminatory (‘FRAND’) in China with those imposed in the five other jurisdictions examined in this thesis;
- ii) examine the criticisms of that English language commentators have made of China’s process obligations assessments and their proposed elements; and
- iii) assess how foreign courts in inter-jurisdictional matters have responded to China’s regulation of SEP owners’ process obligations – namely, global licensing and anti-suit injunction applications involving FRAND-encumbered SEPs.

1.2. How the aims of this chapter address the thesis topic

Chapter six established that the other five jurisdictions have imposed process obligations on FRAND-encumbered SEP owners and therefore, evidence of Chinese courts doing so, is not proof that China’s injunction determinations cannot be made according to law. Beyond that, this chapter compare China’s process obligations to those in the five other jurisdictions to assess whether these are extreme in terms of the demands they impose on SEP owners and so could be seen illegitimate and even lawful from an international perspective.

Examining the criticisms of English language commentators offers another perspective on what law Chinese courts should be applying in their injunction determinations involving SEPs and how these commentators conclude they have failed to do so.

Finally, assessing how foreign courts' responses to Chinese courts' regulation of SEP owners' process obligations, reveals the former's failure to recognise the latter's injunction assessment processes as being determined according to law.

2 Comparing process obligations regulation regimes

2.1 Provisions consistent with the *Huawei v ZTE* Protocol

A common response to the Beijing and Guangdong Higher People's Court ('HPC') Guidelines has been to remark on their close resemblance to the process obligations that the 2015 *Huawei Technologies Co Ltd v ZTE Corp* ('*Huawei v ZTE*') decision imposed on FRAND-encumbered SEP owners in the European Union ('EU').¹ Commentators have variously suggested that the Chinese guidelines are 'generally consistent', 'quite similar' and '(c)onceptually... [demonstrate a] striking convergence' with the '*Huawei v ZTE* protocol'.² This is true in the case of the two of the process obligations that the EU and Chinese regimes impose on SEP owners.

¹ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015).

² Yin Li, Hui Zhang and James Yang, 'New Developments on SEP-Related Disputes in China', Wolters Kluwer, Kluwer Patent Blog (3 July 2017) <<http://Patentblog.Kluweriplaw.Com/2017/07/03/New-Developments-Sep-Related-Disputes-China/>>; Yabing Cui and Mark Cohen, 'Across the Fault Lines: Chinese Judicial Approaches to Injunctions and SEPs', China IPR – Intellectual Property Developments in China (5 June 2018) <<https://chinaipr.com/2018/06/05/across-the-fault-lines-chinese-judicial-approaches-to-injunctions-and-seps/>>; Jill Ge, "How a Chinese Court Would Have Decided the Unwired Planet Appeal" on Globe Business Media Group, IAM Media Blog (30 November 2018) <<https://Www.Iam-Media.Com/Frandseps/How-Chinese-Court-Would-Have-Answered-Three-Questions-Unwired-Planet-Appeal>>.

2.1.1 Obligation to alert standard implementers of alleged infringements

As discussed in section 6.1.2 of chapter six, FRAND-encumbered SEP owners in the EU must alert standard implementers of their alleged infringement before seeking injunctive action.³

Likewise, both the Beijing and Guangdong HPC guidelines propose that FRAND-encumbered SEP owners in China notify standard implementers of any alleged infringements prior to filing for an injunction.⁴

However, note that SEP owners are otherwise required to alert to standard implementers to their alleged infringement. This is not a process obligation introduced under the FRAND solution.

2.1.2 Obligation to specify the scope and means of alleged infringement

As is also noted in section 6.1.2 of chapter six, the *Huawei v ZTE* protocol obliges FRAND-encumbered SEP owners in the EU to specify the scope and means of the standard implementer's alleged infringement.⁵ The Beijing and Guangdong HPC guidelines similarly recommend that FRAND-encumbered SEP owners be required to inform standard implementers of the scope and means of their alleged infringements prior to seeking an injunction.⁶

³ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1) [61].

⁴ 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 Art 152(1); 《关于审理标准必要专利纠纷案件的工作指引(试行)》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> 13(1).

⁵ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1) Art 61.

⁶ 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 4) Art 152(1); 《关于审理标准必要专利纠纷案件的工作指引(试行)》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*]

As with the obligation to alert standard implementers, SEP owners are otherwise required to specify the scope and means of the alleged infringement. This is not a process obligation introduced under the FRAND solution.

2.1.3 Obligation to provide licensing offer on FRAND terms

The 2015 *Huawei v ZTE* decision requires FRAND-encumbered SEP owners in the EU to offer standard implementers willing to enter into licensing agreements licensing on FRAND terms.⁷ The Beijing and Guangdong HPC guidelines likewise oblige FRAND-encumbered SEP owners in China to offer FRAND terms to standard implementers that are likewise willing licensees.⁸

As is apparent from Table 2 at the end of this chapter, this obligation to offer licensing on FRAND terms is required of FRAND-encumbered SEP owners in all of the jurisdictions examined in this thesis. As noted in section 2.1.1, it is also a conventional requirement of the FRAND solution defined in section four of chapter four of the thesis.

2.1.4 Obligation to provide calculation methodology of proposed royalty rate

Finally, the Guangdong HPC guidelines follow the example of the *Huawei v ZTE* decision in recommending that FRAND-encumbered SEP owners be required to provide standard implementers with their method for calculating the proposed royalty rate.⁹

(People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) 13(1).

⁷ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1) [63].

⁸ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 4) [63]; *ibid* art 152(2); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) art 13(3).

⁹ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1) [63]; 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) art 13(3).

It is possible that the exclusion of such an explicit obligation from the Beijing HPC guidelines indicates that the two Chinese jurisdictions are applying different standards on this issue. However, courts in Beijing may also simply assume the discretion to impose such an obligation on local SEP owners based on another broader requirement that is included in the Beijing HPC guidelines. This requirement obliges FRAND-encumbered SEP owners in Beijing to provide standard implementers with: ‘the patent information [they would receive] ... under [regular] business practices and commercial customs’.¹⁰

2.2 Process obligations beyond the *Huawei v ZTE* Protocol

In addition to the four process obligations of the *Huawei v ZTE* protocol, FRAND-encumbered SEP owners in China are subject to at least a further three process obligations. Beyond this, a “catch-all” provision concludes both the Beijing and Guangdong HPC guidelines. This permits lower courts to find that a SEP owner is in breach of its FRAND duty process obligations for conduct not prohibited in the HPC guidelines that the court nonetheless has determined breaches the SEP owner’s FRAND duty.

Thus, these additional process obligations and liabilities imposed on FRAND-encumbered SEP owner in China – and absent from the *Huawei v ZTE* protocol – include:

- 1) the obligation to practice and preserve active negotiation;
- 2) the obligation not to demand excessive terms;
- 3) the obligation to allow a third party to resolve disputes on licensing terms;
- 4) an obligation not to breach the FRAND duty (a “catch-all” provision)

As with the former four measures, if a FRAND-encumbered SEP owner breaches any of these additional process obligations, it may be refused an injunction and potentially incur civil and administrative liabilities.

This chapter proposes that the Chinese cases discussed in section two and three of chapter five of this thesis are likely sources for the process obligations included in the Beijing and

¹⁰ 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 4) Art 152 (2).

Guangdong HPC guidelines.¹¹ These cases may also be sources for future obligations that Chinese courts subsequently impose on FRAND-encumbered SEP owners in China. In addition, this chapter suggests that some of the foreign cases discussed in chapter six – including and in addition to the EU *Huawei v ZTE* decision – influenced and will influence the selection of the obligations included in the HPC guidelines and future Chinese court decisions.

If this is the case, then FRAND-encumbered SEP owners in China could look to these foreign and local decisions for some guidance on how to comply with the guidelines’ otherwise broadly defined prohibitions. This might be advisable, at least until further regulation – in the form of judicial interpretations or guidelines – clarifies the content of and means of assessing compliance with their FRAND duty process obligations.

¹¹ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People’s Court, People’s Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted version, on file with author); 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》[Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People’s Court of Guangdong Province (People’s Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013; 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷 – 案》[IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第 1194 号 [First Instance Decision No 1194], 22 March 2017; 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》[Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case], 北京市高级人民法院 [Beijing Higher People’s Court], 京民终 454 号 [Second Instance Civil Court Decision No 454], 28 March 2018; 《华为技术有限公司与三星（中国）投资有限公司》[Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People’s Court], 粤 03 民初 816 号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans).

2.2.1 Obligation to practise and permit active negotiations

“Active negotiation” obligations in regulation and cases outside China

Sections two, three and five of chapter six of this thesis identified incidences of courts and regulators in the Netherlands, South Korea and Japan imposing an obligation on FRAND-encumbered SEP owners to practice and permit active negotiation (‘active negotiation obligation’).

As discussed in the earlier chapter, in all three jurisdictions, FRAND-encumbered SEP owners were at risk of being denied injunctions – or were denied injunctions – as a result of not responding or delaying their responses to standard implementers’ counter-offers.¹² The South Korean and Japanese guidelines also threaten FRAND-encumbered SEP owners that fail to respond promptly to counter-offers with penalties under domestic competition and unfair business practices legislation.¹³

Section 3.4 of chapter six also gave an account of the 2017 Korea Fair Trade Commission (‘KFTC’) prosecution of Qualcomm Inc (‘Qualcomm’) that resulted in the latter receiving a fine of 1.01 trillion KRW (900 million USD) for its anti-competitive and unfair licensing

¹² Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme, ‘A Further Perspective on Apple v Samsung: How to Successfully Enforce Standard Essential Patents in the Netherlands’ (2012) 7–8 *Berichten Industriële Eigendom* 222, 228; 《서울중앙지법] 삼성과 애플 특허소송 판결문》 [Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment], 서울중앙지방법원 제11민사부 [Seoul Central District Court Civil Division No 11], 2011 가합 39552 [2011 Civil trial panel 39552], 24 August 2012 [trans Supreme Court Library of Korea, 2012] 178; 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations], 知的財産高等裁判所 特別部 [Intellectual Property High Court of Japan, State of Japan], (ネ)第 10043 号 [2013 Civil Case No 10043], 16 May 2014 129.

¹³ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) Art III, 5B [Note 1]; Art I, 2C; 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016
<http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/ipgl_frands.pdf> Pt 3(1)(i)(e); Pt 4(2)(iv). See section 5.2.2 in chapter 6.

practices.¹⁴ The KFTC held that two of the three offending practices – Qualcomm’s “no license, no chips” policy and its unilaterally-determined licensing terms – were illegal because they denied standard implementers the ability ‘to negotiate in good faith’.¹⁵ Based on Qualcomm’s FRAND commitment, this obligation to negotiate in good faith could also be described as the SEP owner’s obligation to practise and permit active negotiation.

“Active negotiation” obligations in regulation and cases inside China

The obligation to practice and permit active negotiation in foreign cases can also be seen reflected in the 2013 decision of the Guangdong HPC in *Huawei v IDC*.¹⁶

As discussed in section 4.3.2 of chapter five, in the *Huawei v IDC* case, all of the licensing offers that the SEP owner, IDC provided to the standard implementer, Huawei were non-negotiable.¹⁷ In the second instance hearing of the case, the Guangdong HPC held that non-negotiable licensing offers violated the Chinese civil law principles of voluntariness and equality.¹⁸ Therefore, IDC was held to be in breach of its FRAND duty.¹⁹

Thus, in addition to these domestic sources, the 2013 *Huawei v IDC* decision may have also been influenced by the above 2012 Dutch and South Korean findings against FRAND-encumbered SEP owners for failing to practise and permit active negotiations. Similarly, the

¹⁴ 퀄컴의 시장지배적지위남용 행위 등에 대한 건 [In re Alleged Abuse of Market Dominance of Qualcomm Inc], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 2–5.

¹⁵ Ibid [351]; [440].

¹⁶ 《华为技术有限公司与交互数字技术公司滥用市场支配地位纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Abuse of Dominant Market Position Dispute Case], 广东省高级人民法院 [Higher People’s Court of Guangdong Province (People’s Republic of China), 粤高法民三终字第 306 号 [Intellectual Property Second Instance Decision No 306], 21 October 2013 (n 11).

¹⁷ 《华为技术有限公司与 IDC 公司标准必要专利使用费纠纷上诉案》 [Huawei Technologies Co Ltd v InterDigital Corp - Standard Essential Patent Royalty Dispute Case], 广东省高级人民法院 [Guangdong Provincial Higher People’s Court, People’s Republic of China], 粤高法民三终字第 305 号 [Intellectual Property Second Instance No 305], 16 October 2013 (Unredacted version, on file with author) (n 11) 71.

¹⁸ Ibid.

¹⁹ Ibid.

Chinese decision may itself have served as a source for the 2017-18 guidelines' prohibition against conduct that hinders or discontinues negotiations without reasonable grounds discussed below.

Consistent with the above foreign decisions, both the Beijing and Guangdong HPC guidelines propose that FRAND-encumbered SEP owners be denied injunctive action where they do not practise or permit active negotiation. In the guidelines, this frustration or neglect of the licensing process is respectively referred to as 'hindering or discontinuing' (阻碍或中断) negotiations 'without reasonable grounds' (无正当理由).²⁰

In addition to this general prohibition, each of the HPC guidelines imposes specific requirements in relation the participation of FRAND-encumbered SEP owners in negotiations.

The Guangdong HPC guidelines propose that such a SEP owner should be refused injunctions where it fails to 'respond within a reasonable period of time [to a counter-offer]'.²¹ Alternatively, the Beijing HPC guidelines propose that such a SEP owner be denied an injunction where it fails to stipulate a time – based on regular business practices and commercial customs – by which a standard implementer must respond to its licensing offer.²²

Despite the distinctive nature of these additional obligations, both are nonetheless essentially consistent with the general prohibition not to hinder or discontinue negotiations without reasonable grounds. Likewise, they share much the same aims of the active negotiation obligations adopted in other jurisdictions.

²⁰ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 4) art 152(4); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) art 13(5).

²¹ 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) Art 13 (4).

²² 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 4) art 152(4).

The specific Guangdong HPC prohibition against failing to respond within a reasonable time to counter-offers is providing SEP owners with a practical example of how they can hinder negotiations and so breach the general prohibition. The specific Beijing HPC prohibition against failing to stipulate a time for responding to licensing offers, strictly imposes a particular practice on SEP owners. Nevertheless, its intended purpose – again consistent with the general prohibition – is that SEP owners discontinue negotiations based on reasonable grounds, in this case, the standard implementer's failure to respond to an offer by a pre-established time.

Thus, these distinctive Guangdong and Beijing obligations, nonetheless commonly seek to protect standard implementers' ability to actively negotiate. This includes prohibiting SEP owners from hindering negotiations by delaying their responses to counter-offers, and from discontinuing negotiations without reasonable grounds, such as not receiving a response to a licensing offer by an agreed deadline date.

2.2.2 Obligation not to demand excessive terms

As noted in sections 2.1.2 and 6.2.2 of chapter six of this thesis, this ban on FRAND-encumbered SEP owners demanding of excessive terms is different from a ban on demanding unfairly high prices. Examples of the latter can be imposed by parties holding a dominant market position under Chinese and EU law.²³

In contrast, in the context of FRAND-encumbered SEP licensing, the examined jurisdictions have treated demands for excessive terms as a tactic that SEP owners can use to discourage standard implementers from continuing to seek to license its SEPs.²⁴

²³ *Treaty on the Functioning of the European Union ('TFEU'), Opened for Signature 7 February 1992, [2009] OJ C 115/199 (Entered into Force 1 November 1993) art 102(a); 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) art 17(1).*

²⁴ *Apple Inc et al ('Apple') v Samsung Electronics Co Ltd ('Samsung') [Preliminary Judgment], Rechtbank Den Haag [The Hague District Court], 400367 / HA ZA 11-2212, 400376 / HA ZA 11-2213 400385 / HA ZA 11-2215, 14 March 2012 ('Apple v Samsung (The Hague District Court, 14 March 2012)'); 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 23) art 17(3).*

Excessive terms prohibitions in regulation and cases outside China

Section 2.1.2 of chapter six also noted that The Hague District Court's injunction refusal in its 2012 *Apple v Samsung* decision was, in part, after finding that the FRAND-encumbered SEP owner's 'excessively high' licensing offer was 'very out of line with its FRAND commitments'.²⁵ Similarly, the previous chapter in section 5.2.2 discussed the 2014 amendments to the intellectual property ('IP') guidelines of the Japan Fair Trade Commission ('JFTC') that require that all parties in SEP licensing negotiations exchange 'reasonable' offers.²⁶ Furthermore, the court in the 2017 United Kingdom ('UK') case of *Unwired Planet International Ltd v Huawei Technologies Co Ltd* ('UP v Huawei') case suggested that under a 'FRAND Approach', all negotiating parties would be prohibited from 'making extreme offers'.²⁷

In referring to the practice of 'making of extreme offers' as a breach of the FRAND approach, the *UP v Huawei* court establishes that it sees this practice as a process obligation and not the content obligation of offering FRAND-compliant royalty rates. The court confirms that the FRAND approach applies to SEP owners' process obligations and not their content obligations, when it refers to the duty of a SEP owner as being to 'take a FRAND approach to the negotiation and to grant a licence on FRAND terms'.²⁸

²⁵ Gertjan Kuipers, Douwe Groenevelt and Oscar Lamme, 'A Different Perspective on Samsung v. Apple: Guidance on Enforcing FRAND Pledged Patents in the Netherlands', De Brauw Blackstone Westbroek Legal Alerts (26 October 2011) <<http://www.debrauw.com>>.

²⁶ The literal description of this conduct in the guidelines is: 'the correspondence attitude to the offers such as prompt and reasonable counter offers': 《知的財産の利用に関する独占禁止法上の指針》[Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frاند.Pdf> (n 13) Pt 3(1)(i)(e).

²⁷ The court in *Unwired Planet International Ltd v Huawei Technologies Co Ltd* suggested that UK courts could apply French contract law instead of EU competition law to oblige SEP owners to comply with their FRAND commitments. In such an alternative action, the court recommended that both parties would be required to take a 'FRAND Approach' to negotiations that would include not making extreme offers. *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) [806](6); [806](1); [163].

²⁸ The court in *Unwired Planet International Ltd v Huawei Technologies Co Ltd* suggested that UK courts could apply French contract law instead of EU competition law to oblige SEP owners to comply with their FRAND commitments. In such an alternative action, the court recommended that both parties would be required to take a

Excessive terms prohibitions in regulation inside China

Consistent with the above Dutch, Japanese and UK cases and regulations, both the Beijing and Guangdong HPC guidelines include prohibitions against demands for excessive terms.²⁹

In fact, the Beijing and Guangdong guidelines use the same characters to prohibit FRAND-encumbered SEP owners from proposing ‘clearly unreasonable [terms] that lead to a licensing agreement not being concluded’.³⁰ Nevertheless, neither of the Chinese guidelines provided an explanation or examples to clarify what might amount to a ‘clearly unreasonable’ term.

2.2.3 Obligation to allow a third-party to resolve disputes on licensing terms

Third-party dispute resolution obligations in cases outside China

As was noted in chapter six, courts and administrative agencies in South Korea and the US have required FRAND-encumbered SEP owners to submit their unresolved disputes with standard implementers over licensing terms to a court or binding arbitration.³¹

In South Korea, the obligation to seek third party dispute resolution applies to all FRAND-encumbered SEP owners under the KFTC IP guidelines.³² In the US, FRAND-encumbered

‘FRAND Approach’ to negotiations that would include not making extreme offers. *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) [806](6); [806](1); [163].

²⁹ However, admittedly, the latest of the foreign sources to be released, the first instance decision in *Unwired Planet International Ltd v Huawei Technologies Co Ltd* case, was issued only a fortnight before the Beijing Higher People’s Court’s Guidelines for Patent Infringement Determination were themselves made publicly available. 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 4); *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27).

³⁰ 《关于审理标准必要专利纠纷案件的工作指引（试行）》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) 13 (3).

³¹ See sections 3.3.2 and 4.1.2 in chapter 6.

³² 《지식재산권의 부당한 행사에 대한 심사지침》[*Review Guidelines on Unfair Exercise of Intellectual Property Rights*] (Republic of Korea) Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) [Consolidated English Version Based on 17 December 2014

SEP owners have been required to enter into third-party dispute resolution processes with standard implementers in at least one decision. In 2013, Google Inc ('Google') agreed to submit disputed licensing terms to third-party arbitral or judicial resolution processes as part of a ten-year compliance program entered into with US FTC.³³

Third-party dispute resolution obligations in regulation and cases inside China

Neither the Beijing nor the Guangdong HPC guidelines refer to any obligation for FRAND-encumbered SEP owners to submit their disputes in negotiations with standard implementers over licensing terms to a third party for resolution.

Nonetheless, the 2016 SPC *Judicial Interpretation* allows for Chinese courts to intervene in such disputes with the request of the parties.³⁴ Article 24 of the judicial interpretation states that the parties can seek a determination from a court after they have failed to resolve their dispute after 'sufficient negotiations' (经充分协商).³⁵

Possibly, FRAND-encumbered SEP owners may be obliged to enter into binding arbitration to resolve disputed licensing terms if a standard implementer requests this.

Review Guidelines on Unfair Exercise of Intellectual Property Rights and 30 March 2016 Korea Fair Trade Commission Media Release on File with Author]', above n 50, 5B [Note 1].

³³ *In the Matter of Motorola Mobility LLC and Google Inc (Decision and Order)*, United States Federal Trade Commission, [2013] Docket No C-4410, 23 July 2013 (n 32) art IV B2; *Federal Trade Commission Act of 1914* § 5; 15 U.S.C. § 45(a).

³⁴ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] Art 24, para 3.

³⁵ Legal practitioner, Jill Ge has suggested that Article 24 of the 2016 judicial interpretation allows either the standard-essential patent ('SEP') owner or a standard implementer to file a standalone action with a Chinese court for the resolution of a dispute over the terms of licensing agreement involving FRAND-encumbered SEPs. Ibid art 24; Ge (n 2).

In the 2018 *Huawei v Samsung* decision, the standard implementer, Samsung was held to have violated its FRAND duty as a result of its rejection of a proposal from the SEP owner, Huawei, that they submit their disputed terms to a binding third-party arbitration process.³⁶

However, it is unclear if such an obligation could be imposed on FRAND-encumbered SEP owners in future cases. As noted above, the 2016 Judicial Interpretation only referred to parties entering into a third-party dispute resolution process under the guidance of a Chinese court – not an independent arbitrator.³⁷ Also, as the party in the *Huawei v Samsung* case that was found to have breached its FRAND duty for refusing to enter into arbitration was a standard implementer, this finding may only have been intended to apply to standard implementers. For example, the *Huawei v Samsung* court may have determined that Samsung's refusal to enter into arbitration was further evidence of its unwillingness to enter into a licensing agreement for its use of Huawei's SEPs. Therefore, the court's finding is simply an application of the conventional FRAND solution prohibition against unwilling licensees and so not an attempt to expand the obligation of SEP owners to seek third-party dispute resolutions from Chinese courts to independent arbitrators.

Nevertheless, the Shenzhen Intermediate People's Court ('IPC') did not make any distinction between SEP owners and standard implementers in making its determination that Samsung's refusal to enter into arbitration amounted to a breach of FRAND duty.³⁸

³⁶ 《华为技术有限公司与三星（中国）投资有限公司》[*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People's Court], 粤03民初816号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans) (n 11) 288–9.

³⁷ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》[*Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)*] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] (n 36) Art 24, para 3.

³⁸ 《华为技术有限公司与三星（中国）投资有限公司》[*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People's Court], 粤03民初816号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans) (n 11) 288–9.

