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Standard Essential Patent Update

IN THIS ISSUE

SPOTLIGHT

Judge Koh of the Northern District of California granted the U.S. Federal Trade Commission's (FTC's) motion for partial summary judgment against Qualcomm on 6 November 2018, in an antitrust case regarding the chipmaker's SEP licensing program. Judge Koh held that Qualcomm breached its FRAND obligations by distinguishing between finished device manufacturers and component manufacturers, refusing to license to the latter. In effect, the ruling means Qualcomm, as a SEP-holder would no longer be able to discriminate among entities at different stages in a supply chain: it must license its SEPs under FRAND terms to competing chipmakers and ultimate device manufacturers alike. Judge Koh's decision finds a breach of FRAND but stops short of finding a breach of antitrust laws. While a settlement is still possible, the case remains scheduled for trial on 4 January 2019, where the FTC will attempt to show that Qualcomm breached antitrust laws as well. More about this case from our team can be found in our article on IP Watchdog here.

For the Japanese translation of this article, please click here.

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JUMP TO

Global News and Notes

On 28 November 2018, Chinese state-owned telecommunications provider China Mobile, reportedly the world's largest telecom carrier by subscribers, announced royalty-free licenses for its 5G SEP portfolio at the GSMA Beijing Innovation Forum**.** China recently authorized China Mobile, China Unicom, and China Telecom to begin nationwide 5G trials, so the royalty-free license announcement comes as 5G commercialization appears imminent. China Mobile's announcement is also notable in its royalty-free distinction from Ericsson, Qualcomm, and Nokia, which have each announced royalty-bearing license rates for their 5G SEPs. Some view China Mobile's approach as an attempt to exert downward pressure on royalty rates for 5G SEPs, but its intent is unclear at this point. Analysis of the company's contribution to the 5G standard by IPlytics concluded that China Mobile is one of the top 10 contributors to 5G, providing more than 3% of the technology included in the final standard. Because the extent of China Mobile's 5G SEP portfolio is less known, however, the full impact of the announcement on potential licensees and the overall 5G licensing market remains to be seen.

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China Updates

There have been some developments in the pending appeal of *Huawei v. Samsung* at the Guangdong High People's Court. As we reported earlier this year, the Shenzhen IP court published two lengthy verdicts, finding Samsung infringed Huawei's 4G LTE related SEP and granting injunctive relief, ordering Samsung to cease its infringing activities. Samsung has already appealed the Shenzhen court's rulings to the Guangdong High People's Court. Meanwhile, we also reported that Judge Orrick (of the U.S. District Court for Northern District of California) issued an order enjoining Huawei from enforcing the injunction entered by the Shenzhen IP court, until he could evaluate a breach of FRAND case brought by Samsung in the U.S. Huawei similarly appealed Judge Orrick's ruling to the U.S. Court of Appeals for the Federal Circuit.

On 29 November 2018, the Federal Circuit ordered for a joint status report from Huawei and Samsung's representatives regarding the pending appeal to the Guangdong High People's Court. The joint status report was submitted to the Court of Appeals 30 November 2018, where it disclosed that following the appeal by Samsung, the parties held a pre-trial conference and exchange of evidence on 4 July 2018 and a presentation of evidence to the Guangdong High People's Court on 20 October 2018. It further disclosed that the Guangdong High People's Court held an oral hearing from 31 October to 1 November 2018, and that currently no decision has been issued and there is no set deadline for the Guangdong High People's Court to issue its ruling. The Federal Circuit likewise held an oral hearing in the "related" U.S. case on December 3, 2018, so decisions from both the Chinese and U.S. appeals courts are expected in the coming months.

On 1 November 2018, the Chinese Patent Review Board (PRB) invalidated one standard patent but maintained two others owned by Chinese NPE "Xuanpu." Since 2016, according to Chinese public records—which may be incomplete—Chinese NPE Shanghai Xuanpu has brought at least 14 patent infringement suits against MediaTek, all before the Shanghai IP Court. Following the suits, MediaTek filed invalidation requests on most of Xuanpu's asserted patents. On November 1, 2018, the PRB published three of its decisions concerning Xuanpu's patents related to TD-SCDMA, a China-specific 3G mobile standard, finding one of the patents invalid and two others valid.

