

## Highlights of June



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We are delighted to announce that Spring Chang, Founding Partner of Chang Tsi & Partners, has been named in the 2022 edition of WIPR Leaders.

### **Chang Tsi & Partners Awarded as Employer of Choice by LEGALBAND**

Recently, LEGALBAND, the well-known legal rating agency, released the “Employer of Choice: China Top 20 Law Firms”, recognising Chang Tsi & Partners as one of the best employers in the legal industry.

### **Chang Tsi & Partners Won China Business Law Awards 2022**

China Business Law Journal, a leading legal media, has recently released its China Business Law Awards 2022. Chang Tsi & Partners has once again won the award.

### **Encountering Chinese SEP Litigation in Foreign Jurisdictions**

Michael Wu of Chang Tsi & Partners explains why Chinese enterprises dealing with SEP litigation should respond actively to ensure the issue is litigated before the Chinese courts.

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### **Holiday Notice**

Please note that 1 July 2022 has been declared a Public Holiday by Hong Kong Government. Therefore, the Intellectual Property Department of Hong Kong, as well as our Hong Kong office will be closed during this period. All deadlines falling on a holiday will be automatically extended.

Should you have any urgent cases, please let us have your instructions ahead of the holidays.

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Profiling the leading IP practitioners from around the world, WIPR Leaders aims to provide "a must-keep collection of contacts who have provided the highest quality patent, trademark, and copyright advice".

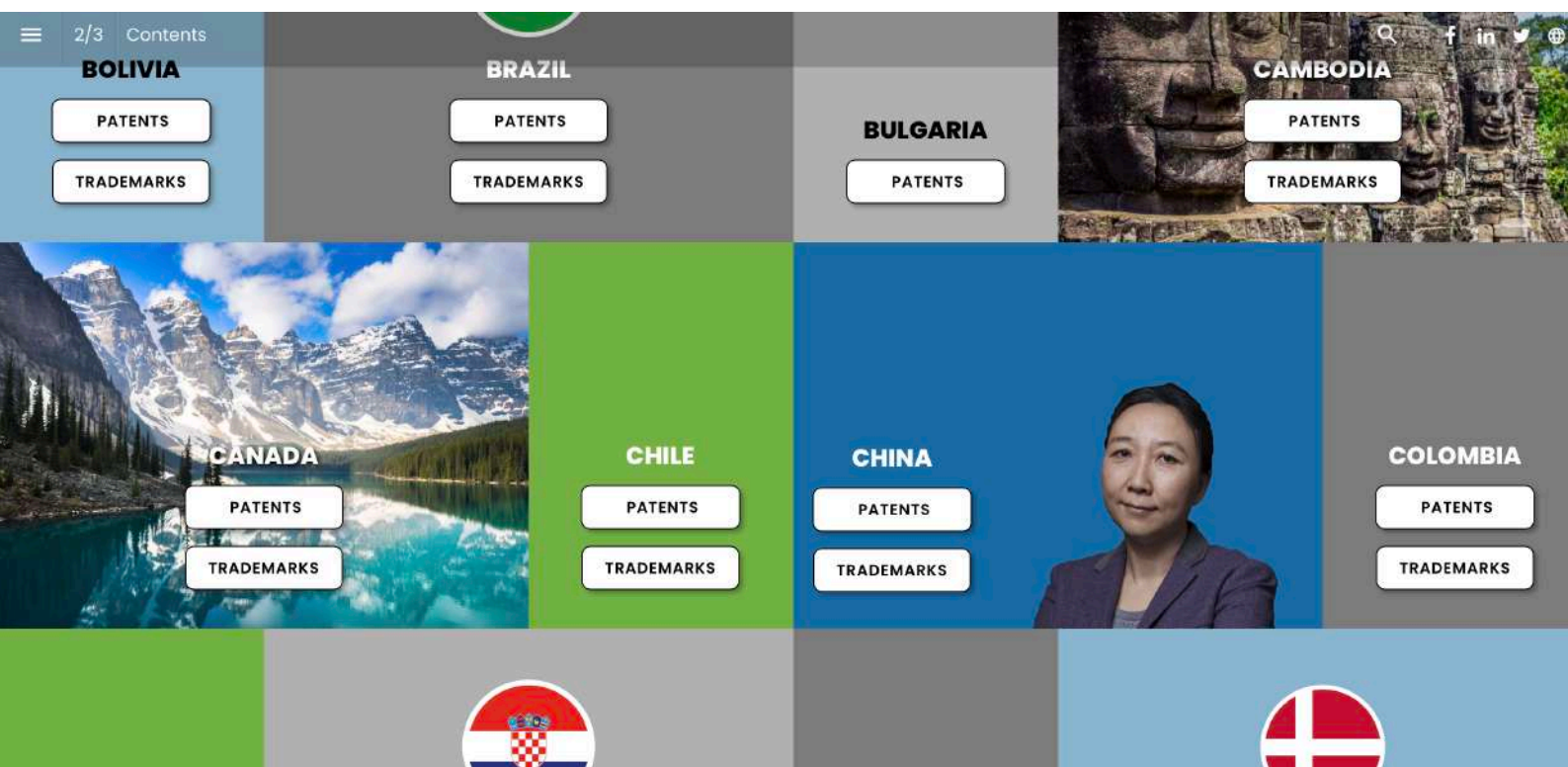
Commented by WIPR, Spring Chang is "a razor-sharp IP attorney who has advised and represented hundreds of major electronics, consumer, pharmaceutical, apparel and jewellery companies in the Chinese market, as well as Chinese companies overseas."

