

# Studies on FRAND Commitments to SEP Licensing

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## Introduction

The FRAND principle is the core mechanism to regulate patent hold-up and restrict patent hold-out, and a principle that coordinates the interests of all parties in the standard-essential patent (SEP) licensing negotiations and ensures that SEP holders and standard implementers can enjoy their rights and fulfill their obligations on equal terms. The SEP holders and standard implementers shall conduct negotiations under the FRAND principle. In the context of Chinese laws, the FRAND commitments require that both SEP holders and standard implementers shall fulfill the good-faith consultation obligations in the patent licensing negotiations. However, issues such as the basic steps and connotation of good-faith negotiations, or what conducts of SEP holders or standard implementers may be regarded as good-faith or bad-faith negotiations have not yet been sufficiently discussed in China, and a guiding FRAND framework has not yet been constructed. This article intends to analyze the negotiation obligations borne by the SEP holders and standard implementers in licensing and negotia-

tions on the basis of the legal attributes of the FRAND principle, together with policy norms and judicial practices of major foreign countries and regions.

## I. FRAND commitments under the principle of good faith

### 1. Attributes of FRAND commitments in the context of Chinese laws

A FRAND commitment is a promise to license an essential patent on fair, reasonable and nondiscriminatory terms made in writing by a patentee as a member to a standard setting organization, and constitutes the contractual relationship between the patent holder and the standard setting organization. If the SEP holder, as a member of the standard setting organization, commits any conduct in violation of the FRAND commitment, such as setting an overly high price or refusing to license, it violates the contractual obligations agreed with the standard setting organization and constituted a breach of contract. In theory, the standard setting organization can file a lawsuit for breach of contract on the

2017/1001, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2023%3A232%3AFIN>, 最後訪問於2023年10月13日。

<sup>18</sup> 參見“European Court of Justice’s Judgment in Case C-170/13 Huawei v ZTE”, [https://www.cov.com/-/media/files/corporate/publications/2015/07/alert\\_huawei\\_judgment\\_\(072015\)](https://www.cov.com/-/media/files/corporate/publications/2015/07/alert_huawei_judgment_(072015)), 最後訪問於2023年10月13日。

<sup>19</sup> 被告德國電信公司就主張原告應向自己的供貨商——手機終端製造商尋求許可,而其供貨商也作為第三人參與相關訴訟。

<sup>20</sup> *Saint Lawrence v. Deutsche Telekom*, LG Mannheim, Urteil vom 27.11.2015, 2 O 106/14.

<sup>21</sup> Good Faith Negotiation Guidelines for Standard Essential Patent Li-

censes, [https://www.meti.go.jp/english/policy/economy/chizai/gfn\\_guidelines.html](https://www.meti.go.jp/english/policy/economy/chizai/gfn_guidelines.html), 最後訪問於2023年9月17日。

<sup>22</sup> Guide to Licensing Negotiations Involving Standard Essential Patents, [https://www.jpo.go.jp/e/news/public/document/220509\\_hyojunhissu\\_e/01\\_e.pdf](https://www.jpo.go.jp/e/news/public/document/220509_hyojunhissu_e/01_e.pdf), 最後訪問於2023年9月15日。

<sup>23</sup> 參見北京市高級人民法院2017年發佈的《專利侵權審判指南》中第一百五十二條和第一百五十三條以及廣東省高級人民法院2019年發佈的《關於審理標準必要專利糾紛案件的工作指引(試行)》第十三條和第十四條。

<sup>24</sup> 參見《深圳經濟特區知識產權保護若干規定(修訂稿)》第二十八條。

grounds of violation of FRAND commitment, requiring the court to order the patent holder that violates the FRAND commitment to bear the liability for breach of contract. However, the standard setting organization is not a party or interested party of particular SEP licensing, and always holds a neutral stance and does not tend to get involved in a legal dispute.<sup>1</sup> Legal disputes arising from SEP licensing between patent holders and standard implementers still need to be resolved on the basis of the FRAND commitment made by the patent holders.

The clarification of the legal attributes of the FRAND commitment is related to not only the basis of the standard implementer's request for patent litigation, but also the determination of the obligations that the SEP holder and standard implementer should bear under the FRAND principle. It is the prerequisite for resolving issues related to SEP injunctive relief and identifying the SEP holders' abuse of market dominance, and a fundamental issue concerning the application of the FRAND principle.