The PRB found invalid invention patent 200610025850.2, which relates to upstream data transmission equipment in a TD-SCDMA system, based on existing prior art and novelty grounds. Furthermore, the PRB maintained as valid invention patent 200510025803.3, which relates to a detection and compensation method for timing deviation in Code Division Multiple Access System (CDMA), finding the claims sufficiently novel over cited prior art pertaining to a 3GPP Technical Specification manual pertaining to Physical Layer Procedures (TDD). The PRB also maintained as valid invention patent 200610025849.X which relates to a "synchronous receiving equipment," finding the claims sufficiently distinguished over cited prior art.

According to the Chinese Patent Office's database, Xuanpu currently has 57 Chinese patents in total—most of which based on preliminary review appear related to the TD-SCDMA Chinese standard. Add to that the recent wins by Xuanpu at the PRB, it would be sensible to keep a close watch on Xuanpu's activities moving forward.

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Germany Updates

The Düsseldorf District Court, 4c O 81/17, issued a relatively licensee-friendly judgment dismissing a claim for injunctive relief based on a defendant's successful FRAND defense. This decision fits into a bigger picture that first and second instance courts in Germany are now establishing a more balanced body of FRAND case law that is not too overly-friendly to SEP owners. The Düsseldorf court's judgment discuses several FRAND aspects and concretizes German case law:

- First, the court confirms and bolsters the now-prevailing opinion of German courts that both an infringement notification and a FRAND offer have to be made by a SEP owner before it files an infringement action including a request for injunctive relief. "Catching up" after filing the action is possible only under strict requirements.
- Second, the court emphasizes and further supports the opinion of German courts that there is a relatively far-reaching obligation of SEP owners to disclose information about previous license agreements, in order to prove that a license offer is non-discriminatory, as well as fair and reasonable. In its judgment, the court explains that the SEP owner has to disclose information about all relevant license agreements, *i.e.*, it must not selectively pick only some relevant agreements and keep others secret. Furthermore, the court explains that there may also be an obligation to disclose existing judgments relating to such previous license agreements and the patents-in-suit (or in the portfolio).
- Third, regarding the "non-discrimination" aspect of FRAND, the court explains that it is a discriminatory behavior to enforce patents against some companies but not others. According to the court, not enforcing a patent against a competitor of the alleged infringer has the same effect as granting a royalty-free license to that competitor, which discriminates against the alleged infringer. This basically means that a SEP owner has to enforce its portfolio against all relevant players on the market in order to prevent discrimination, which, of course, creates quite a high burden for SEP owners.
- Fourth, the court confirms that there is an obligation for the SEP owner to grant a license to implementers at every level of the supply chain. The court said it is unreasonable for a SEP owner to refuse to grant a license to a supplier which has expressly declared its willingness to take a license.
- Fifth, the court clarified that for an offer to be FRAND compliant, it must take address the potential of patent exhaustion in an appropriate way, in order to avoid double-payments on different levels of the supply chain. According to the court, it is not FRAND to put the burden of proof of patent exhaustion on the licensee, since in most cases it will be impossible for the licensee to prove exhaustion.

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United Kingdom Updates

We previously reported on the UK Patents Court's approach in *TQ Delta, LLC v ZyXEL Communications UK* to the standard disclosure of documents in these RAND rate setting proceedings concerning TQ Delta's portfolio of declared DSL SEPs. Since then, there have been two further hearings in the case in which ZyXEL has sought to further determine the scope of disclosure required from TQ Delta.

Originally, the parties agreed to a consent order which provided for standard disclosure, and this order was issued by Mr. Justice Carr. At a later hearing, Mr. Justice Birss noted that an order for standard disclosure was "*striking*" in a patent case, and only ordered disclosure of two of the six categories proposed by ZyXEL (documents concerning assignment of the portfolio to TQ Delta and documents concerning TQ Delta's pre-litigation royalty rate calculations).