2.2.4 Obligation not to breach the FRAND duty (“catch-all” provision)

“Catch-all” provisions in regulation outside China

As was noted in sections 3.3.2 and 5.2.2 of chapter six of this thesis, neither the South Korean nor Japanese administrative IP guidelines provide an exhaustive list of conduct that will breach their provisions. Instead, each of these guidelines merely provides a limited number of examples of conduct that would comply with their provisions.³⁹

As a result of this, South Korean and Japanese regulators have considerable discretion in how they apply their respective guidelines to the negotiations conduct of FRAND-encumbered SEP owners seeking injunctive relief within their jurisdictions.

“Catch-all” provisions in regulation inside China

The Beijing and Guangdong HPC guidelines grant their respective local courts with IP jurisdiction a similar degree of discretion to that allowed to the South Korean and Japanese administrative agencies under their anti-IP abuse guidelines.

As discussed in section 3.5 of chapter five of this thesis and above, the Beijing and Guangdong HPC guidelines list specific, if broadly described, conduct that will breach the FRAND duty of local FRAND-encumbered SEP owners. In addition, both sets of guidelines conclude with provisions stating that a SEP owner will also breach its FRAND duty if it is ‘otherwise clearly at fault’ (其他明显过错行) in its licensing negotiations with standard implementers.⁴⁰

³⁹ 《지식재산권의 부당한 행사에 대한 심사지침》 [Review Guidelines on Unfair Exercise of Intellectual Property Rights] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) (n 13) Art III, 5B [Note 1]; 《知的財産の利用に関する独占禁止法上の指針》 [Guidelines for the Use of Intellectual Property under the Antimonopoly Act], Japan Fair Trade Commission (State of Japan), 21 January 2016
<http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frاند.Pdf> (n 13) Pt 3(1)(i)(e).

⁴⁰ 《专利侵权判定指南》 [Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 4) Art 152 (6); 《关于审理标准必要专利纠纷案件的工作指引(试行)》 [Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018,
<http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) Art 13 (6).

These provisions seem to have a discretionary, “catch-all” function. It is assumed that Chinese courts can apply this provision where the behaviour of a FRAND-encumbered SEP owner does not correspond to any of the conduct listed in the HPC guidelines, but a Chinese court nonetheless believes breaches the SEP owner’s FRAND duty.

To apply this “catch all” provision, the court would assumingly need to apply a similar assessment process to the abuse of rights-based approach proposed in section 4.3 of chapter five of this thesis. In making such an assessment, courts may choose to apply the basic law provisions (‘BLPs’) included in China’s civil law principles and rules, as also proposed in this same section in chapter five.⁴¹

3 English language commentary on China’s determination process

As noted in the chapter introduction, this third section examines and evaluates the criticisms of English language commentaries on China’s application of the good faith principle and the abuse of rights doctrine to regulate the exercise of patent rights in China. One application of the good faith principle and the abuse of rights doctrine in this area is in the assessment of SEP owners’ injunction applications under a Chinese version of the FRAND solution.

3.1 Lacking in international legal precedents and compliance?

In 2014, sections of the American Bar Association (‘ABA Sections’) submitted comments on a draft of what would become the 2016 Judicial Interpretation, that the SPC released for public consultation.⁴² One of the provisions included in the 2014 draft – closely resembling

⁴¹ 《中华人民共和国民法通则》 [General Principles of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6595>>; 《中华人民共和国民法总则》 [General Rules of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://Www.Chinalawtranslate.Com>>.

⁴² These official comments attributed to sections of the American Bar Association (‘ABA’), each state that they are only made on behalf of the specific ABA sections named and ‘may not be construed as representing the policy of the [ABA more generally]’. ‘American Bar Association (Antitrust Law, Intellectual Property Law and International Law Sections), Submission to the Supreme People’s Court, Comments of the American Bar Association’s Sections of Antitrust Law, Intellectual Property Law, and International Law on Draft for Public Comment of the Interpretations of the Supreme People’s Court on Certain Issues Concerning the Application of

Article 24 in the finalized interpretation – proposed that SEP owners that breached their FRAND duty and negotiate in bad faith should be denied injunctive relief.⁴³

In their response to this draft article, the ABA sections expressed the view that there was no international precedent for such a provision:

no court or competition agency to our knowledge has attempted to define what constitutes bad faith negotiation in the [FRAND] context ...⁴⁴

3.1.1 Established international precedents

When the ABA sections published its response to the SPC draft interpretation in late 2014, bad faith negotiation had already been defined in the FRAND context in 2012 court decisions in the Netherlands and South Korea.

As discussed in section 2.1 of chapter six, in its 2012 decision in the *Apple v Samsung*, The Hague District Court held that the FRAND-encumbered SEP owner, Samsung had breached its FRAND commitments in negotiating in bad faith.⁴⁵ The bad faith definition that the court applied to Samsung's conduct in the FRAND context was based on the Dutch civil code requirement that all legal parties act with 'reasonableness and fairness'.⁴⁶ In its 2012 decision

Law in the Trial of Patent Infringement Cases (II), 29 August 2014

<<http://Apps.Americanbar.Org/Dch/Comadd.Cfm?Com=IC722000&pg=1>>' 1 ('2014 ABA Sections Comments on the Draft Patent Law Judicial Interpretation II').

⁴³ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] (n 36) art 24.

⁴⁴ 'American Bar Association (Antitrust Law, Intellectual Property Law and International Law Sections), Submission to the Supreme People's Court, Comments of the American Bar Association's Sections of Antitrust Law, Intellectual Property Law, and International Law on Draft for Public Comment of the Interpretations of the Supreme People's Court on Certain Issues Concerning the Application of Law in the Trial of Patent Infringement Cases (II), 29 August 2014

<<http://Apps.Americanbar.Org/Dch/Comadd.Cfm?Com=IC722000&pg=1>>' (n 44) 6.

⁴⁵ Kuipers, Groenevelt and Lamme (n 12) 225.

⁴⁶ Legal effects arising from law, usage or the standards of reasonableness and fairness: 1. An agreement not only has the legal effects which parties have agreed upon, but also those which, to the nature of the agreement,

in the *Samsung v Apple* case, the Seoul Central District Court defined bad faith negotiation in reference to the good faith obligation on all legal persons under the South Korean civil code.⁴⁷

Both of these Dutch and South Korean decisions garnered international attention. This included next-day coverage of the South Korean decision in a business-focused US-based international daily newspaper and on a prominent SEP-based industry blog.⁴⁸ Both decisions were also discussed in an article in a major IP law journal article, authored by the working group chair of a major international IP non-government organization.⁴⁹ Published several months before the ABA sections' submission, the article highlighted the claims of South Korean and Dutch decisions as based on a FRAND commitment-derived obligation on SEP owners to negotiate in good faith.⁵⁰

arise from law, usage (common practice) or the standards of reasonableness and fairness; 2. A rule, to be observed by parties as a result of their agreement, is not applicable insofar this, given the circumstances, would be unacceptable to standards of reasonableness and fairness. 'Burgerlijk Wetboek [Dutch Civil Code] (Kingdom of the Netherlands), States General, 10 April 1838 (Trans Dutchcivillaw.Com, 2017) <<http://Www.Dutchcivillaw.Com/Civilcodebook066.Htm>>' 6:248.

⁴⁷ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [*Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment*], 서울중앙지방법원 제11민사부 [*Seoul Central District Court Civil Division No 11*], 2011 가합39552 [2011 Civil trial panel 39552], 24 August 2012 [trans Supreme Court Library of Korea, 2012] (n 12) 177; 민법 [Civil Act] (Republic of Korea), National Assembly of South Korea, Law No 471, 22 February 1958 (Partial Amendment Act No.14409, 20 December 2016) art 2(1) & (2).

⁴⁸ Evan Ramstad and Min Sun Lee, 'South Korea Court Says Samsung, Apple Infringed Each Other's Patents', Wall Street Journal (online at 24 August 2012) <<https://www.wsj.com/articles/SB10000872396390444812704577608242792921450>>; Florian Mueller, "Apple-Samsung Ruling Suggests South Korea Is a FRAND Rogue State" on FOSS PATENTS (24 August 2012) <<http://www.fosspatents.com/2012/08/apple-samsung-ruling-suggests-south.html>>.

⁴⁹ Michael Fröhlich, 'The Smartphone Patent Wars Saga: Availability of Injunctive Relief for Standard Essential Patents' (2014) 9 Journal of Intellectual Property Law & Practice 156 ('The Smartphone Patent Wars Saga'). In 2014, Dr Michael Fröhlich was the chair of the working group on 'Patents and Standards' for the International Association for the Protection of Intellectual Property (Association Internationale pour la Protection de la Propriété Intellectuelle or AIPPI) that claims to have 9,000 members in 125 countries <<https://aippi.org/>>.

⁵⁰ Ibid 158. Arguably, the Washington State District Court in the 2013 Microsoft Corp ('Microsoft') v Motorola Inc ('Motorola') case did not attempt to define what amounted to bad faith in the FRAND context. However, the

3.1.2 International legal compliance

In their 2015 submission on proposed revisions to China's *Patent Law*, the ABA sections argued that one of the draft amendments imposing an obligation on patent owners to exercise their rights in good faith, provided insufficient guidance to Chinese courts on its usage:

[G]iven the broad and undefined language in [the draft article], it does not appear to the [ABA sections] that there is sufficient guidance to the judiciary to ensure that such a broad principle is applied in a consistent manner in different cases. Without specific guidance, any refusal to license patent rights might be considered as bad faith.⁵¹

The ABA sections further asserted that this lack of sufficient guidance to Chinese courts substantially undermined the rights of patent owners in China and, therefore as a consequence, risked violating China's international legal obligations:

[I]t does not appear to [ABA sections] that the [draft article is] sufficiently defined to create the assurance that [it] will satisfy [Article 30 of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ('TRIPs')], which only allows for 'limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.'⁵²

Extant guidance in the application of the good faith principle

court did permit a jury to determine whether or not the SEP owner in that case, Motorola had breached its good faith and fair dealing duty under Washington State contract law. See section 4.2.2 in chapter 6.

⁵¹ American Bar Association, International Antitrust Law Committee, Comments on the Draft Amendments to China's Patent Law (Draft Amendments) Issued by the State Intellectual Property Office (SIPO) (American Bar Association, April 2015) 4 <<http://apps.americanbar.org/dch/comadd.cfm?com=IC722000&pg=1>>.

⁵² Ibid, 3 quoting 'Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C ('Agreement on Trade-Related Aspects of Intellectual Property Rights') art 30 ('TRIPs Agreement').

A 2015 conference paper authored by the Chinese court judge, Guo Baishun, demonstrates the extent to which Chinese courts have been provided with guidance on the application of the good faith principle in the SPC's publication of "model cases".⁵³

In his conference paper, Guo surveys the 103 cases in which the good faith principle has applied out of the total 652 "model cases" published between 1985 and 2013 in the *Supreme People's Court's Gazette* ('SPC Gazette').⁵⁴ Guo's paper was published in 2015, in a compendium with prize-winning presentations from that year's National Courts' Academic Symposium ('全国法院学术讨论会'), that was edited by a sitting SPC judge.⁵⁵

Model cases are 'not directly binding, may not be cited in court judgments, and do not have precedential value'.⁵⁶ Nevertheless, these cases do have the status of 'a type of soft precedent', with those selected, summarized and reproduced in the *SPC Gazette* with some additional commentary, being most influential.⁵⁷

⁵³ 郭百顺 [Guo Baishun], '《论诚信原则在民事审判中的适用——以〈最高人民法院公报〉案例为样》 [On the Application of the Principle of Good Faith in Civil Trials - The Example of Supreme People's Court Gazette Cases]' in 贺荣 [He Rong] (ed), 《司法体制改革与民商事法律适用问题研究——全国法院第 26 届学术讨论会获奖论文集 (上下)》 [Judicial System Reform and Research Issues Concerning the Application of Civil and Commercial Law - 26th National Court Academic Symposium Prize-Winning Papers (Combined Volume)] (人民法院出版社 [People's Court Press], 2015) ('Applications of Good Faith Principle in SPC Gazette Cases').

⁵⁴ Ibid 601.

⁵⁵ Held annually since 1989, the National Courts' Academic Symposium ('全国法院学术讨论会') is attended by Chinese judges and academics and has had the continual support and participation of members of the Supreme People's Court. The editor of the 2015 compendium of papers from the symposium was edited by the then Supreme Court Judge, He Rong (贺荣). 包玲玲 [Bao Lingling], '第三十届全国法院学术讨论会暨三十周年纪念活动举行' ['The 30th National Court Academic Symposium and the 30th Anniversary Ceremony'], 人民法院新闻 ['People's Court News'] (22 June 2019) <<http://www.court.gov.cn/zixun-xiangqing-165782.html>>; [National People's Congress (People's Republic of China), '全国人大常委会任免名单 [National People's Congress' List of Appointments and Resignations]' (27 April 2017) <<http://www.npc.gov.cn/npc/c12435/201704/23c314ee4d574dc68d3d88ec60d0ecce.shtml>>.

⁵⁶ Finder, Susan 'China's Evolving Case Law System in Practice' 9 *Tsinghua China Law Review* 245, 246.

⁵⁷ Ibid.

As set out in Table 1, Guo's research shows that the SPC Gazette's coverage of good faith cases began slowly, with the publication of only four such decisions as model cases in the decade to 1995.⁵⁸ However, over the following five years to 2000, the inclusion of good faith-based decisions in the SPC's monthly bulletin to all Chinese courts doubled and then grew five-fold in the five years to 2005.⁵⁹

In the final eight years of Guo's survey from 2006 to 2013, good faith-based decisions were published in the SPC Gazette at a rate not substantially lower than their peak in 2001 to 2005. This may appear otherwise as the final period of the survey (2011-2013) only represents three years of publication, whereas the earlier periods all cover four years.⁶⁰

TABLE 1: "MODEL CASES" APPLYING THE GOOD FAITH PRINCIPLE 1985-2013

Law Period	Contract	Property	Torts	IP & AUCL	Probate	Others	TOTAL
1985-1995	1			1		2	4
1996-2000	3	1	1	3			8
2001-2005	18	2	6	13	1	1	41
2006-2010	19	2	2	7			30
2011-2013	13	2	1	2			18

Thus, through the nationally distributed *SPC Gazette*, Chinese courts at all levels would have had some exposure to the model cases' exemplary applications of the good faith principle over the thirty years prior to the ABA sections' 2015 submission.

⁵⁸ 郭百顺 [Guo Baishun] (n 55) 表一 各时期诚信原则的适用领域概况 [Table 1: Summary of good faith applications in each respective area of law].

⁵⁹ Ibid.

⁶⁰ Despite this difference in the representation of the data in this table, it is still possible to use the table results to compare the publication of the good faith cases according to annual averages. This shows that in 2001-2005, the peak period of publication of good faith cases in the Supreme People's Court's Gazette, 10.25 good faith cases were published a year in the monthly gazette. In 2006-2010, this rate of publication dropped to a yearly average of 7.5 cases, but rose again to 9 cases a year in 2011-2013. Ibid.

International legal recognition of abuse of rights regulation

As noted above, the ABA sections cite Article 30 of TRIPs in arguing that the 2015-proposed good faith patent law provision would lead to Chinese courts exceeding the limited number of exceptions that TRIPs permits be made to the exclusive rights of patent owners. Yet, in fact, Article 30 itself is subject to significant limitations.

As one World Trade Organisation (‘WTO’) panel has observed, any application of Article 30 to restrict Member states’ legislative discretion, must consider the objectives and purposes of TRIPs, as set out in Articles 7 and 8.1 of the agreement.⁶¹ Article 7 of TRIPs requires that the regime that the international agreement implements for protecting and enforcing of IP rights must promote ‘technological innovation and the transfer and dissemination of technology’.⁶² Article 8.1 expressly permits WTO Members to adopt measures that ‘promote the public interest in sectors of vital importance to their socio-economic and technological development.’⁶³

Furthermore, Article 8.2 of TRIPs acknowledges the legislative discretion of Member states – specifically in responding to IP rights owners that might seek to abuse the rights and other protections that the TRIPs agreement provides.

Specifically, the Article 8.2 states recognises the right of Member states to enact:

⁶¹ World Trade Organization (‘WTO’), ‘Canada – Patent Protection for Pharmaceutical Products’, WTO, Geneva, 2000, <http://www.wto.org/english/tratop_e/dispu_e/7428d.pdf> quoted in Carlos Correa, ‘Intellectual Property and Competition – Room to Legislate under International Law’ in Using Competition Law to Promote Access to Health Technologies: A Guidebook for Low-and-Middle-Income Countries (United Nations Development Program, 2014) 46 <<http://www.undp.org/content/undp/en/home/librarypage/hiv-aids/using-competition-law-to-promote-access-to-medicine.html>>.

⁶² ‘Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C (‘Agreement on Trade-Related Aspects of Intellectual Property Rights’)’ (n 54) art 7.

⁶³ Ibid art 8.1.

Appropriate measures ... to prevent the abuse of [IP] rights by right owners or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.⁶⁴

The TRIPS Agreement does not define the meaning of the ‘abuse’ against which WTO Members can implement regulatory countermeasures. Likewise, practices that ‘unreasonably restrain trade’ or ‘adversely affect the international transfer of technology’ are left undefined in the TRIPS Agreement.

However, commentary suggests that practices that ‘unreasonably restrain trade’ can include any related activities that can be demonstrated to be ‘unreasonable’.⁶⁵ Thus, this legislative discretion could apply to the Beijing and Guangdong HPC guidelines’ prohibitions against ‘clearly unreasonable’ excessive terms and the ‘hindering and discontinuing negotiations without reasonable grounds.’⁶⁶

In addition, Article 40.2 of TRIPS allows WTO Members to specify in their national or regional legislation that certain ‘licensing practices or conditions ... constitute an abuse of intellectual property rights’ and to take ‘appropriate measures to prevent or control such practices’.⁶⁷ The article lists examples of licensing practices and conditions that might be

⁶⁴ Ibid art 8.2.

⁶⁵ Correa (n 63) 49.

⁶⁶ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 4) art 152(5); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) art 13(3); 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 4) art 152(4); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) art 13(5).

⁶⁷ ‘Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C (‘Agreement on Trade-Related Aspects of Intellectual Property Rights’)’ (n 54) art 40.2.

identified in regulation as IP abuses – including ‘conditions preventing challenges to validity’ and ‘coercive package [i.e. portfolio] licensing’.⁶⁸

As the reference to coercive package licensing seems to imply, the ‘licensing practices or conditions’ that Article 40.2 permits WTO Members freely identify and prohibit, are understood not to be limited to the licensing content. Instead, commentary suggests, this right to prohibit extends to ‘all conduct surrounding the grant and the execution of licenses.’⁶⁹

Thus, Article 40.2 affirms the right of jurisdictions to issue anti-IP abuse laws, regulations and guidelines that identify and prohibit its own self-defined set of abusive conduct perpetuated by IP rights owners. Therefore, this provision is most likely that which has permitted South Korea, Japan, the EU and China to issue their individually distinctive administrative and judicial guidelines and protocols against a range of alleged SEP owner rights abuses.⁷⁰

Yet, the legislative discretion accorded to WTO Members to counter IP rights abuses under TRIPs is not boundless.

The Article 8.2 of the TRIPs agreement is subject to the requirement that Members adopt regulatory measures that are ‘appropriate’; meaning proportionate to the threatened IP abuse,

⁶⁸ Ibid.

⁶⁹ H Ullrich (ed), *Comparative Competition Law: Approaching an International System of Antitrust Law* (Nomos Verlagsgesellschaft mbH & Co. KG, 1998) 556 quoted in Correa (n 63) 52.

⁷⁰ 《지식재산권의 부당한 행사에 대한 심사지침》 [*Review Guidelines on Unfair Exercise of Intellectual Property Rights*] (Republic of Korea), Korea Fair Trade Commission, Established Rule No 247, 23 March 2016 (Korea Fair Trade Commission Trans, 2016) (n 13); 《知的財産の利用に関する独占禁止法上の指針》 [*Guidelines for the Use of Intellectual Property under the Antimonopoly Act*], Japan Fair Trade Commission (State of Japan), 21 January 2016 <http://Www.Jftc.Go.Jp/En/Legislation_gls/Imonopoly_guidelines.Files/Ipgl_frاند.Pdf> (n 13); *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1); 《专利侵权判定指南》 [*Guidelines for Patent Infringement Determination*] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 (n 4); 《关于审理标准必要专利纠纷案件的工作指引（试行）》 [*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4).

and that these otherwise be ‘consistent with the provisions of [TRIPs agreement].’⁷¹ However, proving that specific measures fail these conditions is particularly onerous due to the broad legislative discretion granted to Member states.⁷² Also, establishing that measures are inconsistent with the TRIPs agreement is similarly fraught, due to the difficulty of asserting that domestic policies that might justify anti-IP abuse measures, such as economic development, are inconsistent with the agreement.⁷³

The reference in Article 40.2 to the permitted regulation having as its target, anti-IP abuse that has ‘an adverse effect on competition in the relevant market’, also suggests that WTO Members are limited to regulating this abuse under the competition law.⁷⁴ However, commentary suggests the application of competition law-based regulation is only a default option and criteria based on other areas of law are not excluded.⁷⁵

Thus, consistent with a literal reading of Article 40.2, the EU’s 2015 *Huawei v ZTE* protocol exclusively regulates the abusive conduct of FRAND-encumbered SEP owners applying an exclusively competition law-based remedy.⁷⁶ Nonetheless, since 2014, South Korea has been joined by Japan and, arguably China, in freely implementing a regulatory response that, at least initially, alternatively applies an abuse of rights doctrine-based solution to counter such SEP owner conduct.⁷⁷

3.2 ‘Unnecessary’, ‘vague’ and ‘uncertain’?

In January 2019, the permanent secretariat of the Chinese parliament, the Standing Committee of the National People’s Congress (‘NPC’) issued proposed revisions to China’s *Patent Law*.

⁷¹ ‘Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C (‘Agreement on Trade-Related Aspects of Intellectual Property Rights’)’ (n 54) art 8.2; Correa (n 63) 49.

⁷² Correa (n 63) 49.

⁷³ Ibid.

⁷⁴ Ibid 52.

⁷⁵ Ullrich (n 71) 557; Correa (n 63) 53.

⁷⁶ See section 6.1 in chapter 6.

⁷⁷ See section 4.2.2 in chapter and sections 3.2, 3.3, 3.4 and 5.2 in chapter 6.

These 2019-proposed revisions included a draft article that stated:

The application for a patent and the exercise of patent rights shall abide by the principle of good faith. The abuse of patent rights shall not be permitted to harm public interests, the lawful rights and interests of other persons nor to exclude or restrict competition.⁷⁸

In March 2019, the UK-owned, IP intelligence publication, *IAM*, published an interview with Chinese lawyer, He Jing by its Asia editor, Jacob Schindler.⁷⁹

In the interview, He Jing commented in depth on the draft article above, taking the view that its inclusion of the good faith principle in the proposed *Patent Law* revisions was ‘hard to reject’, but ‘not necessary’.⁸⁰ He also drew an analogy between the draft article’s abuse of rights prohibition and the unsuccessful attempt by China’s three previously concurrent competition law regulators to co-draft a common set of anti-IP abuse enforcement guidelines.⁸¹ He Jing suggested that, after years of consultations, the fact that these regulators were unable to agree on a common set of guidelines ‘demonstrates how challenging it is to define the vague concept of IP abuse’.⁸²

Similarly, in concluding his article, Schindler lamented himself that:

⁷⁸ 《中华人民共和国全国人民代表大会 第十三届常委会第七次会议于 2019 年 1 月 4 日发布的《中华人民共和国专利法修正案（草案）》（向公众征求意见稿）[Draft Amendment of China’s Patent Law, Published for Public Comment on 4 January 2019 by the Seventh Session of the Standing Committee of the 13th National People’s Congress of the People’s Republic of China] (4 January 2019) <XXXXXXXXXX> Art 20 (‘Patent Law (Draft Amendment, 4 January 2019)’).