The UK and U.S. courts unanimously believe in judicial practice that the FRAND commitment constitutes a third-party contract between the patentee and the standard setting organization that has an effect on a standard implementer, and the standard implementer is the third-party beneficiary of the contract, whereas the courts in civil law countries generally believe in judicial practice that the FRAND commitment constitutes an invitation to offer.<sup>2</sup> In the context of Chinese laws, the mandatory contracting theory, the unilateral civil legal conduct theory and the invitation to offer theory are major theories for the attributes of the FRAND commitment in academic circle and judicial practice.

#### (1) Mandatory contracting theory

The mandatory contracting theory holds that FRAND commitment refers to the obligation of the patentee to license a patent to the standard implementer, which is similar to the mandatory contracting obligations of monopolistic enterprises, such as water supply, power supply and postal services. This view is upheld in the first-instance judgments of disputes over SEP royalties, such as *Huawei Technology Co., Ltd. v. InterDigital Communications Corporation*, and *InterDigital Technology Corporation* (hereinafter referred to as "Huawei v. IDC").<sup>3</sup> Mandatory contracting, also known as mandatory contract conclusion or compulsory contract, means that a civil subject has the obligation to conclude a contract with others according to legal provisions and shall

not refuse to do so without justifiable reasons.

There are shortcomings for the mandatory contracting theory. On the one hand, freedom of contract is a fundamental principle of the contract law. Mandatory contracting repels freedom of contract and usually excludes the freedom of both parties to jointly determine the content of the contract. Mandatory contracting is recognized by law only with specific justifiable reasons. Therefore, mandatory contracting is mainly manifested as the obligations of the parties to conclude a contract as clearly stipulated by law. And FRAND is a patent licensing commitment made by the patentee to the standard setting organization, which belongs to a self-discipline norm, rather than a mandatory legal norm. In addition, SEPs are not the same as important energy sources that have bearings on the national economic life-line, such as water, electricity, and gas, and therefore it cannot be determined that FRAND commitment constitutes a mandatory contracting obligation of SEP holders.

#### (2) Unilateral civil legal conduct theory

The unilateral civil legal conduct theory holds that FRAND commitment is an irrevocable declaration of will publicly made by the patentee to show its willingness to license a patent on reasonable and non-discriminatory terms, but it does not mean that the patentee has already licensed its patent or both parties have concluded a patent licensing contract. This view is recognized by the first instance court in *China IWNCOMM Co., Ltd. v. Sony Mobile Communication Products (China) Co., Ltd.*, a dispute over invention patent infringement.<sup>4</sup>

Unilateral civil legal conduct can have a legal effect according to the will of one party, whereas FRAND commitment is much more like a principled declaration made by the patentee according to patent policy requirements of the standard setting organization, and does not directly involve the presence, alteration or extinction of the right of the patentee or standard implementer. The unilateral civil legal conduct does not have to follow the bilateral conduct theory, and the doer should not set obligations for others, but can only set obligations for itself. Generally speaking, FRAND commitment only means the patentee is willing to negotiate licensing conditions in good faith with a *bona fide* implementer. Therefore, the unilateral civil legal conduct theory does not meet the reasoning requirement in judicial practice that the standard implementers shall fulfill the good-faith consultation obligations in licensing negotiations.<sup>5</sup>

#### (3) Invitation to offer theory

The invitation to offer theory holds that FRAND commitment is an invitation to offer sent by a patentee to an unspecified third party to license its patent on FRAND terms, which is supported by the Mannheim District Court in Germany and the Hague District Court in the Netherlands. An invitation to offer, also known as an inducement to offer or a request for proposal, is aimed to induce an opposite party to express its willingness to make an offer and to convey information on the intention of contract conclusion. One party solicits an offer from a potential counterparty by means of publicity, or display of goods or services for sale, including, but not limited to, delivered price lists, tender announcements, auction announcements, quotation of prices and advertisements which are not compliant with the provisions on offers.<sup>6</sup> Where the offer inviter withdraws its invitation, it usually does not bear legal liabilities as long as there is no loss of reliance interest on the part of the *bona fide* counterparty. However, because of the credibility of standard setting organizations and their patent policies on irrevocable FRAND commitment, potential standard implementers have a more reasonable reliance on license acquisition, and normally make corresponding commercial arrangements while negotiating with SEP holders, which make them more susceptible to loss due to SEP holders' refusal to license. Thus, SEP holders that make the invitation to offer in the special form of FRAND commitment shall bear more stringent legal obligations than those that make common auction announcements or tender announcements.