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LEGALBAND, as a part of Accurate Media Group headquartered in Hong Kong, has provided their rankings of the leading commercial law firms for different jurisdictions, regions, legal markets and practice areas.

Established in 2002, Chang Tsi & Partners is a "National Outstanding Law Firm (nominated by Ministry of Justice of China)" with a strong reputation in intellectual property and litigation. In addition to its deep expertise in trademark, patent, copyrights and other traditional areas of intellectual property, Chang Tsi & Partners also has as been focusing on highly specialized business areas, such as IP Commercial and corporate law.



## **Chang Tsi & Partners Won China Business Law Awards 2022**

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Based on the unremitting efforts in covering China's legal market, China Business Law Journal selected the winners under each category after months of research and evaluation, getting direct feedback from the market, examining thousands of votes and recommendations from domestic and international corporate counsel, decision-makers from management, legal academics and government officials, and taking into account significant transactions, cases or other notable achievements in which each firm has been involved in the past year. Join us on 27 May 2022 from 4.15 pm to 5.55 pm (GMT + 8 | KL/SG/Beijing Time) to hear more! Michael Fu Invited by INTA to Present on China's IP Judiciary.

## **Freda Han Invited to International Conference of Foreign-related Legal Talents Cultivation**

**F**reda Han, Partner of Chang Tsi & Partners, was recently invited to deliver a speech at the International Conference of Foreign-related Legal Talents Cultivation.

Organized by the China University of Political Science and Law, this international seminar on legal talent training has attracted a lot of

attention. Prof. Ma Huaide, President of China University of Political Science and Law, Prof. Ki Jeong Han, Dean of Seoul National University School of Law, Prof. Tra Pham, Assistant Dean of Moritz College of Law at The Ohio State University, and many other elites from industry, academia and government participated the conference.



Discussion topics include "Goal and Orientation of Foreign-related Legal Talent Training", "Model and Innovation of Foreign-related Legal Talent Training", and "Internationalisation of Legal Education".

Based on practical experience, Freda Han shared the training path of the foreign-related legal talents, and communicated in-depth with other guests, providing a reference for the system design of China's foreign legal education.

## **Encountering Chinese SEP Litigation in Foreign Jurisdictions**

Michael Wu | *Partner*

One of the major advances in the telecommunications industry in recent times is that **3GPP standards for mobile phone communications are applied on a global basis.**

The global nature of the mobile phone trade market requires that licenses for standard essential patents (SEPs) are granted worldwide. However, the territorial nature of patent rights raises the question of how the courts of the country of origin should handle the issue of worldwide licensing based on this territorial right when the enforcer's defense to allegations of patent infringement on the basis of the fair, reasonable and non-discriminatory (FRAND) principle invariably involves a dispute over global trade and global licensing?

Patent lawyers spend a great deal of energy arguing about **what FRAND is and who should decide the definition of FRAND**, with each side trying to argue to the court what it thinks is the most favourable outcome for itself.

Licensing of SEPs is usually brought before the relevant domestic courts in two situations: either to seek a court decision granting a domestic injunction against infringement, or to seek a court decision granting a license rate consistent with FRAND commitments.

In March 2014, **Unwired Planet brought an action against Huawei, Samsung and Google for the infringement of its UK patents**, including five standard essential patents covered by 2G, 3G and 4G

telecommunication standards.

After technical trials concerning the validity and infringement of the patents at issue, two of these SEP were held valid and infringed. Since Google and Samsung settled with Unwired Planet during the proceedings, only the non-technical issues on competition law and FRAND remained to be resolved between Huawei and Unwired Planet.