⁷⁹ Jacob Schindler, ‘Patent Abuse in China – Could Solutions Be Worse than the Problem?’, Globe Business Media Group, Intellectual Asset Management (iam) Media Blog (20 March 2019) <<https://www.iam-media.com/law-policy/patent-abuse-china-could-solutions-be-worse-problem>>.

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² Ibid.

The bottom line for patent owners is that another reference to patent abuse in China's IP-related laws will create additional uncertainty that may take years to address through litigation and further reform.⁸³

3.2.1 Necessary reminder of obligations and as legal formalism remedy

Necessary reminder of pre-existing obligations

In his case, He Jing is most likely correct that it is unnecessary to include a good faith principle in the revised *Patent Law*. As a Chinese lawyer, it is to be assumed that he is entirely familiar with the hierarchal structure of Chinese law discussed in section 4.2.1 in chapter five of this thesis. In particular, he would appreciate how China's BLPs, such as the good faith principle, can limit and potentially invalidate the exercise of rights – including injunction rights – granted under specifically-enacted legislation, such as the *Patent Law*.

However, as the ABA sections have demonstrated – at least since their response to the 2015-proposed revisions to China's patent law – some representatives of SEP owners in China believe that the requirement that they abide by the good faith principle is new law. As the Chinese lawyer and former judge stated in a 2015 interview with the author, this proposed *Patent Law* amendment and a similar 2013 amendment to China's *Civil Procedure Law*, only have an 'educational purpose'.⁸⁴ The lawyer and former judge explained that these provisions have no new legal effect and are only intended to remind rights owners of their existing obligations under China's basic law, which at that time consisted of the GPCL alone.⁸⁵

⁸³ Ibid.

⁸⁴ 'Interview with Chinese Lawyer and Retired Judge (Guangzhou, China, 3 December 2015).'; 《全国人民代表大会常务委员会关于修改〈中华人民共和国民事诉讼法〉的决定》 [Decision of the Standing Committee of the National People's Congress Revising the Civil Procedure Law of the People's Republic of China] (People's Republic of China) Standing Committee of the National People's Congress, 1 January 2013 art 13.

⁸⁵ 'Interview with Chinese Lawyer and Retired Judge (Guangzhou, China, 3 December 2015).' (n 86); 《中华人民共和国民法通则》 [General Principles of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6595>> (n 43).

Therefore, to the extent that FRAND-encumbered SEP owners in China and their representatives are unaware of these existing good faith and other BLP obligations, the restatement of these in relevant legislation is arguably necessary.

Necessary reminder of a remedy for legal formalism

Similarly, an argument can be made that the restatement of the good faith principle in China's patent law reminds local courts of the principle's efficacy for countering legal formalism, is also necessary.

Guo Baishun, in his 2015 survey of cases applying the good faith principle published in the *SPC Gazette*, noted that the majority of these decisions were made in local jurisdictions experiencing 'rapid ... economic development'.⁸⁶ In fact, Guo shows that – excluding the SPC's own decisions – local jurisdictions experiencing China's highest rates of growth accounted for almost three-quarters of the SPC Gazette-published cases that applied the good faith principle between 1985 and 2013.⁸⁷

Guo proposed that courts in these local jurisdictions contributed such a disproportionate share of good faith-based decisions to the total – led by his home provincial jurisdiction of Jiangsu – as they had 'to use [the good faith principle] to deal with new types of disputes'.⁸⁸

Discussing this in respect to the 'deficiencies in the law', Guo explains that:

[a judge may] encounter an unsatisfactory situation – also known as a “gap in the law” – where the inert and lagging nature of regulation is at odds with the ever-ongoing development of an interconnected society.
[Nonetheless, in such circumstances], a judge can still apply the good faith principle to ensure that “similar cases are treated in a similar way”.⁸⁹

⁸⁶ 郭百顺 [Guo Baishun] (n 55) 602.

⁸⁷ The courts in the jurisdictions experiencing high rates of economic development – including: Jiangsu, Shanghai, Guangdong, Beijing, Fujian, Tianjin and Shandong – were responsible for sixty-six of the ninety-one good faith-applying decisions (73%) not decided by the Supreme People's Court [Check figures and insert pie chart]. Ibid 图二：法院所在地域分 [Figure 2: [Deciding] courts by location].

⁸⁸ Ibid 602.

⁸⁹ Ibid 605.

Furthermore, Guo recognizes that when hearing

a case of a totally new kind – where there are no relevant laws available – all a judge can do is use a [good faith-based] theory to apply the law and produce a judgment.⁹⁰

Thus, such applications of the good faith principle and other general principles to the formalities or rigidities of the existing law could avoid perverse outcomes and so benefit both foreign FRAND-encumbered SEP owners as well as their Chinese counterparts.

However, as Table 1 drawn from Guo's survey demonstrates, the number of model decisions applying the good faith principle and reproduced in the *SPC Gazette*, peaked between 2001 to 2005. This timing coincided with the period immediately following China's entry into the WTO when Chinese policy makers were obliged to open the domestic economy more to competition from foreign firms.

Thus, it may have been expedient for Chinese policy makers to draw the attention of local courts to the good faith principle as a means to manipulate legal outcomes for the benefit of Chinese over foreign parties. Furthermore, Guo's finding that the greater share of the cases reproduced in the gazette were decided in local jurisdictions experiencing the highest amount of economic growth – and so assumingly the most intense foreign competition – might confirm this concern.

This thesis does not offer conclusive proof either way on how the good faith principle, or any other of China's BLPs, might have or is being used to manipulate legal decisions to this end. However, this chapter suggests that the research of the European academics, Gianmaria Ajani and Gyulu Eörsi, on the application of general principles under socialist law in the former Eastern Bloc Soviet-satellite states in the 1960s and 70s, offers a comparable perspective.⁹¹

The original Soviet sources for these general principles under socialist law, included a political interpretation of the equity principle, a prohibition against bad faith conduct and

⁹⁰ Ibid.

⁹¹ Gianmaria Ajani, 'Formalism and Anti-Formalism under Socialist Law: The Case of General Clauses within the Codification of Civil Law' (2002) 2(2) Global Jurist Advances
<<http://www.degruyter.com/view/j/gj.2002.2.2/gj.2002.2.2.1074/gj.2002.2.2.1074.xml>> ('Formalism and Anti-Formalism under Socialist Law').

support for verdicts that promote the ‘interests of citizens.’⁹² Both Ajani and Eörsi studied the outcomes of cases in which senior courts and tribunals had applied these general principles – Ajani in decisions in Poland and Romania, and Eörsi in his native Hungary.⁹³

In summarizing both their findings, Ajani reports that – at least as they were applied at senior levels – these socialist general principles were:

not employed to defend a collective interest against an individual one, nor to introduce original socialist solutions.⁹⁴

Instead, Ajani and Eörsi found that Eastern Bloc courts and tribunals had used the general principles to recover ‘traditional “pre-socialist” solutions’.⁹⁵ In applying these principles, the decision-making bodies could side-step the ideologically-enforced ‘supremacy of statutory law’ in their local systems while avoiding the bourgeois taint associated with judge-made law.⁹⁶

Thus, some of the cases that Ajani and Eörsi cite required senior courts and tribunals to apply these general principles to achieve seemingly banal outcomes – including the resolution of a dispute between neighboring landlords and a court order to care for destitute relatives.⁹⁷

Other cases examined by Ajani and Eörsi, relied on the application of the general principles to solve disputes relating to more sophisticated transactions, but nonetheless without an obvious ideological basis. These latter cases included issues such as the rescission of contracts and the upholding rights to pre-emption.⁹⁸

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Ibid.

⁹⁶ Gianmaria F Ajani, ‘Supremacy of Statutory Law in Socialist Systems: Scholarly Opinions and Operative Rules, The’ (1985) 11 *Review of Socialist Law* 123, 123 (‘Supremacy of Statutory Law in Socialist Systems’).

⁹⁷ Ajani (n 93).

⁹⁸ Supreme Court decision of 12 March 1965, *Orzecznictwo Sadow Polskich I Komisji Arbitrazowych*, cited fn 13; Supreme Court decision II. 20164/ 1968, quoted by G.Eörsi, “The Abuse of Right in Doctrine and Court Practice in Hungary”, M.Rotondi (ed.), *Inchieste di diritto comparato*, CEDAM, Padoa, 1979, 89, at 110 cited fn 17:

3.2.2 Vagueness of incomplete commentaries and complex social policies

The vagueness of incomplete commentaries

As noted above, Chinese lawyer He Jing has suggested that a major challenge facing Chinese regulators – and by extension, all patent owners in China – is how to define ‘the vague concept of IP abuse’.⁹⁹

Chapter five of this thesis cites the proposal in the semi-official 2017 commentary on the GRCL that the obligation on legal persons in China to avoid abusing their rights is a negative duty that forms part of the larger positive duty to act in good faith.¹⁰⁰ The chapter also suggests that the inclusion of reference to the abuse of rights prohibition in the above 2019-proposed good faith draft article, affirms its currency in contemporary Chinese law.¹⁰¹ Assuming that Chinese courts, as proposed in section 4.3 of chapter five, will find an abuse of rights when a FRAND-encumbered SEP owner breaches China’s BLPs, their corresponding semi-official commentaries offer authoritative insights into their meaning and expected applications.

However, as shown in the extracts on the principles of good faith and voluntariness included in the earlier chapter, these commentaries are neither definitive nor comprehensive in their explanations.¹⁰²

Writing in 2014, Chinese academic Han Shiyuan sees the quality of legal commentaries in China as a systemic deficiency:

Despite the sheer volume of publications [on Chinese] civil law, be it in the form of journal articles or textbooks, commentary literature [in China] is lacking the qualities typically found in respected civil law commentaries of other jurisdictions.¹⁰³

⁹⁹ Schindler (n 81).

¹⁰⁰ See section 4.2.2 of chapter 5.

¹⁰¹ Ibid

¹⁰² See section 4.3.2 in chapter 5.

¹⁰³ The other jurisdictions that Han Shiyuan lists as having produced exemplary commentaries on their domestic civil law, include: Germany; Switzerland, Austria; Japan and South Korea. Shiyuan Han, ‘The Legal

All the more, in light of the ‘significant changes’ witnessed in Chinese civil law since the 1980s, Han argues that a large scale and comprehensive commentary on Chinese law is ‘much needed and highly anticipated’.¹⁰⁴

Accordingly, Han argues that to counter the present inadequacies of Chinese semi-official commentaries, the implementation of the following improvements is required:

- a complete exposition of the issues related to each regulatory provision;
- an analysis on the application of each regulatory provision; and
- comprehensive references to any authoritative cases and theoretical literature in which the regulatory provision had been discussed.¹⁰⁵

The vagueness of complex social policies

Critics of the application of good faith principle and other general principles to law in China often present this practice as culturally-determined. As such, these applications are seen as defined by and invariably subject to the monolithic influences of Confucianism, communism or some other form of fundamental collectivism.¹⁰⁶ More generally, the application of the good faith principle in civil law jurisdictions has been attributed to the need to counter potentially unjust operations of the law with an available ‘recourse to social morality’.¹⁰⁷

However, while the European academic, Gunther Teubner recognises that this has historically been the role of the good faith principle in civil law jurisdictions, he argues that this can no longer be the case.

The modernisation of contemporary societies, Teubner claims, leads to a ‘moral pluralisation and social fragmentation’ that cannot support the historical appeals of the good faith principle

Commentary Culture in China’ in Michèle Schmiegelow and Henrik Schmiegelow (eds), *Institutional Competition between Common Law and Civil Law* (Springer Berlin Heidelberg, 2014) 331, 13
<http://link.springer.com/10.1007/978-3-642-54660-0_13>.

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ Cite Leonard, DiMatteo and others.

¹⁰⁷ Gunther Teubner, ‘Legal Irritants: Good Faith in British Law or How Unifying Law Ends Up in New Divergencies’ (1998) 61 *The Modern Law Review* 11, 23 (‘Legal Irritants’). Use another authority on GF as morality and use the text quoted here with Teubner’s commentary

made to a unified form of social morality.¹⁰⁸ Therefore, Teubner argues, the good faith principle in civil jurisdictions has taken up an alternative role and set of values.¹⁰⁹

This alternative role has thus seen the good faith principle become:

[the contract law's] recourse to the 'purpose' of the legal institutions involved. Contracts are performed in good faith when the participants are responsive to the policy of the rules....¹¹⁰

Teubner defines this policy-oriented re-interpretation of the good faith principle as requiring rights owners to pursue: the legitimate aims of their civil rights; the guiding aims of public institutions; and the imperatives of public order.¹¹¹ In addition, Teubner sees the contemporary form of the good faith principle as subject to the demands of other social institutions – including the requirements of financial markets; public health; social security; and local concepts of the family and culture.¹¹²

Teubner suggests that the extent of the influence that these public and social institutions have over the “private” contractual relations of parties can be seen in the fact that parties cannot insist on ‘unbounded’ autonomy of their agreements. Teubner sees this good faith-based, “public policy” limitation on parties’ freedom of contract as irresistible, even in matters concerning:

individual conscience, strict religious prohibitions, political freedoms, regulatory policies or economic institutions.¹¹³

Likewise, in his survey of the three decades of good faith model cases published in the *SPC Gazette*, Guo also recognizes that the good faith principle is not a repository of monolithic or absolute cultural values and morality. Instead, similarly to Teubner, Guo sees the good faith

¹⁰⁸ Ibid.

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ Ibid.

¹¹² Ibid.

¹¹³ Ibid.

principle as an instrument for adducing and applying contemporary social values and imperatives:

Diversity and difference are important attributes of modern society. [When] different perspectives and systems of value challenge existing legal conventions, general principles [including the good faith principle] offer a flexible method and amenable space for the settling of such contests.¹¹⁴

When Teubner wrote the above commentary, he most likely only had in mind civil law jurisdictions that are also liberal democracies. In contrast, Guo is referring to the limited legal pluralism tolerated under an authoritarian, one-party state. Nonetheless, Teubner is aware of the political content in the public policy and social institutional concerns informing the good faith principle in a modern society. In fact, through its re-interpretation, Teubner saw the good faith principle as imbued with the ‘policies of institutionalized politics’ that were privileged above all other priorities.¹¹⁵

Different in degree but not in kind, the social and political role of the good faith principles and other BLPs is clearly stated in the first provisions of the basic law legislation in which they are contained.

Thus, the 1986 GPCL provisions, established the good faith principle and other BLPs under Chinese law in their initial articles, but begin by stating that legislative purpose of the GPCL was ‘to meet the needs of the developing socialist modernization’.¹¹⁶ The 2017 GRCL provisions recognize the good faith principle and other BLPs in their initial articles, but similarly begin by declaring that the objectives of the legislation are:

¹¹⁴ 郭百顺 [Guo Baishun] (n 55) 608.

¹¹⁵ Teubner (n 109) 23.

¹¹⁶ 《中华人民共和国民法通则》 [General Principles of the Civil Law of the People’s Republic of China] (People’s Republic of China) National People’s Congress Standing Committee, Order No 37, 12 April 1986 (Trans World Intellectual Property Organisation) <<http://Www.Wipo.Int/Wipolex/En/Details.Jsp?Id=6595>> (n 43) art 1.

to preserve the social and economic order, to adapt to the demands of developing socialism with Chinese characteristics, and to promote core socialist values.¹¹⁷

3.2.3 Uncertainty in under-developed jurisprudence, poor reasoning and insufficient guidance

Existing mechanisms to ensure consistent good faith applications and their limitations

As noted above, Schindler concluded his article on the January 2019-proposed revisions to China's patent law, expecting that any further reference to patent abuse in Chinese law would create 'additional uncertainty' for patent owners in China. In addition, Schindler anticipated that this uncertainty might 'take years to address through litigation and further reform.'¹¹⁸

In 2010, the European academic, Simona Novaretti published some results from her survey of 350 Chinese contract law cases that applied the good faith principle between 1999 and 2006.¹¹⁹ Not filtered through the intensive editorial process of publication in the *SPC Gazette*, the cases that Novaretti studied were uploaded directly to an online public access database.¹²⁰

On the issue of the certainty of outcomes in good faith-applying cases, Novaretti's observes that:

What surfaces from a close reading of the [website] cases is a residual use of the good faith clause, in perfect harmony with legal scholarship and the [SPC's] recommendations.¹²¹

¹¹⁷ 《中华人民共和国民法总则》 [General Rules of the Civil Law of the People's Republic of China] (People's Republic of China) National People's Congress Standing Committee, Order No 66, 15 March 2017 (ChinaLawTranslate.Com Trans) <<https://www.Chinalawtranslate.Com>> (n 43) art 4-7; *ibid* art 1.

¹¹⁸ Schindler (n 81).

¹¹⁹ Simona Novaretti, 'General Clauses and Practice: The Use of the Principle of Good Faith in the Decisions of Chinese Courts' (2010) 18 *European Review of Private Law* 953.

¹²⁰ Simona Novaretti cites her online source as Zhongguo Fayuan Wang (中国法院网) <www.chinacourt.org> *Ibid* fn 6.

¹²¹ *Ibid* 980.

Novaretti further explains that, as a general rule, Chinese courts are only to apply the good faith principle where there is no existing regulation or “rule of thumb” (经验法则) practice guiding their decision-making. Nonetheless, she notes, such good faith applications are made ‘in accordance with the interpretation of higher courts.’¹²²

Guo, speaking as a serving Chinese judge, confirms Novaretti’s account of this directive.¹²³ Where there is a pre-existing ‘clear-cut regulation’, Guo says, courts may not apply a principle in its place.¹²⁴ Expressing this another way, Guo states that it is forbidden ‘to escape from a specific regulation to a general clause’.¹²⁵

The only circumstances where this rule does not hold, Guo explains, is where there is a ‘stronger reason’ to make an exception – such as where applying the relevant regulation in a particular case is ‘obviously unfair’ (显失公正).¹²⁶

Yet, despite these assurances, both Novaretti and Guo acknowledge the residual, but still significant, uncertainty that attends the application of the good faith principle in China. As Novaretti recognises that:

... there is considerable uncertainty surrounding the [good faith] principle in the context of judicial practice, and it is difficult to identify the value system triggered by the [Chinese language] term ... in the minds of judges or other native Chinese speakers.¹²⁷

Similarly, Guo observes that:

¹²² Ibid.

¹²³ Guo Baishun’s 2015 conference paper identifies him as a judge on Haining municipal people’s court in the Chinese eastern coastal province of Jiangsu. 郭百顺 [Guo Baishun] (n 55) 601.

¹²⁴ Ibid 608.

¹²⁵ Ibid.

¹²⁶ Ibid.

¹²⁷ Novaretti (n 121) 980.

Due to the fact that judges are using subjective evaluation criteria to determine their uncertain cases, the application of legal principles is inevitably controversial.¹²⁸

Guo goes on to cite cases included in the *SPC Gazette*, in which the application of the good faith principle led to inconsistent decision-making in Chinese courts.

These included two personal injury cases resulting from the same incidence, that were decided differently due to one court's application of the good faith principle.¹²⁹ In another case, different findings were made in the first and second instance in a trademark infringement case, due to the latter court's rejection of the former's use of the good faith principle.¹³⁰ When the case was finally resolved in a re-trial, the second instance court's verdict was reversed and the first court's good faith application restored.¹³¹

In his paper, Guo presented the misapplications of the good faith principle as the result of:

- the underdeveloped state of good faith jurisprudence in China;
- the poor reasoning of some Chinese judges; and
- the insufficient guidance being provided by senior courts in this area of the law.

¹²⁸ 郭百顺 [Guo Baishun] (n 55) 601.

¹²⁹ 《李彬诉陆仙芹、陆选凤、朱海泉人身损害赔偿纠纷案》[Li Bin v Luxian Qin, Lu Xuanfeng and Zhu Haiquan personal injury compensation case], 《最高人民法院公报》[‘Supreme People’s Court Gazette’] 2002 年第 4 期 [2002, No 4] cited in Ibid 607.

¹³⁰ 《利源公司诉金兰湾公司商标侵权纠纷案》[Li Yuan Co. v. Jinlan Bay Co. (JBC) trademark infringement dispute case] 《最高人民法院公报》[Supreme People's Court Gazette] 2005 年第 10 期 2005, No 10, cited in Ibid.

¹³¹ 《利源公司诉金兰湾公司商标侵权纠纷案》[Li Yuan Co. v. Jinlan Bay Co. (JBC) trademark infringement dispute case] 《最高人民法院公报》[Supreme People's Court Gazette] 2005 年第 10 期 2005, No 10, cited in Ibid.

An under-developed good faith jurisprudence

The Chinese good faith jurisprudence that Guo described in his 2015 paper appears to be very much a “work-in-progress”. Citing a recent academic article by a prominent Chinese expert on the good faith principle, Guo takes the view that:

Although the research of Chinese scholars [in this area] has begun to take shape, it is still yet to develop a holistic and comprehensively-defined view the good faith principle. [Local scholars] have also failed to effectively solve the problems associated with the judicial application of the good faith principle.¹³²

Thus, at this conceptual level, in order ‘to increase the application of the good faith principle while avoiding its pitfalls’, Guo calls for the construction of norms and the consolidation of methods of application associated with the principle.¹³³

The poor reasoning of some Chinese judges

A second target of Guo’s criticism is the inadequacy of the reasoning that some Chinese judges have provided in applying the good faith principle. Guo explains that traditionally, Chinese judges could simply cite the relevant articles from the applied law or regulation – without being obliged to include any reasoning to justify their decision.¹³⁴ While recognizing that this practice was undoubtedly convenient for local courts applying the good faith principle – Guo noted that this practice also increased the possibility of ‘reckless judicial decision-making’.¹³⁵

In making this point, Guo cited two cases reproduced in the *SPC Gazette* in 1998 and 2001 respectively. In the first case, as in the traditional manner, the court set out the facts of the case and applied the good faith principle as set out under Article four of the GPCL, without

¹³² Ibid 601.

¹³³ Ibid 608.

¹³⁴ Ibid 609.

¹³⁵ Ibid.

providing any reasoning to support or explain this application.¹³⁶ In the second case, Guo cited, a second instance court applied the good faith principle and gave its reasoning for doing so. However, Guo faults the overly generalised nature of the presiding judge's reasoning and its inclusion of rhetorical questions and criticisms of the defendant for the groundings on which it was seeking its appeal. Guo sees these comments in this second case as expressing the judge's personal views and opinions, and so represent 'a clear violation of [the judicial requirements of] neutrality and impartiality'.¹³⁷

Guo is clearly concerned about how the insufficient reasoning in both the above cases – and those like them – can harm how current and future litigants perceive the good faith principle.

Where courts provide no logical reasoning for applying the principle, as in the first case, Guo worries that parties will refuse to accept such decisions. Likewise, where courts fail to present an evidence-based argument for their decision and simply hector the party held at fault, they risk:

reducing the application of the good faith principle to meaningless talk and denigrating its legitimacy and good standing.¹³⁸

Senior courts providing insufficient guidance

Thirdly and finally, Guo argues that the SPC's guiding cases system – discussed in chapter three of this thesis – needs to be strengthened in relation to the application of the good faith principle in China.¹³⁹ As discussed in section 3.1.1 of chapter three, Chinese courts are

¹³⁶ 杨尔特诉礼泉县教育局、礼泉县教育工会给付募捐款纠纷案 [Yang Erte v Liquan County Board of Education and Liquan County education trade union compensation dispute case] 《最高人民法院公报》1998 年等 1 期 [Supreme People's Court Gazette] 1998, No 1 cited in Ibid 607.

