



China: Draft SEP antitrust guideline released by SAMR for public comment

July 2023

On June 30, 2023, China's antitrust authority – the State Administration for Market Regulation (SAMR) – released draft guideline on standard essential patents (SEPs) for public comment. The comment period ends on July 29, 2023. Notably, this is the first time SAMR has sought to regulate SEP licensing conduct through a comprehensive document dedicated to SEP related antitrust issues.

The draft guideline essentially addresses the various antitrust issues involving SEPs in line with the governing structure of the PRC Anti-Monopoly Law (**AML**). It also recognizes some of the key principles and factors that SAMR and the courts have adopted in previous antitrust cases involving SEPs, such as *Huawei v. InterDigital* and *Qualcomm*. The draft guideline follows the recent amendment of the Regulation for Prohibiting Abuse of IPR (the **IPR Regulation**), which will take effect on August 1, 2023. The IPR Regulation and the Antitrust Guidelines on Intellectual Property (the **IPR Guidelines**), together with the recently published Regulation for Prohibiting Monopoly Agreements and Regulation for Prohibiting Abuse of Market Dominance, provide a comprehensive framework for assessing monopoly agreements and abusive conducts in the IP field.

The introduction of the draft guideline also reflects SAMR's heightened attention to the potential abuse of SEPs, which are a high-risk area for anti-competitive IP abuse. It also highlights SAMR's future focus on antitrust enforcement in the information communication technology sector, where SEPs are relatively concentrated and where there have been previous enforcement cases, as well as in emerging sectors such as the automotive industry, where SEPs have become critical for the development of intelligent and connected vehicles.

Below are some key highlights of the draft guideline:

Information disclosure in standard setting

The draft guideline requires patent holders to disclose their own patents and other patents they are aware of in a timely and sufficient manner during the standard setting process. It also provides that if patent holders fail to timely and adequately disclose patent information, or expressly abandon their patent rights, but still seek to assert patent rights against implementers after the promulgation of the standard, this would be an “important factor” in assessing whether their conduct would have anticompetitive effects in the market.

Establishment of dominance

The draft guideline assumes that each SEP holder normally has a dominant position by virtue of owning 100% market share in the SEP licensing market for each SEP. This is in line with the Chinese antitrust authority’s previous practice (such as in the Qualcomm case). It is further provided that other factors could be considered when determining the dominant position, including the SEP owner’s ability to control the relevant market, the degree of dependence of the downstream players, the difficulty of entrance into the licensing market, and SEP owner’s financial and technical conditions, etc.

Good faith negotiation

The draft guideline fully endorses the fair, reasonable, and non-discriminatory (FRAND) principles and states that the FRAND principles require an SEP owner and an implementer to negotiate in good faith, which largely reflected the principles-established landmark ruling in *Huawei v. ZTE* by the Court of Justice of the European Union in 2015. The draft guideline outlines the following steps for the parties to follow:

- An SEP owner must make a clear and specific offer to an implementer. Such an offer should include a patent list and claim charts as well as a response deadline.
- The implementer must express its willingness to take a license within a reasonable period. This means the implementer should not deploy delaying tactics or refuse to participate in negotiation without valid reasons.
- The SEP owner must provide licensing terms compliant with its FRAND commitments, including royalty calculation methods, justification for reasonableness and relevant information on the patent term and assignment.
- The implementer must accept the SEP owner’s licensing terms, failing which the implementer is required to propose FRAND licensing terms, including the royalty rate and cross licenses.

The draft guideline emphasizes that the parties’ conduct must be assessed holistically based on the evidence they each present. According to the draft guideline, the burden lies with the parties to prove that they have not acted “in fault”.

Excessive pricing

The draft guideline confirms that SEP owners should receive reasonable licensing fees that reflect their R&D costs. It sets out a list of factors in order to determine whether an SEP owner has abused its dominant position by charging unfairly high fees. These factors include:

- whether the parties have negotiated in good faith;
- whether the fee is significantly higher than historical fees;
- whether the fee covers expired or invalid patents;
- whether the fee reflects the quantitative and qualitative changes in the SEP portfolio; and
- whether the fee involves double charging through a non-practicing entity (NPE).

Unreasonable trading conditions

The draft guideline affirms the parties' autonomy to negotiate an SEP license but it also identifies some practices that could constitute an abuse of dominance by imposing unreasonable trading conditions, such as:

- requiring a mandatory royalty free cross license;
- demanding royalty free grant-backs;
- prohibiting challenges to the validity or essentiality of the SEPs;
- limiting the choice of dispute resolution forum; and
- restricting or forbidding transactions with a third party.