In April 2017, the High Court of England and Wales (English High Court) issued a judgment on the non-technical issues (Unwired Planet v Huawei). In this judgment, Mr Justice Birss issued a novel and interesting opinion regarding the meaning of FRAND, FRAND royalties and injunctions, which have raised intense discussions in the academic and legal practice fields.

The English High Court's decision, which decided that Unwired Planet and Huawei should accept a global FRAND license for the alleged SEP, may have exceeded the territorial reach of the English court since the jurisdictional reach of a court typically only extends to patent rights granted in that jurisdiction. Any determination of patent royalties outside that jurisdiction, which would stem from patent rights granted by foreign jurisdictions, would exceed the territorial reach of the court. Huawei appealed to the England and Wales Court of Appeal (English Court of Appeal) and contended that the imposition of a global license on terms decided by a national court based on a national finding of infringement was wrong in principle and led to manifestly unjust results. However, the English Court of Appeal supported the decision of the English High court, although it disagreed the opinion that there is only one set of FRAND license terms.



The court took a similar approach in the subsequent cases of *Conversant v Huawei* and *ZTE*. Both the *Wireless Planet* case and the *Conversant* case were eventually appealed to the UK Supreme Court. The UK court stated that the injunction would not be enforced if the implementer accepted the FRAND license, and set out the relevant FRAND license terms. The English court held that it was consistent with the FRAND principle to rule on a global license and therefore set out specific conditions for a global license. This decision is likely to impact IP strategy for Chinese companies in the field of SEP litigation and negotiation.

This article begins with an analysis of the **negative impacts of Unwired Planet v Huawei and Conversant case**, and examines the jurisdictional claims as they relate to Chinese SEP, and then provides a comparison of how this situation may be viewed under Chinese legal practice. Finally, this essay will conclude with advice to Chinese enterprises on how to deal with foreign enterprises when they encounter SEP litigation in foreign jurisdictions.

## **Negative impacts due to the judgment in Unwired Planet v Huawei**

Patents are territorial in nature, and the principles of territoriality cannot be casually breached. Nevertheless, the English court decided to award global royalties for Unwired Planet's SEP, including those valid in China, without the mutual consensus of Unwired Planet and Huawei.

The rights granted by a patent are restricted to the country or region where the patent is granted, and courts in other countries cannot decide the validity of this patent. In addition, the value of the patent should be determined by courts in the country or region where the

patent is granted, in accordance with national and local law. On the basis of the doctrine of international comity, courts in other countries should not overstep these territorial boundaries.

However, according to paragraph [543] in *Unwired Planet v Huawei* [2017] EWHC 711 (Pat), the English High Court considered the scale and geographical scope of Unwired Planet's portfolio, and held that only the global license complied with FRAND, because "a licensor and licensee acting reasonably and on a willing basis would agree on a worldwide license. They would regard country-by-country licensing as madness. A worldwide license would be far more efficient". Similarly, the English Court of Appeal also held in paragraph [55] in *Unwired Planet v Huawei* [2018] EWCA Civ 2344, "It may be wholly impractical for a SEP owner to seek to negotiate a license of its patent rights country by country, just as it may be prohibitively expensive for it to seek to enforce those rights by litigating in each country in which they subsist".

As a result, Huawei was required to conclude a license agreement with Unwired Planet based on the global royalties and terms confirmed by the English High court. Without a SEP license, Huawei's marketing activities would be blocked by an injunction. This effectively meant that, without the license, Huawei's mobile phones and servers would be prohibited from sale in the UK. This decision is a violation of the principle of territoriality, because the English High court also decided royalties for the SEP valid in China when awarding global royalties for Unwired Planet's SEP.

The judicial determination of royalties in other territories should be based on the agreement between SEP owners and

licensees. However, in *Unwired Planet v Huawei*, the English court decided on global royalties and ordered both parties to conclude a global license agreement, despite the objections of Huawei.

As a matter of fact, global licenses are concluded on the basis of consensus between SEP owners and licensees, after they consider all commercial aspects, for example, transaction costs, in terms of worldwide patent portfolios covered by international standards. Thus, global licenses are the embodiment of the freedom of commerce and the autonomy of the parties. SEP owners and licensees can also agree to a national license.

Nevertheless, in *Unwired Planet v Huawei*, *Unwired Planet's* proposal included offers of a worldwide SEP portfolio license and a UK SEP portfolio. Huawei had expressed its willingness to conclude a license based on the UK patent portfolio, and a willingness to accept any royalties and terms determined by the English High Court as they relate to the UK patent portfolio. In this scenario, the English High Court insisted on the validity of the global license, and forced Huawei to conclude a license agreement with global royalties under the threat of an injunction.