¹³⁷ 《王连顺诉中国人寿保险公司水顺县支公司保险合同纠纷案》 [Wang Lianshun v Chinese life insurance company (Yongshunxian branch) – Insurance contract case] 《最高人民法院公报》 [Supreme People's Court Gazette] 2001 年第 4 期 [2001, No 4] Ibid.

¹³⁸ Ibid 608.

¹³⁹ Ibid 610.

obliged to refer to guiding cases that are ‘similar...in terms of the basic facts and application of the law’ to a case that they are adjudicating.¹⁴⁰

Guo first proposes that the SPC can improve the guiding case system in relation to good faith principle applications through its selection of decisions. In particular, Guo suggests that the SPC make a point of choosing ‘new, complex and representative’ decisions that apply the good faith principle and that are likely to be similar to the cases that lower courts routinely encounter.¹⁴¹

Guo also asks that the SPC clearly set out within these guiding case notes, the legal standards that the courts in the selected cases have applied in making their model decisions.¹⁴² Guo proposes that this will not only ensure that lower courts identify guiding cases that have similar facts or issues to those before them, but also that they are to follow the reasoning with which these cases were decided.¹⁴³

Since the publication of Guo’s paper, the SPC has issued a guiding case on the application of the good faith principle and the abuse of rights prohibition.¹⁴⁴ However, it does not appear to meet Guo’s criteria for a model case that will assist lower courts in their application of the good faith principle.

Released in early 2017, and so after the 2015 publication of Guo’s paper and the 2016 issued SPC patent law interpretation, *Guiding Case Number 82* concerns a trademark infringement

¹⁴⁰ 《〈最高人民法院关于案例指导工作的规定〉实施细则》[Detailed Implementing Rules on the Provisions of the Supreme People’s Court Concerning Work on Case Guidance] (People’s Republic of China) Adjudication Committee of the Supreme People’s Court (13 May 2015, China Guiding Cases Project, Stanford University Trans) <<http://Cgc.Law.Stanford.Edu/Guiding,Cases,Rules/20150513,English/>> art 9; *ibid* art 10.

¹⁴¹ 郭百顺 [Guo Baishun] (n 55) 610.

¹⁴² *Ibid*.

¹⁴³ *Ibid*.

¹⁴⁴ Attempt to find 2014 case on which guiding case based. ‘《王碎永诉深圳歌力思服饰股份有限公司、杭州银泰 世纪百货有限公司侵害商标权纠纷案》[Wang Suiyong v Shenzhen Ellassay Fashion Co Ltd and Hangzhou Intime Century Department Store Co Ltd, A Trademark Infringement Dispute], Stanford Law School China Guiding Cases Project, English Guiding Case (EGC82), September 14, 2018 Edition, <<http://Cgc.Law.Stanford.Edu/Guiding-Cases/Guiding-Case-82>>’.

case action: *Wang Suiyong* (‘Wang’) v *Shenzhen Ellassay Fashion Co Ltd* (‘Ellassay’).¹⁴⁵ In the case, initiated in China’s Hangzhou province, Wang sought injunctions and damages against Ellassay from its use of the 歌力思 (‘*Ge Li Si*’) trademark and one other.¹⁴⁶

Ellasay had in fact registered the *Ge Li Si* trademark in 1999, eleven years before Wang, however this registration was limited to the trademark’s use with clothing.¹⁴⁷ Nonetheless, in 2011, Wang successfully registered the *Ge Li Si* trademark for use with leather goods, such as wallets and handbags.¹⁴⁸ In that same year, having obtained evidence that Ellassay had expanded its use of the *Ge Li Si* trademark into a range of leather goods, Wang initiated the infringement action.¹⁴⁹

In the early stages of this action, both the Hangzhou Intermediate People’s Court (‘IPC’) and Hangzhou HPC had ruled in favour of Wang. However, when this reached the SPC, the court revoked the IPC and HPC decisions and rejected all of Wang’s claims.¹⁵⁰ In doing so, the SPC cited the good faith principle (‘诚实信用’) and held that Wang had committed an abuse of rights (‘权利滥用’).¹⁵¹ Prior to making these applications, the SPC presents the good faith principle as a fundamental standard that all market participants should adhere to and that protects both individual rights and interests and broader social and public interests.¹⁵²

¹⁴⁵ Ibid.

¹⁴⁶ Wang Suiyong also sought an injunction alleging that Shenzhen Ellassay Fashion Co Ltd has infringed the “Ge Li Si with graphic” trademark. However, by the time of the legal action, Wang’s registration of this second trademark had not been approved. Therefore, the Supreme People’s Court acknowledged that Wang had no right to seek an injunction in relation to this “Ge Li Si with graphic” trademark, without expressing saying that Wang had committed an abuse of rights in doing so. Ibid 3; 5.

¹⁴⁷ Ibid 2.

¹⁴⁸ Ibid 3.

¹⁴⁹ Ibid.

¹⁵⁰ Ibid 3–4.

¹⁵¹ Ibid 4–5.

¹⁵² Ibid 4.

In addition, the SPC discussed the good faith principle as it specifically applies to civil litigation activities.¹⁵³ In doing this, the CGC Project notes, the court used very similar language to Article 13 of China's *Civil Procedure Law* ('CPL') that reminds litigants to abide by the good faith principle when seeking to enforce their claims in Chinese courts.¹⁵⁴

Having elucidated these general principles, the SPC next provided what appears to be a formula for assessing whether a party has breached the good faith principle and abused its rights ('abuse of rights assessment formula').

This section of the guiding case states that any act that:

- 1) violates the purpose and spirit of the law ('违背法律目的和精神');
- 2) is carried out for the purpose of adversely affecting the proper rights and interests of others ('以损害他人正当权益为目的');
- 3) [results in] a malicious acquisition and exercise of rights ('恶意取得并行使权利');
- and
- 4) disrupts [the order of fair market competition] ('扰乱市场正当竞争秩序')

is an abuse of rights.¹⁵⁵

¹⁵³ Ibid 5.

¹⁵⁴ 《中华人民共和国民事诉讼法》[*Civil Procedure Law of the People's Republic of China*] (People's Republic of China), National People's Congress, Order 59, 9 April 1991 (*World Intellectual Property Organisation Trans*) art 13; '《王碎永诉深圳歌力思服饰股份有限公司、杭州银泰 世纪百货有限公司侵害商标权纠纷案》' [Wang Suiyong v Shenzhen Ellassay Fashion Co Ltd and Hangzhou Intime Century Department Store Co Ltd, A Trademark Infringement Dispute], Stanford Law School China Guiding Cases Project, English Guiding Case (EGC82), September 14, 2018 Edition, <<http://Cgc.Law.Stanford.Edu/Guiding-Cases/Guiding-Case-82>>' (n 146) fn 14.

¹⁵⁵ Note that this chapter uses an alternative translation for the Chinese phrase 扰乱市场正当竞争秩序 to that included in the English version of Guiding Case No 82 provided by Stanford Law School China Guiding Cases ('CGC') Project. Whereas the CGC Project translates this phrase as 'disrupts the fair competition order of the market', this thesis prefers to use the term 'the order of fair market competition'. '《王碎永诉深圳歌力思服饰股份有限公司、杭州银泰 世纪百货有限公司侵害商标权纠纷案》' [Wang Suiyong v Shenzhen Ellassay Fashion Co Ltd and Hangzhou Intime Century Department Store Co Ltd, A Trademark Infringement Dispute],

Accordingly, the SPC held, any claim for rights related to [that act in abuse of rights] should not be [upheld by a Chinese court].¹⁵⁶

The SPC explicitly stated that Wang had committed an abuse of rights in pursuing an infringement action against Ellassay in relation to the *Ge Li Si* trademark. Even though Wang registered the trademark for use in leather goods as distinct from Ellassay's registration for use with clothing, the court did not accept that Wang's claims to the trademark were legitimate.¹⁵⁷

In coming to this conclusion, the SPC noted that: *Ge Li Si* had no prior meaning in Chinese before Ellassay registered the trademark; that Wang's operations were geographically close to Ellassay's; and that Wang's business scope (leather goods) was close to Ellassay's (clothing).¹⁵⁸

Based on the above findings, the SPC held that Wang's registration of the *Ge Li Si* mark for leather goods could not have been coincidental or without an awareness of Ellassay's prior registration of the same trademark in the related area of clothing. Therefore, the SPC found that Wang had not registered the trademark with good intentions ('善意') and that this, together with the bringing of the infringement action amounted to an abuse of rights.¹⁵⁹

Initially, as a response to Guo Baishun's request for some good faith-related guiding cases, the release on the *Wang v Ellassay* decision seems promising. In particular, the four-part formula set out above, appears to offer lower courts a discrete test for assessing whether a party has committed an abuse of rights. A more succinct version of this formula is also included in the 'Main points of the adjudication' ('裁判要点') headnote at the beginning of the guiding case.¹⁶⁰

Stanford Law School China Guiding Cases Project, English Guiding Case (EGC82), September 14, 2018 Edition, <<http://Cgc.Law.Stanford.Edu/Guiding-Cases/Guiding-Case-82>> (n 146) 5.

¹⁵⁶ Ibid.

¹⁵⁷ Ibid 6.

¹⁵⁸ Ibid.

¹⁵⁹ Ibid.

¹⁶⁰ Ibid 1.

Yet, the guiding case does not demonstrate how the SPC applied the abuse of rights assessment formula included in the decision in any detail. Nor subsequently has any editorial comment been provided in the guiding case to explain how the formula criteria were met or should be met.

The SPC may have loosely applied the first three criterion of the formula, to find that Wang's activities violated the purpose and spirit of the law; adversely affected Ellassay's rights; and resulted in a malicious acquisition and exercise of rights. However, a finding that Wang's actions had disrupted 'the order of fair market competition' seems quite a specific determination. Nevertheless, there is no further mention of this criterion outside of the abuse of rights assessment formula and the guiding case headnote. In addition, nowhere in the guiding case is it applied to the facts of the case.

In fact, the Chinese phrase used in the above formula exactly matches that contained in Article 2 of China's *Anti-Unfair Competition Law* ('AUCL').¹⁶¹ Yet, the AUCL is not listed among the 'Related Legal Rules' that appear at the beginning of the *Wang v Ellassay* guiding case, that otherwise include Article 13 of the *CPL* and Article 52 of the *Trademark Law*.¹⁶²

Thus, while providing a decision that applies a legal standard, in answer to one of Guo's requests, the SPC has not demonstrated how this standard is to be applied.¹⁶³

¹⁶¹ The full sentence in Article 2 of the Anti-Unfair Competition Law in which the phrase is contained (appearing in italics), states:

For the purpose of this Law, unfair competition refers to any business operator's act of participating in the production and operation activities in violation of the provisions herein to disrupt the order of fair market competition and infringe the legitimate rights and interests of other business operators or consumers.

《中华人民共和国反不正当竞争法》 [*Anti-Unfair Competition Law of the People's Republic of China*] (People's Republic of China) Order No 77, 4 November 2017 (Lexis Nexis Trans) art 2.

¹⁶² 《中华人民共和国民事诉讼法》 [*Civil Procedure Law of the People's Republic of China*] (People's Republic of China), National People's Congress, Order 59, 9 April 1991 (World Intellectual Property Organisation Trans) (n 156) art 13; 《中华人民共和国商标法》 [*Trademark Law of the People's Republic of China*] (People's Republic of China), National People's Congress, 1 March 1983 art 52.

¹⁶³ 郭百顺 [Guo Baishun] (n 55) 610.

Therefore, with its proliferation of undefined and unapplied terms – including the prohibition against disrupting ‘the order of fair market competition’ – this one and only guiding case on the good faith principle and abuse of rights, simply seems to generate more questions. That being the case, its net effect is an increase in the uncertainty faced by all IP rights owners in China – including FRAND-encumbered SEP owners.

Are inadequacies of good faith applications in China otherwise being addressed?

Guo’s account of the status of the development and skill with which the good faith principle is being applied in China does suggest that SEP and patent owners generally might be right to be concerned about any initiative promoting its renewed application to their rights and assets. It seems somewhat surprising too that such a quasi-official account of the shortcomings of China’s courts should be made publicly available and that the editor of the compendium in which Guo’s paper was included was also at the time a member on the SPC bench.

Yet, beyond these issues, this thesis argues that it may be more enlightening to consider the 2014 professional and institutional reforms in Chinese courts that preceded both Guo’s 2015 commentary and the provisions of 2016 SPC judicial interpretation on SEP injunctions.

The 2016 SEP judicial interpretation, as discussed in section 3.2 of chapter five, granted Chinese courts the authority to refuse to grant an injunction to a SEP owner that had breached its FRAND duty.¹⁶⁴ This thesis suggests that the judicial reforms that were piloted in 2014 may have been implemented – in part at least – in anticipation of this new and significant judicial power. Thus, the reforms have increased the discretion and scope for decision-making permitted to judges – while also increasing the reach of the disciplinary action that could be taken against them for ‘wrongful decisions’ – including post-retirement penalties.¹⁶⁵

In this same period before the introduction of the 2016 judicial interpretation regime – discussed in section 3.2 of chapter three – specialist IP courts and tribunals were established.¹⁶⁶ These are situated in local Chinese jurisdictions and staffed with judges and

¹⁶⁴ See section 3.2 in chapter 5.

¹⁶⁵ See section 3.1.3 in chapter 3.

¹⁶⁶ See section 3.2.1 in chapter 3.

other officials already with considerable experience and expertise in IP and high technology issues.¹⁶⁷

As also noted in section 3.2.2 of chapter three, the seriousness with which Chinese policy makers regard this issue reached its apogee in late 2018, when litigants in IP cases involving high technology were granted the right to appeal directly from a first instance decision to the SPC.¹⁶⁸ Thus, the concerns about the ability of Chinese courts to competently apply the good faith principle – as discussed above by He Jing, Jacob Schlinder, Simona Novaretti and Guo Baishun – should be considered in this context.

4 Foreign courts’ response to China’s process obligations assessments

Anti-suit injunctions and global licenses are two controversial equitable remedies that US and UK courts have granted in FRAND-encumbered SEP-related disputes, respectively since 2012 and 2017.¹⁶⁹

Courts in those jurisdictions have granted a global license when a standard implementer has infringed one or more domestic FRAND-encumbered SEPs. A global license includes the FRAND licensing fees that the standard implementer owes in the jurisdiction where the infringement has occurred and the licensing fees in any other jurisdiction where the SEP owner owns a SEP from the same patent family. These SEPs for multiple jurisdictions are usually licensed in the form of a worldwide portfolio.

¹⁶⁷ Ibid.

¹⁶⁸ See section 3.2.1 in chapter 3.

¹⁶⁹ *Microsoft Corp v Motorola Inc*, 871 F Supp 2d 1089 (WD Wash, 2012); *Microsoft Corp v Motorola Inc; Motorola Mobility Inc; General Instrument Corp*, 696 F 3d 872 (9th Cir, 2012); *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27); *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018); The Supreme Court (United Kingdom of Great Britain and Northern Ireland), “Permission to Appeal Result - April 2019” (Media Release, April 2019) <<https://www.supremecourt.uk/docs/permission-to-appeal-2019-04.pdf>>; Eingestellt von Florian Mueller, ‘Supreme Court of the UK Grants Huawei’s Petition to Appeal Lower Court’s Claim to Global FRAND Jurisdiction in Unwired Planet Case’, *FOSS PATENTS* (23 April 2019) <<http://www.fosspatents.com/2019/04/supreme-court-of-uk-grants-huaweis.html>>.

An anti-suit injunction restrains a claimant from pursuing proceedings in a jurisdiction outside of that in which the anti-suit injunction application is sought.¹⁷⁰ Jorge L. Contreras explains that standard implementers have used anti-suit injunctions to prevent SEP owners from bringing injunctive actions in a foreign court before a local court can determine whether the SEP owner has complied with its FRAND commitments.¹⁷¹

As discussed below, both Contreras and Thomas F. Cotter have commented on the potentially deleterious effects that excessive applications of global licensing and anti-suit injunctions could have on the transnational licensing of FRAND-encumbered SEPs. However, the remainder of this chapter will argue that these legal actions have been particularly provocative in relation to Chinese courts. This is on account of the apparent failure of at least some of the UK and US courts applying these actions to recognise and allow for China's regulation of the process obligations of FRAND-encumbered SEP owners – as discussed in chapter five of this thesis.

4.1 Global licensing

4.1.1 Global licensing in UK courts

UP v Huawei

In 2017, a UK court in *Unwired Planet International Ltd* ('UP') *v Huawei Technologies Co Ltd* ('Huawei') granted a FRAND-encumbered SEP owner the right to demand a "global license", commensurate to its international holdings of a single SEP that had been locally infringed.¹⁷²

Having determined that Huawei had infringed two of UP's SEPs, the Patent Court of the

¹⁷⁰ Richard Fentiman, 'Chapter A.12: Anti-Suit Injunctions' in Jürgen Basedow and Giesela Rühl (eds), *Encyclopedia of Private International Law* (Edward Elgar Publishing, 2017) 79, 79 <https://www.elgaronline.com/view/nlm-book/9781782547228/b-9781782547235-A_12.xml> ('Chapter A.12').

¹⁷¹ Jorge L Contreras, *The New Extraterritoriality: FRAND Royalties, Anti-Suit Injunctions and the Global Race To The Bottom In Disputes Over Standards-Essential Patents* (Research Paper No 306, University of Utah, 2019) 12–13 <<https://ssrn.com/abstract=3339378>>.

¹⁷² *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27).

England and Wales High Court (‘EWHC’) determined that the SEP owner’s offer of a worldwide license, as opposed to a UK only license, was FRAND.¹⁷³

The EWHC held that UP’s offer of a worldwide license was FRAND, based on industry practice and the nature of the parties involved.¹⁷⁴ The court observed that ‘the vast majority’ of SEP licenses in the telecommunications equipment industry were offered on a worldwide basis.¹⁷⁵ It also noted that both UP and Huawei were global operators – with UP holding patents issued in forty-two jurisdictions while Huawei had a presence in fifty-one countries.¹⁷⁶

The EWHC therefore concluded that such ‘a licensor and licensee acting reasonably and on a willing basis would agree on a worldwide licensee’.¹⁷⁷ Furthermore, it held that for UP to undertake licensing its SEP on a country-by-country basis would be ‘madness’ and accordingly, a UK-only license was not FRAND and Huawei’s insistence on this alternative made it an unwilling licensee.¹⁷⁸

Huawei appealed the EWHC decision, however the England and Wales Court of Appeal (‘EWCA’) upheld the majority of the findings of the EWHC in late 2018.¹⁷⁹ On April 2019, the UK Supreme Court granted Huawei the right to appeal the EWCA decision.¹⁸⁰ The Supreme Court is not expected to consider the case until 2020.¹⁸¹

¹⁷³ The England and Wales High Court held that Unwired Planet International Ltd (‘UP’) had successfully established that Huawei Technologies Co Ltd (‘Huawei’) had infringed two of UP’s valid patents: EP (UK) 2 229 744 and EP (UK) 1 230 818. Ibid [807](18).

¹⁷⁴ Ibid [572].

¹⁷⁵ Ibid [534].

¹⁷⁶ Ibid [538].

¹⁷⁷ Ibid [543].

¹⁷⁸ Ibid; *ibid* [572].

¹⁷⁹ *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018) (n 171).

¹⁸⁰ The Supreme Court (United Kingdom of Great Britain and Northern Ireland) (n 171).

¹⁸¹ Ibid; Mueller, ‘Supreme Court of the UK Grants Huawei’s Petition to Appeal Lower Court’s Claim to Global FRAND Jurisdiction in Unwired Planet Case’ (n 171).

Also in 2017, closely following UP's first instance success, another SEP owner initiated an injunctive action in the EWHC, seeking the awarding of a global license as a result of the infringement of four of its UK-registered FRAND-encumbered SEPs.¹⁸²

Conversant v Huawei and ZTE

In its 2018 decision in *Conversant Wireless Licensing SARL* ('Conversant') v *Huawei Technologies Co Ltd* ('Huawei') and *ZTE (UK) Ltd* ('ZTE'), the EWHC granted global licenses to the SEP owner, Conversant against both Huawei and ZTE.¹⁸³ The Chinese firms appealed the decision to the EWCA and, in January 2019, that court upheld the first instance decision in favour of Conversant.¹⁸⁴ In April 2019, both Huawei and ZTE were granted the right to appeal this decision to the Supreme Court, where their arguments are likely to be heard together with Huawei's appeal in the *UP v Huawei* case.¹⁸⁵

4.1.2 Global licensing in US courts

TCL v Ericsson

Also in 2017, the first global license was issued in the US, after the Chinese firm, *TCL Communications Technology Holdings Ltd* ('TCL') was held to have infringed two FRAND-encumbered SEPs owned by Swedish firm, *Telefonaktiebolaget LM Ericsson* ('Ericsson').¹⁸⁶ However, in this decision of the US District Court for the Central District of California ('California central district court'), the standard implementer, TCL had agreed to accept a

¹⁸² *Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors* [2018] EWHC 2549 (Ch) (2 October 2018) [7].

¹⁸³ *Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors* [2018] EWHC 2549 (Ch) (2 October 2018) (n 184).

¹⁸⁴ *Huawei Technologies Co, Ltd v Conversant Wireless Licensing SARL* [2019] EWCA Civ 38 (30 January 2019).

¹⁸⁵ The Supreme Court (United Kingdom of Great Britain and Northern Ireland) (n 171).

¹⁸⁶ *Telefonaktiebolaget LM Ericsson established that TCL Communications Technology Holdings Ltd had infringed its US patents '506 and '566. TCL Communications Technology Holdings Ltd v Telefonaktiebolaget LM Ericsson*, Case No SACV 14-0341 JVS (ANx) (CD Cal, 29 June 2015) 16; *TCL Communications Technology Holdings Ltd v Telefonaktiebolaget LM Ericsson*, Case No 8:14-cv-00341-JVS-DFM (CD Cal, 8 November, 2017).

global license and did not seek a US-only offer for the licensing of the two infringed SEPs.¹⁸⁷ This is distinct from the above UK decisions, as noted in the case of *UP v Huawei*, where the standard implementers were held to be unwilling licensees for having refused to take up a global license.¹⁸⁸

Optis v Huawei

In another US case, *Optis Wireless Technology LLC* ('Optis') *v Huawei Technologies Co Ltd* ('Huawei') that concluded in March 2019, the US District Court for the Eastern District of Texas ('Texas eastern district court') refused to grant a license in relation to FRAND-encumbered SEPs outside the US.¹⁸⁹

In the action, Optis and its associated companies (referred to collectively under the name of their holding company, PanOptis Patent Management ('PanOptis')) had alleged that Huawei had infringed five of its US patents.¹⁹⁰ Accordingly, PanOptis requested that the Texas court declare its global licensing offer to Huawei to be FRAND.¹⁹¹ This global license included all

¹⁸⁷ *TCL Communications Technology Holdings Ltd v Telefonaktiebolaget LM Ericsson*, Case No SACV 14-0341 JVS (ANx) (CD Cal, 29 June 2015) (n 188) slip op 10-11. Note that on appeal, this decision was vacated in part, reversed in part, and remanded and so is now effectively void: *TCL Communications Technology Holdings Ltd v Telefonaktiebolaget LM Ericsson*, No. 18-1363 (CAFC, 5 December 2019).

¹⁸⁸ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27) [807](18).

¹⁸⁹ *Optis Wireless Technology LLC v Huawei Technologies Co Ltd* (Memorandum Opinion and Findings of Fact and Conclusions of Law) [2019] ED Tex MD 2:17-CV-00123-JRG, Finding of Fact No 6 [FF6]. Jorge L. Contreras notes that Optis Wireless Technology LLC is one of a group of entities held by PanOptis Patent Management LLC, that is itself wholly-owned by a holding firm, Inception Holdings LLC. This same holding firm also controls Unwired Planet International Ltd that the England and Wales High Court issued with the first global license in 2017. Contreras (n 124) fn 15. Also see Richard Lloyd, 'Avanci and PanOptis Come under Auspices of Single Holding Group; New Platforms Planned', IAM Blog (20 February 2017) <<https://www.iam-media.com/frandseps/avanci-and-panoptis-come-under-auspices-single-holding-group-new-platforms-planned>>.