ZyXEL's first attempt to alter the scope of disclosure sought to extend Mr. Justice Birss' decision by applying to enforce Mr. Justice Carr's original order for standard disclosure, backed by an 'unless order' (failure to comply with which would result in TQ Delta's claim being struck). Mr. Justice Birss once again heard the application, and, on 11 October 2018, decided to grant an "unless order," but only in respect of the two categories of documents he had previously ordered to be disclosed. TQ Delta was also ordered to undertake a standard disclosure search, but this order was not backed by an "unless order," which was deemed too draconian.

The second attempt was to seek disclosure of documents relating to the negotiation history of the "Zhone License," which TQ Delta alleges to be the only comparable license. The Zhone License was agreed to in the context of settling U.S. litigation, and ZyXEL suspected that its terms were influenced by that context. ZyXEL also suspected that as the Zhone License was TQ Delta's first license, the royalty rate had been inflated to act as a high benchmark for future licenses. ZyXEL sought disclosure of documents relevant to this background to confirm its suspicions about the license. In an earlier hearing, Mr. Justice Birss had found that ZyXEL had already been able to prepare a full case on this point, and so disclosure of documents relating to the negotiation history were unnecessary to advance the case further.

On 3 December 2018, this issue again came before Mr. Justice Carr, with ZyXEL having further developed its case on why disclosure of the Zhone License negotiation history was necessary. At the hearing, the parties were encouraged to reach an agreement and, following hasty discussions, agreed to a form of order requiring TQ Delta to undertake a reasonable search for documents relating to the negotiation history of the Zhone License. Excluded from this search were documents which Zhone had disclosed on an "external eyes only" basis to TQ Delta's legal advisers in the U.S. litigation between Zhone and TQ Delta, since these documents could not have been seen by the negotiators of the Zhone License. During the proceedings Mr. Justice Carr noted that he was not happy with TQ Delta's general approach to disclosure, and raised the possibility that the RAND trial could be delayed if TQ Delta did not comply with its disclosure obligations to ensure that adequate disclosure was provided.

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United States Updates

The head of the U.S. Department of Justice's (DOJ's) Antitrust Division, Assistant Attorney General Delrahim, announced the DOJ's withdrawal from a 2013 joint policy statement issued with the U.S. Patent and Trademark Office that cautioned against injunctions blocking the use or importation of SEPs subject to FRAND obligations. Delrahim further stated that the DOJ would take action against manufacturers that use SSOs to encourage favorable licensing terms from patent holders as a condition of having their technology included in an industry standard. Delrahim stressed that the "fundamental right of the patent holder is to exclude competitors," and identified how licensees operating in the SSO system can undermine this right. The announcement is consistent with Delrahim's past statements regarding SEPs and his concerns regarding SSOs, and appears to be directed at both district courts and the U.S. International Trade Commission, each of which have the power to issue injunctive-type relief when patent infringement is found.

On 7 November 2018, Judge Gilstrap of the Eastern District of Texas granted SEP holder Ericsson's motion to enforce an arbitration requirement with HTC from past licenses between the parties. HTC brought suit in 2017 against Ericsson alleging past antitrust violations, based on Ericsson's SEP licensing practices and FRAND violations, and requesting a judicial determination of a FRAND license going forward. Ericsson urged that, based on arbitration provisions in the parties' past licensing agreements, it was entitled to arbitrate the retrospective claims. Judge Gilstrap agreed and severed the past antitrust and licensing claims from the prospective FRAND determination claims, staying the past claims for resolution through arbitration. He rejected HTC's arguments that Ericsson had waived its right to enforce arbitration over these issues, based on the extensive litigation activity in the case, and also noted that Ericsson's actions were reasonable given HTC's attempt to obtain refunds of past royalties through both arbitration and litigation. He further concluded that HTC's antitrust claims were implicated by the past license agreements and should be included in the arbitration process as well. The prospective FRAND determination aspect of the case will continue to proceed to trial. In this regard, Judge Gilstrap issued a ruling on 8 November that HTC bears the burden of showing that Ericsson breached its FRAND obligations vis-a-vis its future SEP licensing rates.

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