**In SEP litigation and negotiation, the judicial determination of global royalties without the consent of both SEP owners and licensees may cause the hold-up of royalties worldwide.** For example, in the event of a dispute under the jurisdiction of Chinese courts, the conduct of the English court may 'abduct' patent licenses in China. The reason is that it may force Chinese enterprises to accept unreasonable royalties (i.e. Huawei in this case) or otherwise abandon the market in the UK. In the meantime, it may encourage some non-

practicing entities (NPEs) to forum shop, to choose one favourable jurisdiction for the sake of achieving a global license for their SEP.

Accordingly, the judgment in *Unwired Planet v Huawei* is more likely to cause an increasing number of SEP owners to bring an action against Chinese enterprises for patent infringement in the UK, in order to seek global royalties, which will have a negative influence on Chinese enterprises. In fact, *Convince* case, which may have been a direct result of *UP v Huawei*, was followed by a series of patent actions initiated by numerous NPEs in the UK.

## **Rules on the jurisdiction over SEP litigations in the framework of Chinese Patent Law**

Article 16 of 'Guidelines of Guangdong High People's Court on Adjudicating Cases of Disputes over Standard-Essential Patents (Trial)' stipulates that, "Where the claimed territorial scope of the relevant licensed SEP on which judicial determination is requested by the patentee, or the licensee of the SEP exceeds the territorial scope of the court, and the other party does not explicitly raise an objection in the judicial proceeding, or the objection raised is deemed unreasonable after examination, determination can be made on the royalty for such claimed territorial scope".

## **Royalties to be determined are limited to the territorial reach of the court**

The case of *Huawei v IDC* ((2013) Yue Gao Fa Min San Zhong Zi No. 305) concerned the disputes on SEP license royalties. In this case, IDC held patents essential for the 3G standard. It participated in the relevant standard-setting organization and provided a FRAND commitment. The two parties held a

long-term negotiation, but they did not reach an agreement on the amount of licensing fees. Therefore, Huawei initiated an action and requested the court to determine the license royalties in accordance with FRAND principles.

Based on Chinese law, the Guangdong High People's Court comprehensively considered the quantity, quality, and value of the relevant SEP, the share of patents in the standard, and the relevant licensing conditions. **The court finally determined that the licensing rate should not exceed 0.019%.** The royalties decided by the Guangdong High People's Court was that Huawei needed to pay IDC for Chinese SEPs in China. Note that his decision was limited in scope to royalties in China, instead of globally.

## **Global royalties compliance with FRAND based on negotiation between SEP owners and licensees**

In the case of Huawei v Samsung ((2016) Yue 03 Min Chu No. 816), Huawei, as an owner of the SEP for the 3G standard, claimed that Samsung manufactured, sold, promised to sell, and imported handsets implementing the 3G communication standards without permission.

In the negotiation of SEP cross licenses between the two parties, FRAND principles was violated and the negotiation was delayed. Thereafter, Huawei requested an injunction for patent infringement. The Shenzhen Intermediate People's Court analysed this issue and found that Huawei did not violate FRAND principles, while deciding that Samsung did. Therefore, it granted an injunction against Samsung.

In order to reach a license agreement for the worldwide SEP portfolio, the subject matter of the negotiation between Huawei and

Samsung involved a worldwide cross license. Therefore, the Shenzhen Intermediate People's Court determined the global royalties that Huawei provided to Samsung were in conformity with FRAND principles, based on the negotiations between Huawei and Samsung.

Contrary to the decision in *Unwired Planet v Huawei*, Chinese courts can decide on royalties for Chinese patents in China, or decide on whether global royalties complied with FRAND based on the negotiation between SEP owners and licensees.

In 2021, the Supreme People's Court of China heard the case of *OPPO v Sharp*, in which the Supreme People's Court found that it was entitled to determine the global FRAND license rate for the defendant Sharp's patent package.

## **Advice for Chinese enterprises in terms of SEP litigation**

Considering the negative impacts caused by *Unwired Planet v Huawei*, **Chinese enterprises should not abandon their rights in respect of SEP disputes in Chinese courts.** The available options are, for example, requesting the court to determine SEP license royalties, challenging the validity and essentiality of the SEP, seeking a determination of non-infringement, or bringing an antitrust claim against the SEP owner.