¹⁹⁰ US Patent Nos 7,769,238; 6,604,216; 8,385,284; 8,208,569; and 8,437,293. Gilstrap (n 191) [Finding of Fact (FF) 3].

¹⁹¹ *Ibid* [Finding of Fact (FF) 4].

of the patents that PanOptis held worldwide that belonged to the same patent family as to the five US patents that Huawei had allegedly infringed.¹⁹²

However, during the course of its proceedings in 2018, the Texas court accepted Huawei's motion arguing that any such finding concerning PanOptis' licensing offer must exclude any reference to the patents held by PanOptis outside the US.¹⁹³ In excluding these non-US SEPs from its determination, the court cited Federal Circuit precedent holding that US courts should be prohibited from assuming supplemental jurisdiction over foreign patent infringement claims.¹⁹⁴ Nonetheless, Cotter cited criticism of this Federal Circuit precedent as having misinterpreted the US government's international treaty obligations.¹⁹⁵

4.1.3 No allowance made for diverse process obligations regimes

The first and second instance decisions in *UP v Huawei* both commented extensively on the issue of comity, responding to Huawei's arguments that the issuing of a global license would violate this principle by making determinations relating to patents issued outside of the UK.

In answer, both courts asserted that issues relating to patent rights and their usage – such as determinations as to their validity and infringement – remained matters for the exclusive determination of the domestic jurisdiction in which the patent is registered.

As the EWCA explained,

¹⁹² Ibid.

¹⁹³ Ibid Finding of Fact No 6 [FF6].

¹⁹⁴ *Optis Wireless Technology LLC v Huawei Technologies Co Ltd* (Report and Recommendation of Magistrate) [2018] ED Tex MD 2:17-cv-00123-JRG-RSP, slip op 7.

¹⁹⁵ Citing the comments of Jorge Contreras, Thomas F. Cotter refers to work by Graeme Dinwoodie on 2007 Court of Appeals for the Federal Circuit decision in *Voda v Cordis Corp*. *Voda v Cordis Corp* (2007) 476 F 3d 887, 898–903; Graeme Dinwoodie, 'Developing a Private International Intellectual Property Law: The Demise of Territoriality?' (2009) 51 *William and Mary Law Review* 711, 757; Thomas F Cotter, 'Burdon on Global FRAND Rate-Setting', *Comparative Patent Remedies* (22 February 2019) <<https://comparativepatentremedies.blogspot.com/2019/02/burdon-on-global-frand-rate-setting.html>> ('Burdon on Global FRAND Rate-Setting').

a UK SEP has limited territorial scope If a UK SEP is found valid and infringed, a UK court will only ...grant an injunction to restrain infringement of [that] SEP in issue in the proceedings.¹⁹⁶

Distinct from this, the appeal court claimed, the making of a FRAND commitment has an international effect that:

applies to all patents which belong to the same [patent] family irrespective of the territory in which they subsist.¹⁹⁷

Thus, the *UP v Huawei* courts presented the legal rights and attributes of domestically-registered patents as wholly separate from the FRAND licensing obligations that attached to the entire patent family on account of the commitments made to a SSO.

Therefore, in responding to Huawei's claims that the court's global licensing determination would prejudice the Chinese firm's challenge to the validity of SEPs registered in Germany, the EWHC claimed:

If a worldwide licence is FRAND then requiring Huawei to take and pay for [a worldwide licence] would not amount to determining questions of validity in relation to which courts of other Member States have exclusive jurisdiction¹⁹⁸

Thus, these UK courts suggest that that determinations governed by domestic law can be cleanly distinguished from those governed by transnational FRAND commitments. Those determinations concerned with rights attached to the patent locally registered is a domestic law concern. In contrast, those determinations concerned with the FRAND commitments attached to a patent's patent family, are transnational issue that is not exclusive to the decision of any one domestic jurisdiction.

¹⁹⁶ *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018) (n 171) [52].

¹⁹⁷ *Ibid.*

¹⁹⁸ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27) [567].

However, this view overlooks the complicating factor of the different process obligations that apply in different jurisdictions – as represented in Table 2 at the end of this chapter. As discussed throughout this thesis, a SEP owner’s international FRAND commitments impose process obligations that affect its ability to obtain an injunction under domestic law. While most jurisdictions examined in this thesis claim that these process obligations emanate from the SEP owner’s international FRAND commitment, as demonstrated in chapters five and six, the content of these obligations draw heavily on their domestic law.

In *UP v Huawei*, the second instance court corrected the court of first instance in affirming that the FRAND licensing rate that a SEP owner and standard implementer could agree on, could be drawn from a range of FRAND values.¹⁹⁹ In the first instance judgment, the court had proposed that only one value might be FRAND, to avoid having to determine whether the standard implementer should be obliged to pay a global license or a single-jurisdiction license if both held to be FRAND.²⁰⁰

As noted above, other factors – such as industry practice and the greater efficiency of a global license – favoured the designation by the first instance *UP v Huawei* court of the global license as the license owing. Nonetheless, in affirming the FRAND rate as a range of values, the second instance court also drew attention to why all six of the jurisdictions examined in this thesis have adopted process obligations for SEP owners. This is because these jurisdictions acknowledge – admittedly to varying degrees – that, even subject to the obligation to offer licensing on FRAND terms – SEP owners can manipulate the negotiations process to ensure that they obtain royalties at the top of the FRAND range.

Thus, the obligation on SEP owners in the EU to specify the identity and means of infringement of any SEP allegedly infringed has no other purpose than to stop them withholding this information to elicit higher fees from standard implementers.²⁰¹ The requirement that these FRAND-encumbered SEP owners disclose their method of calculating

¹⁹⁹ *Huawei Technologies Co, Ltd v Conversant Wireless Licensing SARL* [2019] EWCA Civ 38 (30 January 2019) (n 186) [124-127].

²⁰⁰ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27) [150-159].

²⁰¹ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1) [61].

the royalty rate that they are proposing for the licensing of the relevant SEP, can only be intended to have a similar effect.²⁰²

At the same time, this choice of process obligations for FRAND-encumbered SEP owners in the EU is specific to that jurisdiction. As demonstrated in Table 2, each of the other five jurisdictions apply a different – and, in most cases, more expanded – set of the process obligations to counter possible SEP owner manipulations of the licensing negotiations process.

Therefore, in assessing the injunction applications of *UP* and *Conversant* SEP owners only against the process obligations imposed in the EU, the UK courts in effect, denied the standard implementer the higher process obligation protections available in these other jurisdictions.

It may seem difficult to account for the loss in bargaining power and the increase in royalties that a standard implementer incurs as a result of global licensing not factoring these differences in process obligations between jurisdictions.

However, the “*Vringo* problem” demonstrates how a global license can impose a tangible increase in licensing fees of standard implementers when it neglects to factor into its calculations the differences between jurisdictions’ process obligations.

The presiding judge in the first instance hearing of the *UP v Huawei* case in 2017, had also been the decision-maker in two actions, *Vringo Infrastructure Inc* (‘*Vringo*’) *v ZTE (UK) Ltd* (‘*ZTE*’) that came before the EWHC in 2013 and 2015.²⁰³ In those earlier cases, both the SEP owner and standard implementer had proposed what could be a FRAND licensing fee.

However, the SEP owner’s offer related to its worldwide portfolio containing the relevant SEP, whereas the standard implementer limited its counter-offer to a licensing of the SEP in a single jurisdiction.²⁰⁴

²⁰² Ibid [63].

²⁰³ *Vringo Infrastructure Inc v ZTE (UK) Ltd* [2013] EWHC (Pat) 1591 (6 June 2013); *Vringo Infrastructure Inc v ZTE (UK) Ltd* [2015] EWHC (Pat) 214 (30 January 2015).

²⁰⁴ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27) [149].

In the *Vringo v ZTE* cases, the court expressed the concern that obliging a standard implementer to enter into a global license under the threat of a domestic injunction may amount to ‘international coercion’.²⁰⁵ However, returning to the issue in the first instance of the *UP v Huawei*, the judge proposed to resolve the dilemma of which was the right FRAND licensing fee payable by determining that only one value can be FRAND and that the global licensing rate in this context was the most appropriate.²⁰⁶

Yet, as noted above, the second instance court in the *UP v Huawei* case rejected the first instance court’s proposal that the FRAND licensing rate be understood as a single value and reinstated the view that the FRAND rate was a range of values.²⁰⁷

Nevertheless, having done so, the second instance court in *UP v Huawei* did not grapple with the *Vringo* problem to justify why a SEP owner’s FRAND worldwide offer should be supported over a standard implementer’s FRAND single jurisdiction counter-offer.²⁰⁸ Instead, as lawyer Michael Burdon has noted, the court simply stated that the former’s global license should prevail.²⁰⁹

Therefore, the lesson that Burdon draws from the *UP v Huawei* decision is that:

The [standard implementer] will only escape an injunction by entering into a licence on the [SEP owner’s] FRAND terms. The [implementer] will not escape [an injunction] by agreeing to enter into a licence on the implementor’s own proposed FRAND terms.²¹⁰

Cotter understands Burdon as suggesting here that where both a SEP owner and standard implementer make FRAND offers:

²⁰⁵ *Vringo Infrastructure Inc v ZTE (UK) Ltd* [2015] EWHC (Pat) 214 (30 January 2015) (n 205) [109].

²⁰⁶ *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27) [150-156].

²⁰⁷ *Huawei Technologies Co Ltd v Unwired Planet International Ltd* [2018] EWCA Civ 2344 (23 October 2018) (n 171) [124-127].

²⁰⁸ Michael Burdon, ‘Britannia Rules on SEPs – But Is It FRAND?’, The IPKat (21 February 2019) <<http://ipkitten.blogspot.com/2019/02/britannia-rules-on-seps-but-is-it-frand.html>>.

²⁰⁹ Ibid.

²¹⁰ Ibid.

the [SEP owner's] offer effectively controls, because if the implementer refuses the offer it stands to be either (1) enjoined from selling infringing products in the [UK]; or (2) coerced into taking a global license.²¹¹

Nonetheless, Cotter makes the point that in *UP v Huawei*, the court itself ultimately set the terms of the global license that should apply, rather than allowing the SEP owner to unilaterally determine these.²¹²

Even so, Cotter recognises that the *Vringo* problem – presents ‘a thorny question’:

If both offer and counteroffer are FRAND, is the appropriate response to have a court or other third party decide on the terms of a FRAND license (global or otherwise), or must the implementer accept the [SEP owner's] terms?²¹³

While sensing that the latter option cannot be right, Cotter was unable to suggest a legal reason why that outcome should not apply.²¹⁴

Instead, Cotter proposes that courts refuse global licensing requests by applying the *forum non conveniens* doctrine.²¹⁵ However, in its second instance decision in *Conversant*, the EWCA had already rejected the doctrine's application to the set of facts that had given rise to the global licensing remedy in the UK.²¹⁶

Nonetheless, in four of the six jurisdictions examined in this thesis, standard implementers would not be obliged to agree to terms – globally-applying or otherwise – that a FRAND-encumbered SEP owner had unilaterally determined. Where licensing terms had been determined in this way, no injunction would be granted in South Korea, Japan, China – nor in the Netherlands before 2015 – thereby requiring standard implementers to pay such rates.

²¹¹ Cotter (n 197).

²¹² Ibid.

²¹³ Ibid.

²¹⁴ Ibid.

²¹⁵ Ibid.

²¹⁶ *Huawei Technologies Co, Ltd v Conversant Wireless Licensing SARL* [2019] EWCA Civ 38 (30 January 2019) (n 186) [36].

In the early South Korean and Japanese judicial cases in 2012 and 2014, the failure of FRAND-encumbered SEP owners to respond to the counter-offers of standard implementers was established as strong grounds for the denial of their injunction claims.²¹⁷

Perhaps the most extended application of this obligation on FRAND-encumbered SEP owners to practise and permit active negotiation, has been the 2017 KFTC *Qualcomm* determination.²¹⁸ As discussed in section 3.4.3 of chapter six, a charge that the KFTC repeatedly made against Qualcomm was that its licensing practices had denied its customers the right to good faith negotiation. Instead, Qualcomm had been free to unilaterally determine the licensing terms that should apply. Thus, the KFTC condemned Qualcomm's "no license-no chips" policy because it forced its customers:

to accept [the SEP owner's] unilateral demands, without having the opportunity to sufficiently present their arguments or to hold fair negotiations on an equal footing.²¹⁹

In section 4.3.2 of chapter five of this thesis, it was argued that the attempt of the SEP owner in the *Huawei v IDC* case to impose non-negotiable terms on the standard implementer, was instrumental to the finding that the SEP owner had breached its FRAND duty.²²⁰ These terms breached the SEP owner's FRAND duty because they inhibited the standard implementer's

²¹⁷ 《서울중앙지법》 삼성과 애플 특허소송 판결문》 [*Samsung Electronics Co, Ltd v Apple Korea Ltd, Patent Litigation Judgment*], 서울중앙지방법원 제11민사부 [*Seoul Central District Court Civil Division No 11*], 2011 가합 39552 [2011 Civil trial panel 39552], 24 August 2012 [trans Supreme Court Library of Korea, 2012] (n 12) 178; 《アップルジャパン株式会社対三星電子株式会社 - 債務不存在確認請求控訴事件等》 [*Apple Japan v Samsung Electronics Co Ltd - Appeal Case Seeking Declaratory Judgment of Absence of Obligations*], 知的財産高等裁判所 特別部 [*Intellectual Property High Court of Japan, State of Japan*], (ネ)第10043号 [2013 Civil Case No 10043], 16 May 2014 (n 12) 126.

²¹⁸ 퀄컴의 시장지배적지위남용 행위 등에 대한 건 [*In re Alleged Abuse of Market Dominance of Qualcomm Inc*], Korea Fair Trade Commission, 2015 시감 2118, 의결 2017-025 [2015 Sigam 2118, Decision No 2017-025], 20 January 2017 (n 14).

²¹⁹ Ibid [396].

²²⁰ See section 4.3.2 in chapter 5.

ability to act voluntarily in its own interests and instead would have permitted the SEP owner to unilaterally determine the terms of the licensing agreement.

Critically, it seems that injunctions would be denied in these jurisdictions, even if it was established that the unilaterally determined licensing rate was within the FRAND range. This is demonstrated by the fact that courts and agencies within these jurisdictions have separately assessed this obligation on SEP owners to practise and permit active negotiation from their obligation to offer FRAND licensing rates.

Thus, in the 2014 KFTC *Samsung* Determination, despite having established that the licensing fees that Samsung had offered were FRAND, the KFTC nevertheless assessed whether the SEP owner had negotiated in good faith.²²¹ In the 2012 *Apple v Samsung* decision, The Hague District Court refused to assess the SEP owner's licensing offers before denying its injunction application, on account of its bad faith conduct.²²² As contemporary commentators explained, the SEP owner's refusal to respond to counter-offers – that would have allowed it to unilaterally determine the SEP licensing fees – 'to a great extent' determined the outcome of those proceedings.²²³

²²¹ Because at the end of its investigation the Korea Fair Trade Commission ('KFTC') decided not to prosecute the standard-essential patent ('SEP') owner, Samsung it did not issue a formal statement of its reasoning. However, in a 2014 report to the Organisation for Economic Co-operation and Development ('OECD'), the South Korean government gave an account of the KFTC's reasoning:

[T]he KFTC concluded that it was hard to hold that Samsung was not [acting in good faith] in negotiations. More specifically, the KFTC reflected the facts that Samsung Electronics offered various terms and conditions of licensing to Apple before and after filing a lawsuit and continued substantive negotiations in order to remove the gap in the royalty rates proposed by Apple in its conclusion. Furthermore, the KFTC concluded that it was hard to hold that the royalty rates offered by Samsung were excessive in breach of FRAND terms ...

Intellectual Property and Standard Setting – Note by [South] Korea, Item VII of the 122nd Meeting of Competition Committee on 17-18 December 2014, DAF/COMP/WD(2014)115, 20 November 2014 [23] <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD\(2014\)115&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD(2014)115&doclanguage=en)>.

²²² Kuipers, Groenevelt and Lamme (n 12) 228.

²²³ Ibid.

It could also be argued that the 2017-18 Beijing and Guangdong HPC guidelines express a similar view.²²⁴ Both sets of guidelines prohibit SEP owners from hindering or discontinuing negotiations without reasonable grounds. Neither referred to this obligation as not applying when negotiations are within the FRAND rate range.

Therefore, if UK law's answer to the *Vringo* problem is that SEP owners can unilaterally determine the licensing rates for a global license, then the fees for any SEPs held in South Korea, Japan and China should be excluded from the worldwide portfolio. If this is not done, standard implementers would incur unilaterally-determined royalty rates at the top of the FRAND range, that SEP owners would be prohibited from imposing in these East Asian jurisdictions.

4.2 Anti-suit Injunctions

As noted above, in SEP-related litigation, anti-suit injunctions have most often been used by standard implementers attempting to stop SEP owners seeking injunctive action in a foreign jurisdiction before they can challenge its FRAND compliance locally.²²⁵

4.2.1 UK anti-suit test

In the 2018 EWHC decision in *Conversant v Huawei and ZTE*, the first instance court cited the UK case law principles to be considered when assessing an application for the granting of an anti-suit injunction.²²⁶ The court explains that these principles are drawn from two decisions and summarised in a third.²²⁷

²²⁴ 《专利侵权判定指南》[Guidelines for Patent Infringement Determination] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 4); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.lprdaily.Cn/Article_18855.Html> (n 4).

²²⁵ Fentiman (n 172) 79; Contreras (n 173) 12–13.

²²⁶ *Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors* [2018] EWHC 2549 (Ch) (2 October 2018) (n 184) [24].

²²⁷ *Aerospatiale v Lee Kui Jak* [1987] AC 871; *Airbus v Patel* [1999] 1 AC 119 at 133–140; *Deutsche Bank AG v Highland Crusader Offshore Partners LP* [2010] 1 WLR 1023; [2009] EWCA Civ 725 (13 July 2009) at [50];

This summary of the case law explains that UK law requires a party seeking an anti-suit injunction to prove that it would be ‘vexatious’ or ‘oppressive’ for the relevant proceedings to be initiated or continued before a foreign court.²²⁸ To do this, the applicant must show that the UK is ‘clearly the more appropriate forum (“the natural forum”)’ for the matter and that ‘justice requires’ that the other party be restrained from proceeding in the foreign court.²²⁹

The court hearing the application also has to consider the issue of comity.²³⁰ If the disputing parties have previously agreed that UK law will have exclusive jurisdiction over their interactions, the summary states that an anti-suit injunction enforcing this should not be regarded as a breach of comity.²³¹

Otherwise, unless the foreign court proceedings would amount to ‘a breach of customary international law’ or be ‘manifestly unjust’, a UK court should not ‘arrogate to itself ... how a foreign court should determine the matter.’²³² Specifically, the summary states that UK courts should not necessarily regard the instigation of parallel proceedings in another jurisdiction, as vexatious or oppressive, and so being grounds for an anti-suit injunction.²³³

Finally, the summary affirms that anti-suit injunctions are only granted on a discretionary basis and that the above principles will be applied with ‘an element of flexibility’.²³⁴ Contreras and Michael A. Eixenberger, in their comparison of US and UK anti-suit

Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors [2018] EWHC 2549 (Ch) (2 October 2018) (n 184) [25].

²²⁸ *Deutsche Bank AG v Highland Crusader Offshore Partners LP* [2010] 1 WLR 1023; [2009] EWCA Civ 725 (13 July 2009) at [50] (n 229) (2).

²²⁹ *Ibid* (3)(a) & (b).

²³⁰ *Ibid* (4).

²³¹ *Ibid* (5).

²³² *Ibid*.

²³³ *Ibid* (6).

²³⁴ *Ibid* (8).

injunctions, likewise note that UK courts treat the assessment of such applications as a ‘highly fact intensive’ process.²³⁵

4.2.2 US anti-suit test

In the case of US anti-suit injunctions, Contreras and Eixenberger note that there is some variation in the tests that different US federal court circuits choose to apply.²³⁶ Nonetheless, as Contreras separately explains, all of these approaches are broadly consistent with the three-part framework that the US Court of Appeals for the Ninth Circuit (‘Ninth Circuit’) applied in its 2006 *E & J Gallo Winery v Andina Licores SA* (‘*Gallo*’) decision.²³⁷

The first part of the *Gallo* test requires US courts to determine whether the parties and the issues involved in the US litigation and the foreign litigation are ‘functionally equivalent’.²³⁸

If this is so, the second part of the test directs US courts to assess whether any of the four factors identified in the 1970 *In re Unterweser Reederei* (‘*Unterweser*’) decision apply.²³⁹

This requires courts to determine whether the relevant foreign litigation would:

- (1) frustrate a policy of the forum issuing the injunction;
- (2) be vexatious or oppressive;

²³⁵ Jorge L Contreras and Michael A Eixenberger, ‘The Anti-Suit Injunction – A Transnational Remedy for Multi-Jurisdictional SEP Litigation’ in Jorge L Contreras (ed), *The Cambridge Handbook of Technical Standardization Law* (Cambridge University Press, 1st ed, 2017) 451, 455
<https://www.cambridge.org/core/product/identifier/9781316416723%23CN-bp-27/type/book_part>.

²³⁶ Ibid 453–454.

²³⁷ *E & J Gallo Winery v Andina Licores SA* 446 F 3d 984 (9th Cir. 2006); Contreras (n 173) 13.

²³⁸ *Applied Medical Distribution Corp v Surgical Co* 587 F 3d 909, 914. Contreras explains that ‘functionally equivalent’ parties include members of the same corporate entity, whether or not they share the same jurisdiction. Whether local and foreign actions share functionally equivalent issues depends on whether ‘all the issues in the foreign action can be resolved in the local action.’ *Microsoft Corp v Motorola Inc*; *Motorola Mobility Inc*; *General Instrument Corp*, 696 F 3d 872 (9th Cir, 2012) 882–883 (‘*Microsoft v Motorola* (9th Cir, 2012)’); Contreras (n 124) fn 78. However, the issues ‘need not be “precisely and verbally identical”, as “the verbal form of laws in different countries will inevitably differ.”’ Id. Contreras (n 124) fn 78. Also see *Applied Medical Distribution Corp v Surgical Co* 915; Contreras (n 124) fn 78.

²³⁹ *In re Unterweser Reederei GMBH* (1970) 428 F 2d 888, 896 (‘*Unterweser*’); Contreras (n 173) 13.

(3) threaten the issuing court's *in rem* or *quasi in rem* jurisdiction;²⁴⁰ or

(4) prejudice other equitable considerations.²⁴¹

Policies of the forum or court were listed as those avoiding 'inconsistent judgments, forum shopping and engaging in duplicative and vexatious litigation' by the Washington state district court in its 2012 *Motorola v Microsoft* decision.²⁴²

If any of the above *Unterweser* factors apply, the second part of the *Gallo* test is satisfied.²⁴³

The third and final part of the test requires US courts to determine whether applying an anti-suit injunction will have a significant impact on international comity.²⁴⁴ The Ninth Circuit in the *Gallo* decision defined comity as:

the recognition which one nation allows within its territory to the legislative, executive or judicial acts of another nation, having due regard both to international duty and convenience, and to the rights of its own citizens, or of other persons who are under the protection of its laws.²⁴⁵

²⁴⁰ Ralf Michaels notes that jurisdiction *in rem* originally had the meaning of 'jurisdiction over a thing' referring to a court's power over property in the territory of its jurisdiction. However, Michaels explains that now 'in rem jurisdiction is also understood ultimately to be jurisdiction over a person; the presence of the thing merely provides the basis for the jurisdiction.' Stephen C. Yeazell clarifies that a court will use its quasi *in rem* jurisdiction 'when jurisdiction over the defendant is unobtainable due to their absence from the state.' Ralf Michaels, 'Chapter J.2: Jurisdiction, Foundations' in Jürgen Basedow et al (eds), *Encyclopedia of Private International Law* (Edward Elgar Publishing, 2017) 1042, 1042 <https://www.elgaronline.com/view/nlm-book/9781782547228/b-9781782547235-J_2.xml> ('Chapter J.2'); Stephen C Yeazell, *Civil Procedure* (Aspen Publishers, 2008) 85.