Over recent years, the Supreme People's Court has determined the nature of SEP royalty cases in its jurisdictional objection rulings in, e.g., *ZTE v. Conversant*, *OPPO v. Sharp*, and *OPPO v. Nokia*. These cases were originally determined as non-typical contract or infringement cases, and then as "disputes over conclusion of SEP licensing contract, in which the parties may file an infringement lawsuit under particular circumstances", which reflects the change in the determination of the nature of FRAND by Chinese courts. The author deems that abstract and principled FRAND commitments constitute an invitation to offer in the context of Chinese laws. In view of the attributes of the invitation to offer and in combination with the monopolistic position of the SEP holder and the reasonable reliance of the standard implementer on the FRAND commitment, the FRAND commitment is legally binding on both the SEP holder and the standard implementer, and both parties should bear a corresponding legal obligation, namely the FRAND

obligation as discussed herein. To be specific, the FRAND obligation can be regarded as a bilateral good-faith consultation obligation, that is to say, both the SEP holder and the standard implementer are obliged to conduct patent licensing negotiations on fair, reasonable and non-discriminatory terms, which is specifically required in the SEP licensing field by the principle of good faith in Article 7, the principle of prohibition of abuse of right in Article 132 and the liability for contract negligence in Article 500 of the Civil Code of the PRC.

## 2. Connotation of FRAND obligation

FRAND obligation is the business rule for SEP licensing negotiations and the legal standard for constructing the negotiation framework. Since the right-obligation relationship arising from the FRAND commitment is mainly realized through integrious and good-faith consultation and negotiation, how to determine whether both parties of SEP licensing act in good faith and integriously is the key to deciding whether both parties have fully fulfilled their FRAND obligations and resolved patent licensing disputes.

Integrity is the rule of conduct for all civil subjects. "Honesty" in its original meaning refers to truthfulness and sincerity, which means inner thought is in line with the declaration of will. "Credit" in the civil law refers to the strict observance of contract and promise. It is not only the pursuit of natural law and morality, but also closely associated with transaction values such as improving transaction efficiency and maintaining transaction order.<sup>7</sup> In the process of patent negotiations, relevant contracting information must be accurately disclosed to inform the parties of the truth; malicious negotiations under the cloak of contract conclusion are prohibited and important facts related to contract conclusion should not be concealed willfully or false information must not be provided; and circumstances where inner thought is different or even deviated from the declaration of will, such as fraud, coercion and misunderstanding, do not meet the requirement of the principle of good faith.

In the process of SEP licensing negotiations, the FRAND obligations require that the principle of good faith and its derivative rules be followed throughout the entire processes of negotiation, conclusion and fulfillment of a patent license contract, the licensing negotiations conform to commercial and transaction conventions, and both parties negotiate license terms such as patent royalties in good faith in a bid to eventually enter into a license agreement on fair, reasonable and non-discriminatory terms. The FRAND

obligations include not only procedural obligations such as making no malicious delay and giving an active response, but also substantive obligations such as proposing patent licensing conditions that meet fair, reasonable and non-discriminatory requirements.

Procedurally speaking, SEP holders shall strictly abide by the FRAND commitment, negotiations between SEP holders and standard implementers should be conducted with an aim to reach a fair, reasonable and non-discriminatory license agreement, and SEP holders are obliged to initiate licensing negotiations first. Correspondingly, standard implementers shall express their willingness to obtain a license within a reasonable time limit, that is to say, they should not evade liabilities for infringement by taking consultation as an excuse, such as making a malicious delay or refusing to participate in licensing negotiations without justifiable reasons.<sup>8</sup> Both parties shall embark on active and good-faith consultation within a reasonable time limit, fulfill good-faith consultation obligations such as notification, assistance and confidentiality, and shall not delay the negotiations without justifiable reasons. The patent holder shall not conceal important facts related to contract conclusion willfully or provide false information, but shall provide the list of SEPs in its possession and a claim chart to showcase the similarities and differences between a certain proportion of SEPs and standards and make reasonable reply to patent stability and mapping issues concerning patent samples raised by standard implementers within a reasonable time limit. Standard implementers shall also reply to whether to accept the licensing conditions within a reasonable time limit.

