A photograph showing a person's hands holding a smartphone in the driver's seat of a car. The person is wearing a white lab coat and a black watch. The car's dashboard and air vents are visible in the background. The phone screen displays a map application with a blue route. The overall scene is brightly lit, suggesting daylight.

Guangdong court issues new guidance for standard essential patent disputes

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China is becoming an important battlefield in global disputes over the licensing of standard essential patents ("**SEPs**"). On 26 April 2018, the High People's Court of Guangdong Province – home to many Chinese high-tech companies – issued the Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation) ("**Guidelines**"). The Guidelines propose a holistic set of rules that consolidate some international practices on SEP-related issues. At the same time, they endorse the fault-based approach applied in two recent SEP cases in China, *Huawei v. Samsung* and *Iwncomm v. Sony*.

The Guidelines are proposed on a trial basis but will likely be followed by all courts in Guangdong Province. Several landmark SEP cases (such as *Huawei v. InterDigital* and *Huawei v. Samsung*) have been litigated in Guangdong.

In 2017, the Beijing High People's Court had issued the Guidelines on Determining Patent Infringements ("**Beijing Patent Guidelines**"), which provide guidance for assessing whether SEP holders breach commitments to license on fair, reasonable and non-discriminatory ("**FRAND**") terms and whether SEP implementers are at fault during the course of licensing negotiations. The Guidelines in Guangdong do not deviate too much from the Beijing Patent Guidelines, indicating that a consistent approach may be taken by major courts across China.

Fault-based test for injunctive relief

According to the Guidelines, when requested to decide whether to grant injunctive relief to an SEP holder, a court should evaluate the "fault" in the SEP holder and implementer's conduct during licensing negotiations. The following table illustrates how the fault-based test plays out under different scenarios.

Is the SEP holder at fault?	Is the SEP implementer at fault?	Does the court grant injunctive relief?
Yes	No	No
No	Yes	Maybe
Yes	Yes	Maybe, depending on the following factors: <ul style="list-style-type: none"> – relative fault by SEP holder and implementer (comparison); – any remedial measures taken; – impact on the negotiation process; and – any causation between the fault and the breakdown of negotiations.
No	No	No, provided that the SEP implementer promptly provides a reasonable (financial) security

When assessing "fault," a court is to examine the parties' actions under the FRAND principle and commercial customs or trading habits (looking at factors such as their conduct in relation to the negotiation process as whole, timing, methods and content of the negotiations, reasons for any deadlock, etc.).

Specifically, for a SEP holder, the following conduct may be deemed as violating the FRAND principle and constituting material fault:

- not sending a negotiation notice or having sent a notice but failing to provide the scope of the patent rights according to applicable commercial customs or trading habits;
- after the SEP implementer has indicated its willingness to enter into licensing negotiations, failing to provide patent information (illustrative patent lists or patent claim comparisons) according to applicable commercial customs or trading habits;
- not proposing specific licensing terms or royalty calculation methods, or proposing clearly unreasonable licensing terms that prevent the conclusion of a licensing agreement;
- not responding within a reasonable time; and

- unjustifiably suspending negotiations, or leading them into a deadlock.

For a SEP implementer, the following conduct may be deemed as constituting material fault:

- refusing to receive the SEP holder's negotiation notice, or not responding to the notice within a reasonable time;
- unjustifiably refusing to sign a confidentiality agreement, leading to an impasse in the negotiations;
- not providing any substantive response, within a reasonable time on the patent information provided by the SEP holder;
- upon receipt of the SEP holder's licensing terms, not making any substantive response within a reasonable time;
- proposing clearly unreasonable implementation terms that prevent the conclusion of a licensing agreement; and
- unjustifiably delaying or refusing to proceed with the licensing negotiations.

Determination of royalty rates

A court should take into account the following aspects when determining FRAND royalty rates:

- comparable licensing agreements;
- "market value" of the relevant SEPs in dispute; and
- licensing conditions of comparable patent pools.