²⁴¹ *E & J Gallo Winery v Andina Licores SA* (n 239) 990; Contreras (n 173) 13.

²⁴² The quoted text from the *Microsoft v Motorola* decision was also included in discussion of the policy considerations of the *Unterweser* factors in the 2018 Californian North District Court decision in *Huawei v Samsung*. *Microsoft Corp v Motorola Inc*, 871 F Supp 2d 1089 (WD Wash, 2012) (n 171) 1100; *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op 17.

²⁴³ *E & J Gallo Winery v Andina Licores SA* (n 239) 990; Contreras (n 173) 13.

²⁴⁴ *In re Unterweser Reederei GMBH, Unterweser* (n 241) 881; Contreras (n 173) 13.

²⁴⁵ *E & J Gallo Winery v Andina Licores SA* (n 239) 994; Contreras (n 173) 13.

4.2.3 Anti-suit injunctions in UK courts

Conversant v Huawei and ZTE

UK courts are yet to grant an anti-suit injunction in a case involving FRAND-encumbered SEPs. However, in the first instance hearing of the *Conversant v Huawei and ZTE* case, the EWHC stated that, had ZTE not amended its pleadings in proceedings against Conversant in a Chinese court, it would have issued an anti-suit injunction against these.²⁴⁶

The sections of the pleadings that ZTE agreed to remove from its Chinese pleadings, referred to as ZTE's 'Targeted Claims', were stated in the judgment to include:

- a) most of Prayer for Relief §1 that consisted of 'a declaration that licence offers made by Conversant violated the FRAND principle';
- b) all of Prayer for Relief §2 that sought 'an injunction restraining Conversant from "unfair, unreasonable, discriminatory overpricing and other acts which are in violation of the FRAND principle"'. The other acts that ZTE claimed violated the FRAND principle comprised of the 'bringing the English proceedings; Conversant's conduct in licensing negotiations; and [the EWHC assumed] Conservant's reliance on any licence settled by [the EWHC]'; and
- c) text in Section VII of the pleadings in which ZTE 'sought a finding of "liability" in respect of Conversant's acts, including the acts of bringing the English Proceedings and requesting the English court to make a global FRAND determination; Conversant's conduct in licensing negotiations; and, [the EWHC assumed] reliance on any licence settled by the [EWHC]'.²⁴⁷

The first instance *Conversant* court held that the above deleted pleadings were:

vexatious, in that they sought to obstruct, or could have had the effect of obstructing, pending proceedings before the English court; or of

²⁴⁶ *Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors* [2018] EWHC 2549 (Ch) (2 October 2018) (n 184) [24].

²⁴⁷ Ibid [12]; [18].

undermining or frustrating the performance of a judgment given by the English court.²⁴⁸

Most likely because it did not apply an anti-suit injunction after the above sections were deleted from the pleadings, the court did not set out its reasoning on this issue in any further detail. For example, the court did not discuss why a UK court might be the most appropriate forum for the case.²⁴⁹ Nor did it state that its reasoning was a direct response to the second element of the test cited above, that ‘justice required’ that ZTE be restrained from proceedings with its action in the Chinese court on its unamended grounds, or to the issue of comity.

However, at least the claims of the most appropriate forum and as to what justice required, are not essential elements for finding that a foreign action is vexatious or oppressive. Past authorities on the granting of anti-suit injunctions in the UK have emphasised that what amounts to a vexatious or oppressive foreign action can ‘vary with the circumstances of each case’.²⁵⁰ Even so, it would be helpful to better understand the court’s determination in regard to the unamended Targeted Claims sections of ZTE’s pleading with the Chinese court.²⁵¹ This is especially the case as the sections of the ZTE pleadings held to be ‘vexatious’, appear to correspond to the claims that a standard implementer would be expected to make against a FRAND-encumbered SEP owner allegedly in breach of its process obligations. In relation to

²⁴⁸ Ibid [24].

²⁴⁹ See above section 4.2.1.

²⁵⁰ Ibid.

²⁵¹ An attempt was made in the research for this thesis to gain a copy of ZTE unamended pleadings from ZTE’s representatives in the *Conversant v Huawei and ZTE* case. The reason that Bristows LLP gave for not providing a copy of the unamended ZTE pleadings was that they were subject to 31.22 order, under the Disclosure and Inspection of Documents procedural rules of UK courts restricting the disclosure of documents only for the purposes of ongoing proceedings. Huawei and ZTE have been granted leave to appeal to the UK Supreme Court. This hearing is not expected to begin until late 2019. ‘Bristows LLP - Bristows Contact Form’ Letter from Nalisha Patel, 12 April 2019; Ministry of Justice (United Kingdom)), ‘PART 31 - DISCLOSURE AND INSPECTION OF DOCUMENTS <<https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part31#31.22>>’; Eingestellt von Florian Mueller, ‘Supreme Court of the UK Grants Huawei’s Petition to Appeal Lower Court’s Claim to Global FRAND Jurisdiction in Unwired Planet Case’, FOSS PATENTS, 23 April 2019 <<http://www.fosspatents.com/2019/04/supreme-court-of-uk-grants-huaweis.html>>.

the allegations regarding Conversant's negotiations conduct and its incurring of liability for this, these claims could be made and potentially sustained under EU law, as they could under Chinese law.

As discussed in section 6.1 of chapter six of this thesis and above in this chapter, the 2015 *Huawei v ZTE* decision of the CJEU imposed process obligations on FRAND-encumbered SEP owners for which there are liabilities under EU competition law. Likewise, as discussed in chapter five, SEP owners in China are subject to process obligations relating to their behaviour in licensing negotiations.

In the EU, in addition to being denied an injunction, SEP owners in China can also incur liability under the competition law as an abuse of their market dominance.²⁵² Under Chinese law, injured parties can seek private action for damages pursuant to such a finding.²⁵³ Similarly, ZTE's claims against Conversant for excessive pricing are consistent with China's prohibition against the imposing of unfairly high prices under the AML.²⁵⁴

Therefore, it is difficult to see why the claims in ZTE's Targeted Claims would be seen as obstructing the UK *Conversant* proceedings and undermining or frustrating its judgment to the extent that they are consistent with Chinese law – and by analogy – EU law.

The claims against Conversant for requesting 'a global FRAND determination' and for its reliance on any license settled by the UK court do seem to be a potentially oppressive

²⁵² *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1) [60]; 《关于审理标准必要专利纠纷案件的工作指引（试行）》 [Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4) Art 29.

²⁵³ 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 23) Art 50; 《关于审理因垄断行为引发的民事纠纷案件应用法律若干问题的规定》 [Regulations on Several Issues Concerning the Application of Law in the Trial of Civil Cases Arising from Monopolistic Conduct] (People's Republic of China) Judicial Committee of the Supreme People's Court, Legal Interpretation No. 5, 30 January 2012 [Author's Trans].

²⁵⁴ 《中华人民共和国反垄断法》 [Anti-Monopoly Law of the People's Republic of China] (People's Republic of China) National People's Congress, Order of the President No.68, 30 August 2007 (World Intellectual Property Organisation Trans) (n 23) Art 17(1).

overextension of Chinese domestic jurisdiction. Yet, without having access to the actual claims that ZTE made, it is unclear how the ZTE's Chinese action threatened the UK court's jurisdiction. It seems possible that this perceived threat could also have simply been the product of hyperbole – either in ZTE's pleadings or in Conversant's presentation of ZTE's pleadings to the UK court.²⁵⁵

4.2.4 Anti-suit injunctions in the US

In both the anti-suit injunction applications made in the course of the 2015 *Vringo v ZTE* and 2019 *Optis v Huawei* – as in the Conversant case – actions had been filed in Chinese courts alleging abuses of dominant market position for refusals to grant SEP licenses on FRAND terms.²⁵⁶ In fact, in the anti-suit application in the *Optis v Huawei* case, the applicant party cited the liability accordingly claimed against it of 14.8 million USD.²⁵⁷

Nonetheless, neither the threat of action under the AML nor its potential liabilities were grounds enough in either US case for the granting an anti-suit injunction.

Vringo v ZTE

In *Vringo v ZTE*, a New York federal district court denied Vringo's anti-suit injunction application after the SEP owner was unable to show that the issues before the US and Chinese courts were 'functionally equivalent' – thus failing the first step of the *Gallo* test.²⁵⁸

2019 Optis v Huawei

²⁵⁵ The court reported that Conversant had contended that ZTE's claims in the Chinese action 'went beyond anything required for a FRAND rate to be set in China'. This assertion denies the existence of process obligations applying to standard-essential patent ('SEP') owners, unfairly high pricing prohibitions and the other elements of Chinese law cited in the Targeted Claims. *Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors* [2018] EWHC 2549 (Ch) (2 October 2018) (n 184) [13].

²⁵⁶ *Vringo Inc v ZTE Corp* (SDNY, 14-cv-4988 (LAK), 3 June 2015) slip op 2; *Optis Wireless Technology LLC v Huawei Technologies Co Ltd* (Plaintiffs' Emergency Motion for Antisuit Injunction and Request for Expedited Briefing) [2017] ED Tex MD 2:17-Cv-123-JRG-RSP, 2.

²⁵⁷ *Optis Wireless Technology LLC v Huawei Technologies Co Ltd* (Plaintiffs' Emergency Motion for Antisuit Injunction and Request for Expedited Briefing) (n 258) 2. Also cite 14.5 mil USD damages in M v M?

²⁵⁸ The US District Court for the South District of New York held that its finding that ZTE had breached a non-disclosure agreement ('NDA') in its filing with the Chinese court would not preclude the Chinese court from

In *Optis v Huawei*, PanOptis failed the second step of the *Gallo* test, after a Texas federal district court rejected its argument that Huawei's Chinese actions were in breach of at least one of the *Unterweser* factors.²⁵⁹

Preceding the UK decision by a matter of months, in the *Optis v Huawei* case, PanOptis made similar claims as Conversant would in the *Conversant v Huawei and ZTE* proceedings – that the Chinese action would seek to restrain the local court's jurisdiction. Responding to PanOptis' motion for an anti-suit injunction, the Texas court reported that PanOptis had warned that the foreign litigation:

threaten[ed] to enjoin the lawsuit [in the US court] because Huawei requested that the Chinese court enjoin all civil infringement actions against Huawei.²⁶⁰

Yet, after scrutinizing PanOptis' claims, the Texas court suggested that the SEP owner may have mis-read the scope of Huawei's pleadings before the Chinese court.²⁶¹ Even if that was not the case, the court said, it had been persuaded not to issue an anti-suit injunction against Huawei, after receiving Huawei's written commitment not to seek an injunction in China that would enjoin the Texas proceedings.²⁶²

In contrast, the UK court in the *Conversant v Huawei and ZTE* case had received two commitments from ZTE that it would not seek a Chinese injunction that would restrain the UK proceedings. However, the court stated that the first of these 'did not appear to be legally binding' without explaining its reasoning for this view.²⁶³ The UK court faulted the second of ZTE's assurances because it did not include an undertaking that the outcomes of the Chinese

finding that Vringo had breached China's Anti-Monopoly Law, based on evidence not contained in the NDA. *Vringo Inc v ZTE Corp* (SDNY, 14-cv-4988 (LAK), 3 June 2015) slip op (n 258) 8.

²⁵⁹ *Optis Wireless Technology LLC v Huawei Technologies Co Ltd* (Report and Recommendation of Magistrate) (n 196) 1–2.

²⁶⁰ *Ibid* 1.

²⁶¹ *Ibid*.

²⁶² *Ibid*.

²⁶³ *Conversant Wireless Licensing SARL v Huawei Technologies Co Ltd, ZTE Corp & Ors* [2018] EWHC 2549 (Ch) (2 October 2018) (n 184) [15].

proceedings would not interfere with the parties' licensing negotiations or the application of any FRAND licenses that the UK court might grant.²⁶⁴

Thus, while the US court in *Optis v Huawei* accepted the assurances of the party litigating in a foreign court, the UK court in *Conversant v Huawei and ZTE* did not. Yet, in accepting these assurances, the US court said even less than the UK court did as to the reasoning leading to its conclusions. Therefore, it is difficult to make any generalizations from these decisions as to what commitments a foreign-litigating party needs to make in either jurisdiction.

Nevertheless, in addition to the Huawei's assurances, the *Optis* court also cited other reasons for denying PanOptis its anti-suit injunction application.

This included its observation that the Chinese and US actions were solely concerned with patents issued in their respective domestic jurisdictions. Thus, the US court concluded that:

although there may be similar factual disputes about PanOptis's global offer, and whether that offer complied with its FRAND obligations, the scope of any relief awarded by this court or the Chinese court extends only as far as jurisdiction allows.²⁶⁵

The above finding refers to PanOptis' request that its licensing offer to Huawei be declared FRAND. PanOptis had requested that this declaration include non-US SEP licenses from the same patent family as the infringed US patents, hoping that the Texas eastern district court would oblige it, by granting a global license, as UK courts had done in the case of PanOptis' associate, UP.²⁶⁶ Nonetheless, as discussed in the above section on global licensing, the Texas court in *Optis v Huawei* never made such a declaration, as during its proceedings

²⁶⁴ The first instance court in the *Conversant v Huawei and ZTE* case also rejected the second assurance that ZTE offered as it failed to state that ZTE would not subsequently claim that the Chinese proceedings had rendered the UK proceedings obsolete ('res judicata'). Ibid [16].

²⁶⁵ *Optis Wireless Technology LLC v Huawei Technologies Co Ltd (Report and Recommendation of Magistrate)* (n 196) 2.

²⁶⁶ Gilstrap (n 191) [Finding of Fact (FF) 3]; [FF4].

Huawei successfully argued that the court could not rule on licensing fees owed on non-US SEPs.²⁶⁷

In conclusion, the Texas eastern district court held that there was ‘nothing obviously vexatious or oppressive’ in the Chinese proceedings continuing in parallel to the US proceedings nor that the Chinese actions threatened in rem jurisdiction or jurisdiction more generally.²⁶⁸ Therefore, the court held that PanOptis had failed to show that any of the *Unterweser* factors applied and so the SEP owner would be denied an anti-suit injunction.²⁶⁹

Huawei v Samsung

In its 2018 decision in *Huawei Technologies Co Ltd* (‘Huawei’) *v Samsung Electronics Co Ltd* (‘Samsung’), the US District Court for the Northern District of California (‘California Northern District Court’) granted an anti-suit injunction against the enforcement of an injunction previously issued in China.²⁷⁰ This Chinese action was the same *Huawei v Samsung* case, discussed in section 2.3 of chapter five of this thesis, that marked only the second time that a FRAND-encumbered SEP owner had received an injunction in China.²⁷¹

In the Californian case, the court granted Samsung an anti-suit injunction after finding that the standard implementer had successfully met the first and second steps of the *Gallo* test, and satisfying itself that the impact on international comity was sufficiently limited.²⁷²

²⁶⁷ Ibid [Finding of Fact (FF) 4].

²⁶⁸ *Optis Wireless Technology LLC v Huawei Technologies Co Ltd* (Report and Recommendation of Magistrate) (n 196) 2.

²⁶⁹ Ibid 2–3.

²⁷⁰ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 244) 1–2.

²⁷¹ Ibid 4–5; 《华为技术有限公司与三星（中国）投资有限公司》[*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People’s Court], 粤03民初816号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans) (n 11). See section 2.3 of chapter 5.

²⁷² *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 244) 10–15; 15–19; 19–20.

Having quickly determined that the identities of the parties were functionally equivalent, the court moved on to examine whether the issues before it and the Chinese court were likewise sufficiently similar.²⁷³ In the attempt to contest this, Huawei sought to distinguish its and Samsung's positions and arguments from one another and the parties in 2012 determinations of the Washington state district court and the Ninth Circuit appeals court in the *Microsoft v Motorola* case.²⁷⁴ These determinations concerned circumstances – similar to the *Huawei v Samsung* case – in which Microsoft was seeking an anti-suit injunction against an injunction for patent infringement that Motorola had obtained against it in Germany.²⁷⁵

The *Huawei v Samsung* court acknowledged that the distinctions that Huawei had identified were 'undeniable and important' but saw these as 'irrelevant' to the question of whether the issues before the court were dispositive of those in the Chinese action.²⁷⁶ Despite the broad range of other claims that Huawei and Samsung had made against one another in the Chinese and US courts, the California northern district court held that the fundamental issue commonly in dispute was whether a breach of contract had occurred.²⁷⁷

The original basis for Huawei's US action, when it was filed in 2016, was Samsung's alleged breach of its commitment 'to enter into a SEP crossing-license with [Huawei] on FRAND terms and conditions.'²⁷⁸ Similarly, Samsung had insisted that the Chinese case was primarily concerned with:

the availability of injunctive relief for Huawei's SEPs, which are subject to contractual licensing obligations under Huawei's FRAND commitments.²⁷⁹

²⁷³ Ibid 10; 10–15.

²⁷⁴ Ibid 12–13.

²⁷⁵ *Microsoft Corp v Motorola Inc*, 871 F Supp 2d 1089 (WD Wash, 2012) (n 171) 879–880.

²⁷⁶ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 244) 13.

²⁷⁷ Ibid.

²⁷⁸ Ibid 3.

²⁷⁹ Ibid 10.

Thus, the California northern district court held that the issues in US and Chinese actions were functionally equivalent:

[T]his action will dispose of those actions in either one of two scenarios—if Huawei’s breach of contract claim is unsuccessful, or if Samsung’s breach of contract claim is successful. One way or the other, this action will resolve the propriety of injunctive relief for the parties’ declared SEPs.²⁸⁰

Moving on to the second step of the *Gallo* test, the court held that three of the four *Unterweser* factors would apply if the Chinese court’s injunction was implemented ahead of the US proceedings coming to their final conclusions.²⁸¹

Firstly, the *Huawei v Samsung* court took the view that, such an order of events would undermine its ability to make its determination on whether the granting of injunctive relief was appropriate. Thus, such an outcome would potentially frustrate the court policy ‘that all federal courts recognise ...[namely] the need to protect the court’s own jurisdiction’.²⁸²

Secondly, the court held that if the Chinese injunction was implemented, it could result in inconsistent judgments – in breach of the *Microsoft v Motorola*-listed court policies – if the US court subsequently determined that an injunction should be denied.²⁸³

Thirdly and finally, if Huawei was permitted to enforce its Chinese injunction ahead of the US court’s determination on the parties’ breach of contract claims, it would be contrary to ‘equitable considerations’ that the *Unterweser* factors also required it to bear in mind.²⁸⁴

Specifically, on this last consideration, the court held that without the granting of an antisuit injunction:

²⁸⁰ Ibid fn 15.

²⁸¹ Ibid 17–19.

²⁸² *Zynga Inc v Vostu USA Inc* (ND Cal, No 11-CV-02959-EJD, 2011 WL 3516164, 11 August 2011) 3, quoted in *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 198) 17.

²⁸³ *Microsoft Corp v Motorola Inc*, 871 F Supp 2d 1089 (WD Wash, 2012) (n 198) 1100 quoted in *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 198) 17.

²⁸⁴ *E & J Gallo Winery v Andina Licores SA* (n 239) 990; Contreras (n 173) 13.

Samsung faces the risk of significant harm, not just in China, but with impacts percolating around the world.²⁸⁵

This finding refers back to circumstances cited in the court’s account of the facts of the case that would clearly make Samsung particularly vulnerable to Chinese injunctive action – namely, that its second largest manufacturing hub is situated in China.²⁸⁶

Thus, the court anticipated that:

The Chinese injunctions would likely force [Samsung] to accept Huawei’s licensing terms, before any court has an opportunity to adjudicate the parties’ breach of contract claims.²⁸⁷

Therefore, the Californian court concluded that the effect of Huawei enforcing its Chinese injunctions would be to:

“frustrate[e] this court’s ability to adjudicate issues properly before it” ... [with the result that the] integrity of this action ... will be lessened without an anti-suit injunction.²⁸⁸

Finally, the court held that the anti-suit injunction had ‘a negligible impact’ on comity as it only applied to two Chinese patents for the duration of the US proceedings and had a limited effect on the Chinese court order and Huawei’s rights.²⁸⁹

²⁸⁵ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 244) 17.

²⁸⁶ *Ibid* 3.

²⁸⁷ *Ibid* 17.

²⁸⁸ *Ibid*, quoting and paraphrasing the findings of *Microsoft Corp v Motorola Inc*, 871 F Supp 2d 1089 (WD Wash, 2012) (n 198) 1100.

²⁸⁹ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op (n 198) 20. The US District Court for the Northern District of California saw the anti-suit injunction as having ‘no impact on the Chinese courts’, as the court order following the *Huawei v Samsung* decision in China allowed that the injunction awarded to Huawei need not be enforced if the parties thereafter entered into a cross-licensing agreement. Similarly, the Californian court determined that Huawei had been

4.2.5 China's regime rejected and requiring supplement

Thus, at face value, the US court's reasoning for granting an anti-suit injunction in the *Huawei v Samsung* decision seems more measured and considered than that of the UK court in *Conversant v Huawei and ZTE*.²⁹⁰

However, in proposing to have done so had ZTE not deleted certain claims from its Chinese pleadings, as argued above, the UK court in *Conversant* appeared to question the illegitimacy of causes of action that are well-established under Chinese law. This included the process obligations imposed on FRAND-encumbered SEP owners in China during their licensing negotiations with standard implementers and the liability they potentially bear if they fail to uphold these obligations.

Thus, the US court's process of determination in *Huawei v Samsung* does seem to be a more measured and transparent model for assessing future applications for the granting of anti-suit injunctions in matters involving FRAND-encumbered SEPs. However, the reasoning of the California northern district court in the *Huawei v Samsung* decision also seemed to respond adversely to the process obligations assessments that Chinese law has imposed on FRAND-encumbered SEPs.

As discussed above, the US court expected that unless the enforcement of Huawei's Chinese injunctions was delayed, these would be used to impose 'a "hold-up" settlement' on Samsung before the court could consider the parties' respective breach of contract law allegations.²⁹¹ In an attached footnote, the court further explained that it needed to assess these allegations under the contract law as:

minimally disadvantaged as the anti-suit injunction would not restrain it, while the US action was still pending, from seeking damages against Samsung for the infringement of its Chinese patents. Ibid.

²⁹⁰ Admittedly, the first instance court in *Conversant v Huawei and ZTE* did not issue an anti-suit injunction against ZTE's Chinese litigation and so, unsurprisingly did not offer a full account of its reasoning in that determination.

²⁹¹ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op* (n 244) 18.

[e]ven though the [Chinese] court evaluated the parties' licensing negotiations, it was not presented with breach of contract claims.²⁹²

Contrary to this view, this chapter argues that the court in *Huawei v Samsung* was misdirected in focusing primarily on the breach of contract issue – especially when asserting that the issue was relevant to and missing from the Chinese actions. Instead, this chapter shows that – as the district and appeal courts held in *Microsoft v Motorola* – the functionally equivalent issue in SEP-related anti-suit injunction applications should be SEP owners' compliance with their FRAND commitments.