Substantively speaking, both parties shall conduct good-faith negotiations on licensing conditions with FRAND royalties as the core, such as the rate, quantity, time limit and territory of SEP licensing. The U.S. District Court stated in *Microsoft v. Motorola* that “the FRAND commitment requires the patentee to be in good faith when issuing an initial offer. Although the initial offer is not necessarily on FRAND terms, the ultimate patent royalty rate must comport with the fair, reasonable and non-discriminatory requirement.”<sup>9</sup> SEP holders have the right to obtain the FRAND royalty and shall propose licensing conditions that comply with their FRAND commitments, including the license use method and licensing scope, fully explain and interpret the method for calculating the SEP royalty rate and the rationality thereof, and provide necessary information directly related to licensing such as patent term, patent transfer and suit-

able comparable agreements. SEP holders shall not license their patents at an unfairly high price or do patent hold-up by means of threatening to apply for an injunction. If the patentee who made the FRAND commitment has signed a patent licensing contract with the standard implementer prior to the transfer of the SEP, the transfer of the SEP shall not have a substantial impact on patent licensing, and the patent assignee shall not dramatically increase the patent royalty or set more stringent licensing conditions when licensing the patent in the future.<sup>10</sup> The standard implementer shall demonstrate its willingness to pay reasonable royalties to the patentee. If the standard implementer does not accept the patent licensing conditions during negotiations, it shall provide a FRAND scheme about licensing conditions such as patent royalties within a reasonable time limit and shall not delay payment passively or perform patent hold-out.

## II. Observation of FRAND obligation under comparative law

### 1. Common law countries

#### (1) Policy guidelines

The U.S. Patent and Trademark Office, the U.S. Department of Justice, and the National Institute of Standards and Technology jointly released the Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary FRAND Commitments (hereinafter referred to as “the Draft Policy Statement”) in December 2021, and withdrew the 2019 SEP Policy Statement in June 2022. In comparison with the 2013 and 2019 Policy Statements that only focus on SEP injunctive relief, the 2021 Draft Policy Statement places emphasis on the integrity and good faith during patent licensing negotiations.<sup>11</sup> The Draft Policy Statement indicates that to promote efficient licensing and help reduce the costs and other burdens associated with litigation, SEP holders and potential SEP licensees should engage in good-faith negotiation to reach FRAND license terms, and three basic steps for negotiations between the parties concerned are enumerated as a reference.

On the following day of the release of the Draft Policy Statement in the U.S., the UK Intellectual Property Office (UKIPO) released the Standard Essential Patents and Innovation: Call for views, conducting comprehensive investigations on 27 issues that have received a lot of attention from

SEP licensing parties and interested parties, including SEP and innovation, transparency and remedies. In terms of SEP licensing negotiation, the major issues that call for views are how to enhance the transparency of licensing negotiations and how to increase the efficiency of licensing negotiations. Feedback on the transparency of licensing negotiations is listed as follows: first, patent holders make over-declarations and a huge number of non-essential patents are disclosed as essential patents; and second, confidentiality agreement imposes restrictions on the disclosure of previous licensing conditions, rendering it more difficult for standard implementers to assess licensing conditions. Views on the efficiency of licensing negotiations are concentrated on greater provision or use of patent pools, more attention to licensing levels and provision of guidance for licensing negotiations.<sup>12</sup> On 21 March 2023, the UKIPO released the Standard Essential Patents (SEPs) Explained, providing an overview on its work and relevant measures in relation to SEPs.<sup>13</sup>

The aforesaid views of the U.S. government in the Draft Policy Statement are quite neutral and are basically the same as the “Huawei Rules” established by the Court of Justice of the European Union in *Huawei v. ZTE*. In comparison with the U.S. Draft Policy Statement, the views solicited by the UKIPO are more specific and detailed, in hope of comprehensively knowing whether the SEP ecosystem is operating efficiently and helping assess whether government intervention is necessary. Of course, controversies about the SEP licensing negotiations are not directed to the content of the “Huawei Rules”, but to whether every step and action of the licensing negotiations is aimed to enter into a FRAND licensing agreement and whether the negotiations are conducted integrally and in good faith, for instance, whether the SEP holder sufficiently discloses its patent information, whether the SEP holder has the obligation to provide the claim chart, whether the information provided embodies the patent quality and is adequate for the standard implementer to evaluate the market value of the patent, whether the SEP holder provides sufficient explanation about the reasonableness of the patent royalties and how to determine whether the standard implementer is truly willing to obtain the license. The effect of the refined and improved content of the Policy Statements and the Standard Essential Patents (SEPs) Explained needs to be further observed.