Importantly, the Guidelines clarify some frequent litigated issues:

- If a court's jurisdiction is territorially limited (e.g., China), but the licensing agreement in dispute covers a larger territory (e.g., worldwide), then the court can set the royalty rates for the entire territory – provided that the other party agrees.

It appears that the Guidelines differ on this point from the position adopted by the UK Patents Court in its 2018 decision in a SEP

case filed by Conversant Wireless Licensing S.A.R.L against certain Chinese companies. In that case, Conversant had asserted its patents against the Chinese defendants and requested the court to determine FRAND terms for patents in its global SEP portfolio. The defendants contended that, as Conversant's claims were in substance and effect claims for infringement of foreign patents, the validity of which was in dispute in China, the English court had no jurisdiction. Nonetheless, the UK Patents Court concluded that it did have jurisdiction to decide the appropriate terms for a global FRAND licence, even where the dispute had a relatively limited connection with the United Kingdom and where related Chinese court proceedings were ongoing (and where the Chinese court was in the major market for the disputed technology).

- According to the Guidelines, a party may ask a Guangdong court to request the other party to produce key evidence relating to the determination of SEP royalty rates. If the other party unreasonably refuses the request, the court may rely on the royalty rates proposed by the requesting party. This guidance shows that Guangdong courts may shift the burden of proof to force SEP holders to produce evidence to which SEP implementers could have requested access in jurisdictions with a strong discovery system.
- When analysing the "market value" of the SEPs in dispute, a Guangdong court should take a "top-down" approach (although the Guidelines do not use this precise term). In essence, the "top-down" approach looks first to the overall level of royalties associated with a standard and then allocates a portion of this total to an individual SEP holder based on the relative strength (i.e., amount and contribution) of its SEPs in that standard.

The court may stay proceedings when the SEP holder and implementer both agree to

continue their negotiations on the royalty rates. Proceedings should resume once any party feels it to be unnecessary to negotiate further. This shows that Guangdong courts favour a consensual approach before they move to determining royalty rates themselves.

Role of antitrust law in SEP disputes

The Guidelines also touch upon the interaction between intellectual property and antitrust law in SEP disputes. They outline the basic framework to analyse alleged abusive conduct in SEP licensing according to the Anti-Monopoly Law. The main idea is that alleged abusive conduct in the SEP licensing context does not automatically violate antitrust rules. Rather, the court should examine the anti-competitive effects of such conduct on a case-by-case basis. The Guidelines set out the key factors to be considered in that examination:

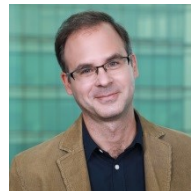
- **Violating the FRAND principle** – case-by-case-analysis of whether the conduct eliminates or restricts competition.
- **Seeking injunctive relief** – analysis of whether the SEP holder refuses to license to a willing licensee, or forces the licensee to accept unfairly high royalty rates or other unreasonable terms, thereby eliminating or restricting competition.
- **Demanding excessive royalty rates** – analysis of whether the SEP holder requests unfairly high royalty rates without justification, leading to the elimination or restriction of competition. To assess the impact on competition, the court may consider the SEP holder's historical licensing agreements, deviation from market price, overall negotiations process, and aggregate royalty rates in a standard.
- **Portfolio licensing** – analysis of whether portfolio licensing was forced upon the licensee, is reasonable and necessary, and would eliminate or restrict competition.

Conclusions

The Guidelines are consistent with the existing Beijing Patent Guidelines on how to handle injunctive relief applications. The Guidelines also provide deeper discussions on key issues that may come up in SEP litigation, especially when it comes to determining royalty rates. In SEP cases, injunctive relief may often be sought as a form of leverage to incentivise the SEP implementer agree to a SEP license, one reason why the Guidelines are important for companies doing business in or with China.

The Guidelines explicitly apply to SEP cases in the telecom industry only but, at the same time, mention that they can be used "by reference" in disputes in other industries. Hence, it is possible the Guidelines may have persuasive value beyond the telecom sector and – given the province's history of SEP litigation – beyond Guangdong.

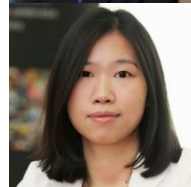
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