In terms of worldwide SEP, if the relevant patents are valid in China, Chinese courts have jurisdiction over disputes between the relevant patents. In *Huawei v IDC*, IDC objected to the jurisdiction of the court. IDC argued that the negotiation between IDC and Huawei focused on worldwide patent portfolios covered by international standards, rather than merely on Chinese patents. Both

parties never negotiated a specific patent license in a particular country. Nevertheless, the Guangdong High People's Court held that this case was under the jurisdiction of the original court where the harm caused by the infringement occurred.

According to Article 533 of Interpretations of the Supreme People's Court on the Application of the Civil Procedure Law of the People's Republic of China, "Where both a court of the People's Republic of China and a court of a foreign country have jurisdiction over a case, if one party files a lawsuit in a foreign court, and the other party files a lawsuit in a court in the People's Republic of China, the People's Court can accept the lawsuit."

Moreover, Su Hua suggested in her article Standard essential patent disputes: jurisdiction, license and antitrust -- from the perspective of Unwired Planet v Huawei on the publication of Price Supervision and Anti-Monopoly in China (issue 3, 2018), in Unwired Planet v Huawei, if the judicial determination of global royalties are requested, Chinese courts are more suited to make this decision because Huawei's products are sold on a small scale in the UK and Huawei's products are manufactured entirely in China.

**Second, the provisions of Chinese Law should be referred to and applied when competent Chinese courts adjudicate SEP disputes.** In China, the application of patents should be governed by the rules of Chinese Patent Law. Also, the protection for patents, after they are granted, such as the duration of the patent and the procedures, should follow the provisions of Chinese Law, rather than following the rules of the applicants' domicile or the rules of other countries.

Article 8 of the Guidelines of Guangdong

High People's Court on Adjudicating Cases of Disputes over Standard-Essential Patents (Trial) provides that for adjudication of disputes concerning SEP, with regard to issues including, but not limited to, the interpretation of FRAND principles, the determination of the scope and exercise of the rights of the relevant SEP, and the definition of the nature of related actions, the court shall in general consider applying the local laws of the place where the protection is claimed or the *lex fori*.

In Huawei v IDC, the court held that, first, this case was about SEP license royalties. The dispute between the two parties was not about whether Huawei and IDC should participate in the ETSI agreement, or whether the relevant provisions of the ETSI agreement were appropriate.

Second, according to Huawei's claim, the SEP in this case only pertained to those granted in China, not those granted in France or other countries. In other words, the subject matter of the dispute was IDC's patents or patent application in China.

Third, there was no agreement between Huawei and IDC on the law to be applied in case of a dispute over the SEP royalties. Huawei, with its domicile, had the closest relationship with China. Fourth, the SEP in this case was granted in accordance with Chinese patent law. Therefore, Chinese law should be applied in this case.

Finally, when the same subject of a case litigates against the same subject matter in different jurisdictions, the initiation of litigation in China will have a substantial impact on the rights and obligations on the SEP. For example, in Huawei and IDC, IDC sued Huawei for patent infringement in the United States and requested an injunction,



while Huawei accused IDC of abusing its dominant position in China ((2013) Yue Gao Fa Min San Zhong Zi No. 306).

The Guangdong High People's Court finally requested IDC to immediately stop the overpricing, differential pricing, tie-in selling, attaching unreasonable trading conditions, and refusing to trade. The court also agreed with the damages requested by Huawei and decided that IDC should compensate Huawei for economic losses of RMB 20 million. This judgment has helped Huawei reduce its burden of patent infringement cases launched by IDC in the United States.

In September 2021, ZTE filed a suit before the Shenzhen Intermediate People's Court, asking the court to determine a global license rate in line with the FRAND principle for its own global patent portfolio of 4G LTE SEPs held by ZTE. This is the first time a Chinese company has taken the initiative to request a court in China to determine the global license fee rate for its own patent portfolio.

**In conclusion, when Chinese enterprises encounter SEP litigation, they should respond actively, and ensure the issue is litigated before Chinese courts.**



## **Michael Wu, Partner**

Mr. Michael Wu specializes in matters related to patent, copyright, trademark, and unfair competition litigation, enforcement of IP rights and more. Wu has a unique understanding of mobile telecommunications patent litigation, software patent litigation, and copyright litigation related to the internet. Wu obtained his Bachelors and Masters Degrees in Material Science from Wuhan Technology University in 1996 and 1999, respectively. He further pursued a J.M/J.D. degree at Peking University in 2014, where he systematically studied

Chinese and American law. Prior to practicing law, Wu spent ten years in the field of mobile telecommunications, and founded a company specializing in mobile telecommunication services.

He has been invited to serve as a member of the China Global Advisory Council (GAC) of INTA for 2022 - 2023. He is also a frequent speaker of IP seminars and client training courses regarding China's IP strategy.