## (2) Judicial practice

Subsequent to *Unwired Planet v. Huawei*, the High

Court of Justice in the UK ruled on the global FRAND rate for SEPs in *InterDigital v. Lenovo* and *Optis v. Apple* respectively in 2023, holding that FRAND rate is a price that obtains in very particular, monopolistic, conditions; and a price that is informed by the values “Fair”, “Reasonable” and “Non - Discriminatory”, and the FRAND question involves ascertaining a FRAND rate.<sup>14</sup> According to the offers of both parties, together with other negotiation activities, the High Court of Justice in the UK carried out a relatively detailed demonstration on whether the parties involved in patent licensing are subjectively good-faith and whether the licensing negotiations meet the FRAND principle.

In *InterDigital v. Lenovo*, a dispute over SEP licensing, Mr Justice Mellor decided whether the negotiations were conducted integrally and in good faith mainly based on whether the licensing rates offered by both parties comply with the FRAND requirement. Generally speaking, Mr Justice Mellor deemed that an offer (licensing rate) was an important factor to judge whether the licensee is good-faith and integrally. On said basis, retrospectively the licensing negotiations between both parties is also of significant value for confirming subjective good faith. If the licensor insists on an unreasonably high price as a licensing condition for a long time, it is likely to lead to the delay or failure of negotiations. During the negotiations, InterDigital put forward numerous offers to persuade implementers to reach a deal, but all the offers made were outside the FRAND range. InterDigital’s reliance on the confidentiality of the Patent Licensing Agreements with companies like Samsung, Apple, Huawei and LG was not transparent. InterDigital’s licensing rate outside the FRAND range during the negotiations violated the FRAND principle, and InterDigital is not a *bona fide* patentee that is willing to promote the conclusion of a licensing agreement.<sup>15</sup>

InterDigital’s key complaints regarding Lenovo’s bad-faith conduct can be summarised as follows: (i) excessive time taken to agree and renew non-disclosure agreements (ii) causing significant delays in negotiations; (iii) lack of authority to move the negotiations forward or do a deal; (iv) after an intense period of negotiation (i.e. 2017-2018), Lenovo rejected the deal and reverted with ‘an extremely low counteroffer’; (v) Lenovo failed to engage with InterDigital’s proposals for dispute resolution regarding FRAND terms. Regarding the above complaints, the court pointed out that there is some force in the first two points: Lenovo were slow to move things along. But the license negotiation back-and-

forth was not perfect on either side. Lenovo did drag their heels on occasion. However, for most of the period of negotiations, Lenovo were correct not to agree to any of InterDigital's offers or positions and justified in seeking information. So, for the most part, Lenovo did conduct themselves as a willing licensee.

The High Court of Justice in the UK indicated that the patentee in the licensing negotiations often refuses to disclose any information on comparable licenses on the grounds of confidentiality. Intellectual property policies of a standard setting organization cannot solve the issue of lack of transparency as regards disclosed information. To resolve such an issue, one possible solution provided by the judgment is for the parties to start an action, agree to early disclosure of potentially comparable licenses under a Court-monitored confidentiality regime and to agree a stay of the action to allow the parties to negotiate on the basis of the information then available. If those negotiations do not succeed after a limited time, then the action may continue. The solution provided by the High Court of Justice is enlightening. It can encourage patentees to disclose their information about SEPs as early as possible and enjoin patentees from patent hold-up by making use of their dominant positions, in an effort to resolve negotiation diversifications efficiently and save judicial resources to the maximum extent.

## 2. European Union (EU)

### (1) Policy guidelines

The EU has been paying attention to SEP licensing negotiations for a long time. In November 2017, the European Commission published a document entitled *Setting Out the EU Approach to Standard Essential Patents*, discussing the issue of transparency of disclosed information and stating that increased transparency of SEP-related information is of utmost importance to licensing negotiations. Later on 25 November 2020, the European Commission released another document, *Making the Most of the EU's Innovative Potential — An Intellectual Property Action Plan to Support the EU's Recovery and Resilience*. In January 2021, *Licensing and Valuation of Standard Essential Patents* was released by the EU expert group, providing suggestions on how to increase transparency of SEPs, how to determine the appropriate level where licensing should take place, and how to determine a royalty rate that best reflects the FRAND principle. On 15 February 2022, the European Commission further released *Intellectual Property-New Framework for Standard Essential Patents*, which aims at seeking the views on various ques-