As discussed in chapter six of this thesis and further below, the FRAND commitment of SEP owners is interpreted and applied under the contract law in the US (i.e. "FRAND contracts"). As section 5.3 of chapter six also demonstrated, the US is alone among the six jurisdictions examined in this thesis to deploy the contract law in such SEP-related cases.²⁹³

Therefore, if a US court designates breach of contract as the issue of functional equivalence in its assessment of an anti-suit injunction application concerning FRAND-encumbered SEPs, at least two erroneous outcomes are possible.

One outcome might be that the US court finds no foreign courts – at least none of those examined in this thesis – equivalently assessing the SEP-related case as a breach of contract issue. In another possible outcome, the US court could find a functional equivalence in the issues of the foreign court – even in the absence of a breach of contract analysis. Then, as in the *Huawei v Samsung* decision, the US court cites the absence of this analysis as grounds for supplementing the foreign decision with its own breach of contract analysis of the case.

As noted above, the district and appeal court decisions in *Microsoft v Motorola* are an authoritative guide for determining when to grant an anti-suit injunction against foreign proceedings involving FRAND-encumbered SEPs.

²⁹² Ibid fn 18.

²⁹³ Like to US case law section in chapter six

In recognition of this, the US court in *Huawei v Samsung* frequently cited and quoted the relevant sections from the 2012 *Microsoft* judgments. This included the Ninth Circuit reference to the extension of a ‘contractual umbrella over the patent claims’, as the result of the Washington state district court’s resolution of Microsoft’s contract claims, resolving Motorola’s patent claims in Germany.²⁹⁴

The Californian court also reproduced the Ninth Circuit’s quotation of and commentary on an earlier US decision that held that the anti-suit injunction application before it:

[was] “not seeking to enjoin [a party from litigating in] a foreign court on the basis of a patent validity or infringement finding by a United States court” but on the basis of a contract interpretation by a US court.²⁹⁵

But the latter quote can be misleading. The Ninth Circuit could have avoided any ambiguity by clarifying that the ‘contract interpretation by a US court’ was that court’s interpretation under US contract law of the FRAND commitment that the relevant SEP owner had made previously to a SSO.

In fact, elsewhere in its *Microsoft* judgment, the Ninth Circuit quoted the Washington state court’s recognition that it was Motorola’s FRAND commitment that established the functional equivalence between the US and German actions:

the [Washington state] district court concluded that the pending domestic contract action could resolve the issues in the German patent action
"because the European Patents at issue in the German Action were included in Motorola's October 29 Letter offering a worldwide license for Motorola's H.264 Standard-essential patents ..." (emphasis added).²⁹⁶

Therefore, the fact that the Chinese courts in their hearing of *Huawei v Samsung* dispute were not presented with breach of contract claims is irrelevant to the question of whether to grant

²⁹⁴ *Microsoft Corp v Motorola Inc; Motorola Mobility Inc; General Instrument Corp*, 696 F 3d 872 (9th Cir, 2012) (n 171) 883.

²⁹⁵ (n 244) 13; *Microsoft Corp v Motorola Inc; Motorola Mobility Inc; General Instrument Corp*, 696 F 3d 872 (9th Cir, 2012) (n 171) 883; *Medtronic Inc v Catalyst Research Corp* (1981) 518 F Supp 946.

²⁹⁶ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op* (n 244) 883.

an anti-suit injunction and to any other determination before the Californian court. It is enough that both the disputes in the Chinese and Californian courts involved or would involve a determination of the parties' respective FRAND commitments.

Beyond this, there was no need for the US court to comment on the decisions of the Chinese court. Even more so – had the parties not settled and the litigation continued – US courts should not have sought to supplement any of the Chinese court's deliberations in making its injunction determinations, in the course of making its own assessment as to whether to further enjoin either of parties under US law.²⁹⁷ To have done so, would have been seen – in China and with some justification – as an unjustified breach of international comity.

Therefore, it is difficult to determine whether the UK *Conversant v Huawei and ZTE* decision or the US *Huawei v Samsung* decisions suggests a greater disregard of the process obligations applying to FRAND-encumbered SEP owners in China.

The UK *Conversant* court rejects this Chinese regime outright, despite the fact that it is equivalent in effect, if broader in scope, to the process obligations assessments that the 2015 *Huawei v ZTE* decision imposed on FRAND-encumbered SEP owners in the EU. The US *Huawei v Samsung* court was immediately dismissive of the Chinese regime, however ultimately its response may be the worse of the two.

Having some understanding of the Chinese process obligations assessments through its review of Chinese *Huawei v Samsung* decision, the US court nonetheless applies US legal standards to its reading of the Chinese case in the form of a contract-based analysis. Accordingly, the US court concludes that the Chinese decision-making process was

²⁹⁷ On 26 February 2019, Huawei and Samsung together applied to the US Court of Appeal for the Federal Circuit for a 'Joint Motion for Stay' to suspend their appeal from the decision of the US District Court for the Northern District of California that had granted Samsung an anti-suit injunction. The litigants informed the court that the day before, they had concluded an initial agreement to settle of their dispute that was to be finalised in the following month, resulting in Huawei filing an unopposed motion to dismiss. *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (Fed Cir, No 18-1979, 26 February 2019) [Motion to Stay] slip op; Eingestellt von Florian Mueller, 'BREAKING NEWS: Huawei and Samsung Settle Their Patent Infringement Dispute' <<http://www.foospatents.com/2019/02/breaking-news-huawei-and-samsung-settle.html>> ('BREAKING NEWS'); 'Huawei, Samsung Agree to Settle Patent Dispute in U.S. Court', Reuters (online at 27 February 2019) <<https://www.reuters.com/article/us-huawei-tech-samsung-elec-litigation-idUSKCN1QG10Y>>.

incomplete – having only ‘evaluated the parties’ licensing negotiations’ – and that it will need to supplement this with a determination of the parties’ breach of contract claims.²⁹⁸

In any case, the respective conclusions of the UK and US courts in *Conversant* and *Huawei v Samsung* are troubling as neither appears to recognise China’s assessment of the process obligation of FRAND-encumbered SEP owners as wholly legitimate and therefore as law.

5 Conclusion

This chapter seven has compared China’s process obligations with those applied in the other five jurisdictions to assess whether the Chinese process obligations are “lawful” in terms of the type and number of obligations they require of FRAND-encumbered SEP owners.

The chapter also considered the criticisms of aspects of the Chinese process obligations assessments applied to FRAND-encumbered SEPs that representatives of the latter have expressed. This included claims that the Chinese legal measures were unprecedented and potentially non-compliant with China’s international legal obligations. The chapter further questioned whether these representatives were justified in referring to aspects of the regime as unnecessary, vague and uncertain.

Finally, the chapter looked at the regard given to China’s process obligations assessments that had been made in foreign courts in matters involving global licensing and anti-suit injunctions.

In terms of comparison of China’s process obligations assessments with other jurisdictions, the chapter found that Chinese process obligations are not extreme in terms of their type and number of obligations. The Chinese regime imposes more obligations than either the US or EU regimes, but of about the same number as the Japanese regime and less than those imposed in South Korea.

Many of the Chinese obligations are similar to those imposed in South Korea and Japan, also suggesting that these foreign regimes, in particular, may have been an important source for

²⁹⁸ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) *slip op* (n 244) fn 18.

the process obligations included in the Beijing and Guangdong HPC guidelines.²⁹⁹ If China is to assess the breaches of these process obligations under an abuse of rights doctrine, as the 2016 *SPC Patent Law Interpretation* implies and chapter five of this thesis proposes, then its regime will also quite closely resemble those in South Korea and Japan.³⁰⁰ Thus, this similarity too, will also add to its apparent legal legitimacy.

The criticism that the proposed assessment of the licensing conduct of SEP owners seeking injunctions according to a good faith standard was unprecedented, overlooked that the fact that this had already been done in South Korea and the Netherlands. Similarly, claims that making a patent right subject to its good faith exercise potentially contravened the certainty of right required under TRIPs Article 30, overlooked the discretion that TRIPs Articles 7, 8.1 and 40.2 granted to WTO Members to counter IP rights abuses.

Responding to the claims that the process obligations assessments might be unnecessary, vague and uncertain, the chapter first noted that the rights of patent owners had always been subject to their good faith exercise. Therefore, it was suggested, FRAND-encumbered SEP owners and their representatives might need to have this established fact affirmed in the legislation. The chapter also noted the view that the inclusion of a good faith provision in the patent law was to encourage Chinese courts to apply the principle to resolve issues that existing regulations do not address or, if applied, would have produced perverse outcomes.

On the vague nature of especially the BLPs applied in China's process obligations regime, the chapter recognised calls for Chinese commentaries to be improved. This included the need for a broader coverage of the issues each provision raised, challenges in their application and the reference materials available for further explanation.

²⁹⁹ 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People's Republic of China), Beijing Higher People's Court, 20 April 2017 (n 4); 《关于审理标准必要专利纠纷案件的工作指引（试行）》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People's Republic of China), Guangdong Higher People's Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> (n 4).

³⁰⁰ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》[*Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)*] (People's Republic of China) Judicial Committee of the Supreme People's Court, [2016] No 1, 22 March 2016 [author's trans] (n 36) art 24.

However, outside of that, the chapter cautioned against seeing China's BLPs, in particular, as the expression of some form of generalised social morality. Drawing from Teubner's discussion of the good faith principle, it was argued that these BLPs were more fragmentary and pluralistically-informed social policies, even while being subject to significant authoritarian political input.

Lastly for this section, the chapter considered the claim that the process obligations assessments was a cause of uncertainty for FRAND-encumbered SEP owners. In the light of the conclusions of two multi-year surveys of Chinese courts' application of the good faith principle, these concerns do seem to be justified. The systemic challenges identified as facing courts and patent owners alike, include: an embryonic jurisprudence; the poor reasoning skills and opaque practices of some Chinese judges; and insufficient guidance from senior courts.

Finally, on examining how the Chinese process obligations assessments had been received in foreign courts in global licensing and anti-suit injunction actions, the chapter found reactions ranging from alarm to disregard. In terms of the global licensing, the chapter argued that by granting global licensing without considering the different jurisdictions' respective process obligations, the issuing court may impose higher rates on local standard implementers than they would otherwise incur. Specifically, this would occur if UK courts failed to resolve the "Vringo problem" and SEP owners were permitted to charge a unilaterally-determined global licensing royalties. This would expose standard implementers in China, South Korea and Japan to higher rates than could be locally imposed, as local courts would not have tolerated unilaterally-determined royalty rates.

It seems unlikely that these East Asian courts would impose penalties on global license-receiving SEP owners for actions that a foreign court had permitted. However, it is notable that in its 2017 *Qualcomm* determination, the most consistent charge that the KFTC made against the Qualcomm's licensing practices was that they permitted it to unilaterally determine the parties' licensing terms and conditions.

In regard to anti-suit actions, the chapter noted that in the *Conversant v Huawei* – on the evidence available – the court seemed to overreact acutely to elements of the Chinese process obligations assessments that would not have been out of place in an EU action. This included Huawei's pleadings that: Conversant's licensing offers were not FRAND, its negotiation

conduct and injunctive action amounted to anti-competitive conduct; and that Huawei was entitled to claim civil liabilities for the harm accordingly caused.

The response of the US court in *Huawei v Samsung* decision was less alarmist than the UK court. However, to some extent, it suggests a more worrisome outcome. The California district court's view that its Chinese counterpart had only evaluated the parties' licensing negotiations and that the assessment of the parties' contract claims were still to be scrutinised, fails to acknowledge the comprehensive and equal nature of China's FRAND assessments.

As in the five jurisdictions – including in US case law under the contractual duty of good faith and fair dealing³⁰¹ – Chinese courts assess the conduct and the licensing offers of FRAND-encumbered SEP owners. As noted in chapter five of this thesis, the structure of the *Huawei v Samsung* case is emphatic in assessing the SEP owner, Huawei, in relation to both its process obligations and content obligations. In the decision, the court refers to these respectively as the 'procedural' and 'substantive' aspects (程序方 and 实体方) of the case.³⁰²

Thus, the UK court in *Conversant v Huawei* seemed to have been unnecessarily hostile to China's process obligations regime. Yet the US court in *Huawei v Samsung* appears to undercut the legitimacy of Chinese jurisdiction over the issue of FRAND-encumbered SEP owners' injunction applications in suggesting that they are somehow incomplete and need to be supplemented by a foreign court.

Therefore, this chapter has demonstrated that the number and type of the process obligations imposed under China's regime are not extreme – at least seen from a relative, transnational perspective.

Likewise, most of the criticisms of the aspects of the Chinese regime – especially its use of general principles, such as the good faith principle, are excessive and overlook the existing applications of BLPs in Chinese law, and the bases of the regimes in South Korea and Japan. Nonetheless, as noted, commentaries on Chinese law need to be improved as does the practice of Chinese courts in working with BLPs. Furthermore, if an abuse of rights doctrine

³⁰¹ See discussion in chapter six of thesis of this contractual good faith and fair dealing duty as applied in the 2013 US decision of *Microsoft Corp v Motorola Inc* at Insert section of chapter 6.

³⁰² See section 3.4 of chapter 5.

is to underpin the Chinese process obligations regime, then it requires greater elaboration, with more rigorously reasoned models being provided for this than the 2017 *Wang v Ellassay* decision.

Finally, courts proposing to issue global licenses must factor the different jurisdictions' process obligations into their determinations. This would make for a complicated exercise. However courts in the UK *UP v Huawei* and the US *TCL v Ericsson* decisions have demonstrated that royalties rate determinations are possible on a regional, and even country-level basis.³⁰³ Similarly, courts that claim jurisdiction to restrain parties from seeking actions in foreign courts via anti-suit injunctions, must have a sufficient understanding of the process obligations regimes being applied in those counterpart jurisdictions. If not, decisions that erroneously dismiss or diminish the determinations of Chinese courts, have at least the potential to give rise to inter-jurisdictional conflict and retribution.

³⁰³ Jorge L. Contreras notes that Judge Selna in his judgment commented that he would have preferred [royalty rate] proportions to be expressed by country rather than by region, but the expert testimony that was presented at trial only specified such results by region. *TCL Comm Tech Holdings, Ltd v Telefonaktiebolaget LM Ericsson*, Memorandum of Findings of Fact and Conclusions of Law (CD Cal, Case Nos SACV 14-341 JVS (DFMx) and CV 15-2370 JVS (DFMx) 21 December 2017) at 45 cited in Contreras (n 173) 10–11; *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC (Pat) 711 (5 April 2017) (n 27) [582]–[592].

TABLE 2: PROCESS OBLIGATIONS OF STANDARD-ESSENTIAL PATENT OWNERS – INCLUDING CHINA

SEP owner Process obligations	N'lans	S. Korea	China	US	Japan	EU
Offer FRAND terms*	O					
Provide royalty calculation method*						
Practice and permit “active negotiation”	O			FTC		
Not demand excessive terms	O					
Offer 3 rd party dispute resolution				FTC		
Not seek injunctions in retaliation				FTC		
Disclose other licensees’ terms						
Not impose mandatory tying				FTC		
Not otherwise breach FRAND duty						

O: Process obligation that have been overruled, i.e. as the Netherlands is a member of the European Union (‘EU’), its recognised process obligations were overruled when the 2015 *Huawei Technologies Co Ltd v ZTE Corp* (Huawei v ZTE’) decision established an alternative EU-wide binding precedent.

FTC: Process obligations imposed on US SEP owners under section 5 of the *Federal Trade Commission Act*.³⁰⁴ Obligations that US courts have imposed on US SEP owners appear as shaded cells. Process obligations imposed in US case law and by the FTC shaded and bear the ‘FTC’ label.

* Process obligations imposed on SEP owners in the EU SEP owners under the 2015 *Huawei v ZTE* decision, but also recognised in other jurisdictions – both before and since the EU decision.³⁰⁵

Hashed cells: Only proposed SEP owner process obligations. For example, the 2014 Japanese *Apple v Samsung* decision held that refusing to disclose licensing terms granted to other parties, is not an ‘immediate’ FRAND duty breach. But this suggests that such a refusal could be a FRAND duty breach under certain circumstances. See section 5.1.2 of chapter six.

³⁰⁴ *Federal Trade Commission Act of 1914* (n 33) s 5.

³⁰⁵ *Huawei Technologies Co Ltd v ZTE Corp* (Court of Justice of the European Union, C-170/13, 16 July 2015) (n 1).

Chapter 8: Conclusions

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1 Summary of thesis findings

1.1 Main findings

The main findings of the thesis are that the injunction determination processes of Chinese courts involving SEPs:

- 1) can be made according to law if Chinese courts supplement the incomplete specifically-enacted law with elements from China's basic law;
- 2) are comparable to the FRAND solution of the five other jurisdictions, if so supplemented; and
- 3) have largely been mischaracterised in some English language commentaries and foreign court global licensing and anti-suit injunction determinations.

1.2 Ancillary findings

Ancillary findings of the thesis are that the injunction determinations of Chinese courts involving SEPs that incorporate elements from the incomplete regime and China's civil law:

- 1) may have been applied in two judicial decisions that precede the specifically-enacted law. However, neither of these findings were both comprehensive and coherent in their applications;¹

¹ The determination of an injunction application of a standard-essential patent ('SEP') owner in the 2013 Huawei ('Huawei') Technologies Co Ltd v InterDigital Corp v 'IDC' decision, applied coherent legal standards but was incomplete in its legal reasoning. The injunction determination in the 2015 Wang Suiyong v Shenzhen Ellassay Fashion Co Ltd was applied in a trademark dispute and not one involving SEPs. Yet, the decision provides a comprehensive formula for assessing injunction application more generally. However, while applying a comprehensive legal reasoning, the decision did not define the legal standards cited in its assessing

- 2) differ from the conventional representations in English language commentaries of injunction determinations involving SEPs. Nonetheless, the thesis demonstrates that this Chinese “anomaly” can also be seen in is in injunction determinations that each of the five other jurisdictions have made involving SEPs;² and
- 3) are applications of the fifth successive legal regime that Chinese policy makers have attempted to implement for the regulation of the injunctions of SEP owners since 2010. Like the current regime, some of these earlier failed regimes were incomplete and lacked coherence. Thus – whether or not the criticisms of the current regime are justified – until it is comprehensively and coherently implemented, it too risks a familiar fate.

1.3 Theoretical framework basis

These above conclusions are all subject to the theoretical framework defined in section four of chapter two of this thesis. Applying systems theory, this framework established that differences in legal transfer between jurisdictions was the initially the result of the pairing of legal transfer variety information with the redundancy information of the local law. In this case, it was proposed that the FRAND solution entered Chinese law through its association with China’s basic law provisions and pre-contractual duty. This would explain the expansion of SEP owner’s FRAND commitments from applying to the content of licensing offers to their conduct in licensing negotiations.

The transformative potential of legal transfer as explained through Gunther Teubner’s theory of legal irritation suggests that foreign elements that the FRAND solution causes to be introduced into the Chinese legal system have an unpredictable potential. Possible sources of irritation could include a fully-fledged abuse of rights regime found to be missing in section 4.2.2 of chapter five of the thesis and the increased discretion accorded Chinese judges in the judicial reforms discussed in section 4.1.2 of chapter three.

Political intrusions in legal decision-making in China are both a threat to the theory and practice of Chinese courts’ making injunction determinations according to law. The risk of

formula – rendering it incoherent. The 2013 *Huawei v IDC* decision and the 2015 *Wang v Ellassay* decisions are respectively discussed in chapters five and seven of this thesis.

² See chapter 6 of this thesis.

“de-difference”, described in section 4.3 of chapter two of the thesis, occurs where a legal sub-system loses its ability to process its observed environment as forms of either legal or non-legal communication. An example of a legal sub-system losing its basis of functional differentiation from the other sub-systems, is where it bases its determinations on non-legal considerations, such as political imperatives. Practically-speaking, the legitimacy of Chinese courts is undermined by actual or perceived political intrusions in its decision-making.

Yet, Hualing Fu proposes a duality in China’s legal system. As discussed in section 4.3 of chapter two of the thesis, this duality houses both:

a prerogative state [that solves] politically sensitive matters through substantively extra-legal methods’ ... [and] ... a normal legal system [that is] less politicised, reform-oriented, and semi-autonomous ...³

Fu argues that Chinese courts have demonstrated an ability ‘to absorb and internalise political commands, and factor in political concerns through the exercise of legal discretion’.⁴ This thesis understands that to mean that Chinese courts can make decisions according to law, however this ability is always provisional on the relevant case not taking on a political significance. This thesis sees this view as an accurate presentation of judicial decision-making in injunction determinations involving SEPs in China.

2 Bases for main findings

2.1 Determinations made consistent with existing law

Chapter five of the thesis in section 4.3 argues that Chinese courts have the necessary elements, in terms of existing law, to determine an injunction application involving a FRAND-encumbered SEP. The *IWNComm Co Ltd* (‘*IWNComm*’) v *Sony Mobile Communications Products (China) Co Ltd* (‘*Sony*’) first instance decision, affirmed in the second instance, has demonstrated that Chinese courts can grant injunction in relation to SEPs in national standards.⁵ The *Huawei Technologies Co Ltd* (‘*Huawei*’) v *Samsung (China)*

³ Hualing Fu, ‘Duality and China’s Struggle for Legal Autonomy’ [2019] (1) China Perspectives 3, 3.

⁴ Ibid 7.

⁵ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷－案》 [IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of

Investment Co Ltd (‘*Samsung*’) further demonstrated that courts in China can impose injunctions on China-registered SEPs in international standards.⁶

Both of these decisions were based on the regulatory-equivalent authority of the *Interpretation of the Supreme People's Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)* (‘*SPC Patent Law Interpretation*’) that the Supreme People’s Court (‘SPC’) issued in 2016.⁷ This judicial interpretation established that Chinese courts could deny an injunction to a SEP owner that had deliberately violated its FRAND, where the standard implementer involved was not otherwise at fault.⁸

The first instance court in the *IWNComm v Sony* added to these grounds by stipulating how the allocation of fault between SEP owners and standard implementers would influence whether or not an injunction would be granted. The judicial guidelines that the Beijing HPC and the Guangdong HPC issued in 2017 and 2018 respectively, with a list of faults that would breach a SEP owner’s FRAND duty if engaged in, in addition to a catch-all provision for

Patent Dispute Case], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第 1194 号 [First Instance Decision No 1194], 22 March 2017; 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》 [Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case], 北京市高级人民法院 [Beijing Higher People’s Court], 京民终 454 号 [Second Instance Civil Court Decision No 454], 28 March 2018.

⁶ 《华为技术有限公司与三星（中国）投资有限公司》 [Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People’s Court], 粤 03 民初 816 号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans).

⁷ 《最高人民法院关于审理侵犯专利权纠纷案件应用法律若干问题的解释（二）》 [Interpretation of the Supreme People’s Court on the Application of the Patent Law to Patent Infringement Dispute Cases (II)] (People’s Republic of China) Judicial Committee of the Supreme People’s Court, [2016] No 1, 22 March 2016 [author’s trans].

⁸ Ibid art 24.

other “obvious faults”⁹ (The 2016 judicial interpretation, 2017-18 judicial decisions and guidelines are referred to collectively below as the “2016-18 developments”).

However, as noted in sections 3.2 and 3.5 of chapter five, none of these cases or regulations – including the 2016 SPC Patent Law Interpretation nor the 2017-18 Beijing and Guangdong guidelines – defined the FRAND duty of SEP owners. As critically, while the 2016 SPC interpretation was an interpretation of China’s *Patent Law*, there was no indication what provision of that law – or any other law – would grant Chinese courts the authority to deny SEP owners an injunction on the infringement of their patent. As noted in chapter three, this is especially the case as in China, as in other civil law jurisdictions, the granting of an injunction on the infringement of a patent is a right and not a discretion of the court.¹⁰

Therefore, to establish that Chinese courts could determine the injunction applications of FRAND-encumbered SEPs according to law, it was necessary to look to past Chinese decisions and legal theory suggesting if existing law could enable this.