Monopoly agreements

The draft guideline addresses both anticompetitive agreements among SEP owners, as well as anticompetitive agreements between SEP owners and SEP implementers. It also requires standard-setting organizations to refrain from facilitating or assisting monopoly agreements involving SEPs. The draft guideline provides guidance on the criteria for identifying monopoly agreements involving SEPs in the process of standard setting and implementation, patent pools of SEPs, and other types of agreements that may harm competition. Specifically, it considers whether SEP owners exclude or restrict other operators from participating in standard setting or implementation, use patent pool arrangements to exchange competitively sensitive information, fix or change licensing rates, or limit implementers' production, sale or innovation of products involving SEPs.

Merger control

The draft guideline specifies the factors to consider in reviewing merger filings involving SEPs, such as whether the SEP constitutes an independent business or generates an independent and calculable turnover, and the type, form and duration of the SEP licensing. It also reiterates that SAMR can investigate the concentration involving SEPs that is below the thresholds but may have anticompetitive effects, and the operators can voluntarily report such a transaction.

Conclusion

SAMR is in charge of antitrust enforcement and one of the most powerful administrative agencies in China. Our initial impression is that SAMR's approach is generally consistent with the PRC court decisions on what constitutes FRAND-compliant behavior in a number of recent SEP infringement cases. In the interim, there has not been much official guidance on antitrust implications of SEP licensing either from the Chinese courts or from the antitrust authority. The draft guideline is therefore noteworthy as it provides details and sheds light on the antitrust authority's latest positions, which may indicate SAMR's future enforcement trend. However, it is interesting to note that the draft guideline does not address certain controversial SEP licensing issues in the automotive industry. Issues such as the royalty base and the reasonable royalty rates remain untested and debatable in China.

Contacts



Jill Ge

Partner - A&O - Shanghai

Tel +86 21 2036 7124

jill.ge@allenoverly.com



Vivian Cao

Partner - Lang Yue – Shanghai/Beijing

Tel +86 21 2067 6881

vivian.cao@allenoverly.com



Jiaming Zhang

Counsel - Lang Yue - Shanghai

Tel +86 21 2067 6847

jiaming.zhang@allenoverly.com

Allen & Overy Lang Yue (FTZ) Joint Operation Office

Room 1501-1510, 15F Phase II IFC Shanghai, 8 Century Avenue, Pudong, Shanghai China

Allen & Overy LLP, Shanghai office: Tel: +86 21 2036 7000 FAX: +86 21 2036 7100 www.allenoverly.com

Shanghai Lang Yue Law Firm: Tel: +86 21 2067 6888 FAX: +86 21 2067 6999 www.langyuelaw.com

Allen & Overy Lang Yue (FTZ) Joint Operation Office is a joint operation in the China (Shanghai) Pilot Free Trade Zone between Allen & Overy LLP and Shanghai Lang Yue Law Firm established after approval by the Shanghai Bureau of Justice.

Allen & Overy LLP is a limited liability partnership registered in England and Wales with registered number OC306763. It is authorised and regulated by the Solicitors Regulation Authority of England and Wales. Allen & Overy LLP is a multi-jurisdictional legal practice with lawyers admitted to practice in a variety of jurisdictions.

The term partner is used to refer to a member of Allen & Overy LLP or an employee or consultant with equivalent standing and qualifications or an individual with equivalent status in one of Allen & Overy LLP's affiliated undertakings. A list of members' names and of the non-members who are designated as partners is open to inspection at its registered office, One Bishops Square, London E1 6AD, United Kingdom and at the above address. Services in relation to the laws of the People's Republic of China are provided through Allen & Overy LLP's joint operation with Shanghai Lang Yue Law Firm.

Shanghai Lang Yue Law Firm is a general partnership formed under the laws of the People's Republic of China with law firm licence number 23101201410592645 whose registered office is at Room 1514 – 1516, 15F, Phase II, IFC, 8 Century Avenue, Shanghai 200120. It was established after approval by the Shanghai Bureau of Justice. A list of the partners and lawyers of Shanghai Lang Yue Law Firm is open to inspection at its registered office or via the Shanghai Bar Association.

© Allen & Overy LLP 2023. This document is for general information purposes only and is not intended to provide legal or other professional advice. | Allen & Overy 2023. This document is for general information purposes only and is not intended to provide legal or other professional advice. |