In section 4.3.1 of chapter five, the thesis proposed that the 2013 *Huawei Technologies Co Ltd* (‘Huawei’) v InterDigital Corp (‘IDC’) provided two critical measures missing from the 2016-18 developments – namely: a definition of the FRAND duty and how this is breached. The Guangdong HPC in *Huawei v IDC* suggested that Chinese courts could use China’s basic law provisions, contained in 1986 *General Principle of the Civil Law* and the 1999 *Contract Law*, as a substitute for the FRAND duty in China. Likewise, the Guangdong court demonstrated how to apply the BLPs to the SEP owner’s FRAND terms to find a breach of its FRAND duty. An example of this, was the Huawei v IDC court’s finding that a term in IDC’s licensing offers declaring them to be non-negotiable, violated the obligation IDC had to respect Huawei’s BLP right to voluntariness and equality and so breached its FRAND duty.

⁹ 《专利侵权判定指南》[*Guidelines for Patent Infringement Determination*] (People’s Republic of China), Beijing Higher People’s Court, 20 April 2017 art 152(1)-(6); 《关于审理标准必要专利纠纷案件的工作指引(试行)》[*Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation)*] (People’s Republic of China), Guangdong Higher People’s Court, 26 April 2018, <http://Www.Iprdaily.Cn/Article_18855.Html> art 13(1)-(6).

¹⁰ See section 2.1.4 of chapter 3.

However, beyond this point, the *Huawei v IDC* decision did not explain how this FRAND breach empowered the court to deny IDC's right to seek an injunction in the US. Thus, section 4.3 of chapter five turned to a 2014 Chinese language article by He Huaiwen and Chen Ruwen that proposed how Chinese courts might deny an injunction to a SEP owner in breach of their FRAND duty under a choice of five bodies of pre-existing Chinese law. Based on the 2016-18 developments that suggested that Chinese policymakers were preparing the way for abuse of rights-based actions, the thesis drew on He and Chen's model to set out what such an approach would involve. While the *Huawei v IDC* definition for the FRAND duty and demonstration as to how the term of a SEP owner's licensing offer could be held to breach its FRAND duty, He and Chen made no reference to these aspects of the case in their article. As suggested in section 4.3 of chapter five, this may have been because they did not have access to an unredacted version of the decision that, in particular, obscured how the Guangdong court had applied the BLPs to IDC's non-negotiable term to find a breach of the SEP owner's FRAND duty.

Nonetheless, He and Chen proposed that such a BLP violation could amount to an abuse of rights that suggested should be seen as tantamount to a violation of the good faith BLP, that could justify the Chinese court refusing to enforce a SEP owner's right to an injunction. He and Chen further sought to draw support from the civil law doctrine of *verwirkung*, meaning the SEP owner's forfeiture of its injunction right for reneging on its FRAND commitment not to seek action against a willing licensee.

Thus, with the above extracts from the *Huawei v IDC* decision, He and Chen's legal theory with a little help from the *verwirkung* doctrine, something missing here? a Chinese court would have the necessary elements missing from the 2016-18 developments, to deny a SEP owner its injunctive right.

It is important to note that, while the thesis expects the 2016-18 developments to be eventually elaborated into a comprehensive abuse of rights-based action, it is not argued that this will take the form proposed in chapter five. It is not attempting to predict the exact form that such an abuse of rights-based action will take. The year before the 2016 *SPC Patent Law Interpretation* was issued, the SPC produced its decision in *Wang Suiyong ('Wang') v Shenzhen Ellassay Fashion Co Ltd and Hangzhou Intime Century Department Store Co Ltd*

(‘*Ellassay*’) that became the 2017 *Guiding Case No 82*.¹¹ As discussed in section 3.2.3 of chapter seven, this included a formula for determining whether a rights owner has abused its rights.¹²

On account of the guiding case’s pedigree alone, this formula is more likely to provide the model for future actions denying injunctions to FRAND-encumbered SEP owners than the sections from the 2013 *Huawei v IDC* case and He and Chen’s 2014 article discussed in chapter five.¹³ However, as was also noted in chapter seven, the formula in the 2017 guiding case is incomplete with included terms lacking definitions or derivations. Therefore, regardless of whether it predicts the final form of China’s abuse of rights action, chapter five offers a way that a Chinese court could determine an injunction application of a FRAND-encumbered SEP owner according to law. This is all that the thesis topic requires.

2.2 Consistent with FRAND solution applied in other jurisdictions

The thesis has argued that existing law – consisting of incomplete specifically-enacted law and principles and doctrine from China’s basic law – allow Chinese courts to make such a determination according to law. The thesis has also claimed that both Chinese courts and decision-makers in the five other jurisdictions examined in this thesis have all inserted different criteria in their adaptation of the FRAND solution drawn from their respective domestic law.

Section three of chapter four of this thesis identified the licensing abuses that had been hindering the licensing of SEPs that led to jurisdictions around the world adopts the FRAND solution as a regulatory remedy to these abuses.

As defined in chapter four, FRAND-encumbered SEP owners commit patent hold-up when they demand royalty rates or other terms from standard implementers in excess of FRAND terms or deny licensing to a rival firm for anti-competitive reasons. Patent hold-out occurs

¹¹ ‘《王碎永诉深圳歌力思服饰股份有限公司、杭州银泰 世纪百货有限公司侵害商标权纠纷案》 [Wang Suiyong v Shenzhen Ellassay Fashion Co Ltd and Hangzhou Intime Century Department Store Co Ltd, A Trademark Infringement Dispute], Stanford Law School China Guiding Cases Project, English Guiding Case (EGC82), September 14, 2018 Edition, <<http://Cgc.Law.Stanford.Edu/Guiding-Cases/Guiding-Case-82>>’.

¹² See section 3.2.3 of chapter 7.

¹³ See section 3.1.1 of chapter 3.

were a standard implementer delays entry into licensing negotiations or the payment of royalties by a variety of means.

Under the FRAND solution, jurisdictions counter the practice of patent hold-up by refusing to grant injunctions to SEP owners that fail to comply by their commitments made to standard-setting organisations ('SSO') to license their SEPs on FRAND terms.¹⁴ Jurisdictions use the FRAND solution to counter patent hold-out by applying its "unwilling licensee test" to standard implementers and denying the protection of the FRAND defence against injunctive action to those proven to have engaged in its delaying practices.

Having defined the enforcement of FRAND commitments and the application of the unwilling licensee test as the two conventional elements of the FRAND solution, section five of chapter four demonstrated how it had been applied in five jurisdictions outside China. Section two of chapter five of the thesis then presented Chinese cases and regulation, in the form of a judicial interpretation of the Supreme People's Court ("SPC") and judicial enforcement guidelines the Beijing Higher People's Court ('HPC') and Guangdong HPC has issued, as examples of the application of the FRAND solution legal transfer in China.

However, section three of chapter five also noted a third element in the determination of the injunction applications of FRAND-encumbered SEP owners. This third element consisted of the imposition of additional conduct obligations on SEP owners that went beyond the conventional FRAND solution obligation to offer FRAND terms.

Nonetheless, in chapter six, it was demonstrated that in all of the cases discussed in chapter four, all of the courts and administrative agencies in the other five jurisdictions had applied this third element of additional conduct obligations on SEPs. Finally, in section two of chapter seven, a comparison of the conduct obligations regimes of these five jurisdictions with the regime implemented in China, revealed that the additional conduct obligations

¹⁴ As discussed in chapters five and six, in China, South Korea, Japan and the European Union, taking injunctive action against a standard implementer that is willing to enter into a licensing agreement ('a willing licensee') can also result in the SEP owner incurring liabilities under the competition law for an abuse of dominant market position. See section 4.4 of chapter 5 and sections 3.3.3 and 5.2.2 of chapter 6. In the US *Microsoft Corp* ('Microsoft') v *Motorola Inc* ('Motorola'), the injunctive action of the SEP owner, Motorola was found to breach its contractual good faith and fair dealing duty, resulting in it incurring civil liabilities totalling 14.52 million USD: *Microsoft Corp v Motorola Inc*, 795 F 3d 1024; 1034 (9th Cir, 2015).

imposed on SEP owners, in their type and number, were not extreme and approximated the regimes applied in South Korea and Japan – if not the United States and the EU.

Thus, on these grounds, this thesis argues that China's regime for determining the injunction applications of FRAND-encumbered SEP owners generally complies with the FRAND solution as adopted and applied in the other five jurisdictions examined in this thesis. Therefore, this general compliance with the process being applied in these other jurisdictions, offers one basis to imply that the determinations being made in China are being made according law.

2.3 Criticisms of Chinese FRAND solution regime mostly unjustified

The third ground for concluding that Chinese courts can make determinations of the injunction applications of FRAND-encumbered SEP owners according to law is that most criticisms of the process so far proposed seem to be unjustified.

The thesis responded to these criticisms in sections three and four of chapter seven. The criticisms included assertions that China's proposal to deny injunctive relief to FRAND-encumbered SEP owners that negotiated in bad faith was unprecedented and potentially in breach of China's international legal obligations.

Section three in chapter seven demonstrated that, at the time that China had made this proposal in 2014, courts in South Korea and the Netherlands had denied injunctions to FRAND-encumbered SEP owners for their bad faith conduct in negotiations. Similarly, terms of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ('TRIPs') were shown to grant member states considerable discretion in regulating against abuses of IP rights.¹⁵ The close similarities between the 2017-18 Beijing and Guangdong HPC guidelines and the anti-IP rights abuse guidelines that South Korea and Japan had issued in 2014 and 2016 respectively, also suggest that all of these measures are TRIPs-compliant.

Further criticisms of the Chinese injunction determination regime – including the proposed inclusion of the good faith principle in a future revision of the patent law – saw these

¹⁵ 'Marrakesh Agreement Establishing the World Trade Organization, Opened for Signature 15 April 1994, 1867 UNTS 3 (Entered into Force 1 January 1995) Annex 1C ('Agreement on Trade-Related Aspects of Intellectual Property Rights') arts 7, 8.2, 40.2 ('TRIPs Agreement').

measures as ‘unnecessary’.¹⁶ It was also suggested that the abuse of rights prohibition was ‘vague’ and that its inclusion in Chinese patent law would create additional uncertainty for patent owners that ‘may take years to address through litigation and further reform’.¹⁷

The thesis argued that the inclusion of an article in the patent law stating that patent owners should exercise their rights in compliance ?? with the good faith principle may be necessary as patent owners were already subject to this obligation but did not appear to know it. Also, Chinese courts should be reminded that the good faith principle could be applied to remedy a situation where there was no regulation to guide the court’s decision or where the existing regulations would produce perverse outcomes.

On the alleged vagueness of the abuse of patents prohibition, section 3.2.2 of chapter seven noted that the 2017 semi-official commentary on the GRCL, discussed in section 4.2.2 of chapter five, suggested that the prohibition be seen as the negative duty to the large positive duty to act in good faith. As such, a SEP owner could look to that and other semi-official commentaries on the good faith principle to conversely identify its meaning. Nonetheless, section 3.2.2 of chapter seven recognised the limitations of these commentaries for insights into Chinese law, as Chinese academic, Han Shiyuan has noted. Even so, drawing on Gunther Teubner’s discussion of the good faith principle, the chapter argued that this BLP and others in China should not be seen as an amorphous, unchanging and elusive form of social morality. Instead, they are the product of a dynamic confluence mix of social policies from a wide range of sources, even if ‘policies of institutionalized politics’ that were privileged above all else.¹⁸

Despite rejecting most of the criticisms of the emerging Chinese process for determining injunction applications involving FRAND-encumbered SEPs, section 3.2.3 of chapter seven refers to accounts suggesting that the regime may still be subject to a significant degree of uncertainty. In particular, Chinese judge Guo Baishun, in his 2015 study of over one hundred

¹⁶ Jacob Schindler, ‘Patent Abuse in China – Could Solutions Be Worse than the Problem?’, Globe Business Media Group, Intellectual Asset Management (iam) Media Blog (20 March 2019) <<https://www.iam-media.com/law-policy/patent-abuse-china-could-solutions-be-worse-problem>>.

¹⁷ Ibid.

¹⁸ Gunther Teubner, ‘Legal Irritants: Good Faith in British Law or How Unifying Law Ends Up in New Divergencies’ (1998) 61 *The Modern Law Review* 11, 23 (‘Legal Irritants’).

cases applying the good faith principle that were reprinted in the *Supreme People's Court Gazette*, identified systemic factors hindering the effectiveness of this decision-making.¹⁹ These included: 1) the underdeveloped state of good faith jurisprudence in China; 2) the poor reasoning of some Chinese judges; and 3) the insufficient guidance being provided by senior courts in this area of the law.²⁰ The latter section included the review of the 2017 *Wang v Ellassay* guiding case that, as noted above, provided an incomplete account of its application of an abuse of rights action.

Nonetheless, chapter seven suggests that the judicial and institutional reforms discussed in chapter three of the thesis – including the creation of specialist IP courts with the right to appeal directly to the SPC – may be a targeted attempt to remedy the above shortcomings. Through the specialist IP courts, sitting judges can apply their expertise in patent law and technology to most efficiently develop a relevant jurisprudence and higher standards of reasoning. The 2018 establishment of the SPC IP Appeal Court to receive all appeals from the regional specialist IP courts, effectively integrates these regional courts into a national institution, that further ensures a greater competence and consistency in their decision-making.²¹

Finally, the review of global licenses and anti-suit injunctions granted in the UK and US, further demonstrates how the evolving regime for the determination of injunction applications in China has been generally misunderstood. As argued in section 4.1 of chapter seven, the UK courts' global licensing practices do not consider the different conduct obligations that jurisdictions have imposed on FRAND-encumbered SEP owners.

UK decisions awarding global licenses have argued that these awards apply to the patent family of a FRAND-encumbered SEP and not its individually-registered patent in any single

¹⁹ 郭百顺 [Guo Baishun], 《论诚信原则在民事审判中的适用 — 以<最高人民法院公报> 案例为样》 [On the Application of the Principle of Good Faith in Civil Trials - The Example of Supreme People's Court Gazette Cases]' in 贺荣 [He Rong] (ed), 《司法体制改革与民商事法律适用问题研究—全国法院第 26 届学术讨论会获奖论文集 (上下)》 [Judicial System Reform and Research Issues Concerning the Application of Civil and Commercial Law - 26th National Court Academic Symposium Prize-Winning Papers (Combined Volume)] (人民法院出版社 [People's Court Press], 2015) ('Applications of Good Faith Principle in SPC Gazette Cases').

²⁰ See section 3.2.3 of chapter 7.

²¹ See section 3.2.2 of chapter 3.

jurisdiction. Therefore, these decisions have argued, a global license does not stop a standard implementer from challenging the validity, infringement, etc. of a patent in the different jurisdictions in which it is registered.

However, chapter seven argues that because these globally license-issuing courts ignore the different conduct obligations that apply in different jurisdictions, standard implementers may be forced to pay excessive royalties than would otherwise apply. Section 4.1.3 of chapter seven offers the example of the “Vringo problem”, that may permit SEP owners to charge unilaterally-determined global licensing rates. It was argued in that chapter that courts and other agencies in China, South Korea and Japan would be unlikely to permit a SEP owner to impose a unilaterally-determined royalty rate, even if this was still within the FRAND range. Therefore, without allowing for the differences in conduct obligations between jurisdictions, these global license decisions risk imposing significantly higher royalties on standard implementers that they would incur in jurisdictions because of these differing obligations.

In the case of the anti-suit injunctions applied in the UK and US in relation to parallel actions initiated in China, section 4.2 of chapter seven notes UK and US decisions in which doubts are raised about whether the proceedings in the Chinese court would be determined according to law.

As discussed in chapter seven, the 2018 UK case did not grant an anti-suit injunction. However, the court in *Conversant Wireless Licensing SARL* (‘*Conversant*’) v *Huawei Technologies Co Ltd* (‘*Huawei*’), *ZTE Corp* (‘*ZTE*’) and others, stated it would have done so had ZTE not amended its pleading in a parallel action in a Chinese court.²² Most likely, the UK court would have explained its reasoning more fully had it imposed an anti-suit injunction. Also, its comments have to be accepted at face value without a copy the Chinese pleading being available. Nonetheless, chapter seven argues that the UK court’s statement that it would have otherwise issued an anti-suit injunction seems an overreaction to and misunderstanding of the Chinese determination regime. The chapter noted that many of the offending elements in the withdrawn pleadings would not be out of place in a similar action under EU law. This includes claims that the offered terms are not FRAND-compliant, that its negotiations conduct breached its FRAND duty and that the FRAND-encumbered SEP owner should incur civil liability for seeking an injunction against a willing licensee. Nonetheless,

²² See section 4.2.3 of chapter 7.

the court sees these pleading as threatening to its own jurisdiction and otherwise lacking legitimacy.

In the 2018 US decision in *Huawei Technologies Co Ltd* ('Huawei') v *Samsung Electronics Co Ltd* ('Samsung'), the US District Court for the Northern District of California similarly seems to misunderstand the parallel Chinese action. Rather than see it as a peer jurisdiction determining an injunction application according to law, the Californian court assumes that the Chinese court's decision is incomplete, having only 'evaluated the parties' licensing negotiations.'²³ Accordingly, the US court assumes that it will still need to determine whether Huawei and Samsung, the SEP owner and standard implementer have failed to fulfil their FRAND commitments, which US case law assesses as a contest of 'breach of contract claims'.²⁴

3 Bases for ancillary findings

3.1 Four injunction determination regimes have failed since 2008

As set out in section four of chapter three of this thesis, regulatory initiatives beginning with the *Chaoyang Xinguo* case letter that the SPC issued in 2008 have attempted to regulate – most often by seeking to restrict – SEP owner's rights to seek injunctive action. As discussed, the attempts of the SPC to transpose its view in the 2008 letter that an agreement to license should simply be deemed if the SEP owner participates in standard-setting, failed to be issued in the binding form of a judicial interpretation. Likewise, the 2009 attempt of the Standardisation Authority of China ('SAC') to issue draft rules on the inclusion of patents in national standards came under heavy criticism and were not finalised. Finally, in 2014, the SAC co-sponsored a set of measures that were implemented. However, these rules avoided? evaded the issue of SEPs, by only stating that government departments will negotiate with a SEP owner that is unwilling to license a SEP in a mandatory national standard.

Finally, the application of the National Development and Reform Commission ('NDRC') of the anti-monopoly law ('AML') to the licensing practices of Qualcomm Inc ('Qualcomm') seemed like a successful regulatory outcome. As an exercise in deterrence, the NDRC

²³ *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* (ND Cal, No 3:16-cv-02787-WHO, 13 April 2018) slip op fn 18.

²⁴ *Ibid.*

extracted a record fine and a list of future commitments from a high-profile SEP owner. However, as noted in section 4.4.1 of chapter three, the use of the AML – in particular, its unfairly high pricing prohibition – attracted a barrage of inter-governmental and foreign investor criticism. In the end, China’s AML regulators felt obligated to publicly defend the legitimacy of their regulatory practices.

At the same time, in the same section, the chapter also pointed out that the AML is not very user-friendly for Chinese standard implementers seeking to make out a private action defence against the injunctive action of a SEP owner. The experience of Chinese firms has been that the market information data that they require to present a compelling market definition to a court with their target SEP owner in a dominant market position within this, is very difficult. Enhanced discovery mechanisms could improve these outcomes, however other factors noted in interviews and published material, including the limited expertise of Chinese courts and the weight of evidence plaintiffs need to gather, discouraging private action rates.

Thus, section 4.4.2 of chapter three proposed that the unpopularity of China’s application of the competition law to regulate SEPs – both among foreign SEP owners and Chinese standard implementers – may have encouraged a change of strategy and choice of law.

Alternatively taking up the FRAND solution, China can still prohibit the same licensing practices as it had under the AML, as Dae-Sik Hong has noted in his comparison between the NDRC and KFTC actions against Qualcomm in chapter three.²⁵ Yet, in particular, doing so through an abuse of rights-based approach, as chapter five argues the 2016 interpretation proposes to do, China can enjoy a “safety in numbers” alongside similar actions being applied in South Korea and Japan, as set out in chapter six of this thesis.

3.2 Current incomplete determination regime risks regulatory failure

A second ancillary conclusion of the thesis is that, while the apparently chosen basis for applying the FRAND solution in China is the abuse of rights doctrine, this doctrine needs to be more fully substantiated under Chinese law.

Basing the existence of this doctrine in China on general principles drawn from the Chinese constitution and BLPs, and the decisions of a few lower level courts – as He and Chen, and Qin Jie, were noted as doing in section 4.2.2 of chapter five – seem to lack sufficient legal

²⁵ See section 4.4.2 of chapter 3.

authority. This seems especially the case if these claims are to be used as grounds for denying SEP owners their fundamental right to exclude other from implementing their IP.

The 2019 proposed revision to the *Patent Law*, that would include the stated obligation that patent owners abide by the good faith principle, together with an abuse of rights prohibition, as cited in section 3.2 of chapter seven, would seem more substantive. This is regardless of the fact that the good faith obligation already applies as noted in the previous chapter.

Nonetheless, such a provision would mirror the matching of the good faith principle with the abuse of rights principle in the South Korean and Japanese civil codes, and so could be seen as establishing a similar intent.

At a more detailed level, the SPC or lower courts need to define more of the terms included in the abuse of rights formula in the 2017 *Wang v Ellassay* guiding case discussed in section 3.2.3 of chapter seven. The cases to follow *IWNComm v Sony* and *Huawei v Samsung*, discussed in chapter five, would be helpful if they could define the nature of a SEP owner's FRAND duty. If China's BLPs are to be the basis of this duty, as proposed in *Huawei v IDC* and He and Chen in section 4.3.1 of chapter five, as Han Shiyuan proposed in section 3.2.2 of chapter seven, China's legal commentaries need to provide more comprehensive definitions of these terms and associated concepts.

The 2017-18 *IWNComm v Sony* and *Huawei v Samsung* decisions reassured FRAND-encumbered SEP owners in China that they had retained their injunction rights.²⁶ However, the details of this injunction determination process must be clarified soon. If not, SEP owners

²⁶ 《西安西电捷通无线网络通信股份有限公司与索尼移动通信产品（中国）有限公司侵害发明专利权纠纷—案》[*IWNComm Co Ltd v Sony Mobile Communications Products (China) Co Ltd – Infringement of Patent Dispute Case*], 北京知识产权法院 [Beijing Intellectual Property Court], 京知民初字第 1194 号 [First Instance Decision No 1194], 22 March 2017 (n 5); 《索尼移动通信产品（中国）有限公司与西安西电捷通无线网络通信股份有限公司侵害发明专利权纠纷二审民事判决书》[*Sony Mobile Communications Products (China) Co Ltd v IWNComm Co Ltd – Second Instance Civil Judgement in Infringement of Patent Dispute Case*], 北京市高级人民法院 [Beijing Higher People's Court], 京民终 454 号 [Second Instance Civil Court Decision No 454], 28 March 2018 (n 5); 《华为技术有限公司与三星（中国）投资有限公司》[*Huawei Technologies Co Ltd v Samsung (China) Investment Co Ltd – Infringement of Patent Dispute Case*], 广东省深圳市中级人民法院 [Guangdong Shenzhen Municipal Intermediate People's Court], 粤 03 民初 816 号 [First Instance Decision No 816], 4 January 2018 (Deheng Law Office trans) (n 6).

licensing in China may begin to doubt that their injunction applications have any chance of being determined according to law. In such a situation, the current, incomplete regime may share the same fate as its predecessors.

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