tions that lead to low-efficient negotiations, such as patent hold-up, patent hold-out and forum shopping in litigation.<sup>16</sup> On the basis of a series of measures as mentioned above, regarding the attention-grabbing issue of low licensing efficiency, the Proposal for a Regulation of the European Parliament and of the Council on Standard Essential Patents and Amending Regulation (EU) 2007/1001 (hereinafter referred to as the Proposal) was officially published on the EU's website on 27 April 2023, with an aim of providing strong supervision on SEP licensing negotiations and royalty rate as previously mentioned several times. The proposal includes establishing a Competence Center led by the European Union Intellectual Property Office (EUIPO). The Competence Center, as a one-stop SEPs information platform, provides for enhanced transparency with regard to information necessary for SEP licensing, registration of SEPs, procedure for evaluating the essentiality of registered SEPs, and procedure for determination of FRAND terms and conditions for an SEP license.<sup>17</sup> Once the proposal is passed and implemented, it can provide new experience in monitoring SEPs for the EU and even countries all over the world.

### (2) Judicial practice

In July 2015, the Court of Justice of the European Union (CJEU) issued the judgment in *Huawei v. ZTE* submitted by the Düsseldorf District Court, in which the "Huawei Rules" were established to preset the procedures and steps for concluding an agreement between the two parties in the SEP licensing negotiations, i.e., "five steps and three reservations", which constitute the legal basis for both parties' fulfillment of their consultation and negotiation obligations and the determination as to whether injunctive relief should be applied.<sup>18</sup>

Since then, courts, especially those in Germany, have applied and enriched the "Huawei Rules" based on their own understandings in a series of cases like *Sisvel v. Haier* and *St. Lawrence v. Vodafone*. For example, in *Sisvel v. Haier*, the first instance court held that the defendant violated the third step (namely, to diligently respond to the SEP holder's offer) of the "Huawei Rules", and failed to provide appropriate security in the fourth step. Therefore, an injunction should be granted to enjoin Haier from exploiting the patent and selling mobile devices. However, the Court of Appeal held that the first-instance judgment erred in the application of the "five-step method" and rejected the ruling on injunction. The Court of Appeal pointed out that the royalty rate offered by Sisvel, the patentee, was extremely high and on a



global basis, which did not comply with the FRAND rule, which means the patentee did not provide an offer that met the FRAND rule as required by the second step. Accordingly, the defendant did not need to fulfill the subsequent steps of the Huawei Rules, and no injunction shall be issued against the defendant. According to the judgment of the Court of Appeal, the five steps of the Huawei Rules shall be conducted sequentially, which means the previous step is the prerequisite for the fulfillment of the subsequent obligation.

However, in *St. Lawrence v. Vodafone*, the Mannheim Court seemed to deny the sequence of the five steps. In this case, St. Lawrence issued an offer to the defendant to charge a unified global royalty rate. The defendant refused to accept the offer on the grounds that the rate did not comply with the FRAND requirement. Then, the third party, HTC, in this case provided a counteroffer to exploit the patent only within the territory of Germany, and proposed to determine the royalty rate according to the royalties decided by the UK courts in relevant cases.<sup>19</sup> The Mannheim Court stated that the HTC's counteroffer "shall at least include specific patent royalty rates expressed in the numerical form", rather than the royalty rates determined in the rulings issued by the third-party.<sup>20</sup> In this case, HTC's use of the royalty rate determined by the UK court (in *HTC v. Nokia*) as the counteroffer actually aimed to delay the payment of the royalty rate. HTC did not diligently make a response and failed to express its willingness to accept the license, which violated the "Huawei Rules".

### 3. Japan

In March 2022, the Ministry of Economy, Trade and Industry (METI) of Japan conducted research to establish the Good Faith Negotiation Guidelines for Standard Essential Patent Licenses, which set forth the basic steps of licensing negotiations.<sup>21</sup> In June of the same year, the Japan Patent Office revised the Guide to Licensing Negotiations Involving Standard Essential Patents (2018) and released its second version.<sup>22</sup> The Guide involves the procedural and substantive requirements for SEP licensing negotiations, including the two basic contents (steps of licensing negotiations and methods for calculating royalty rates). Licensing negotiation methods are based on "good faith" and "efficiency". "Good-faith negotiation" section enumerates in detail the specific conducts of the SEP holder or standard implementer as good-faith negotiation in each negotiating step, and quotes judicial precedents of various countries and regions for fur-

ther interpretation, which are valuable as reference.

Step 1: Licensing negotiation offer from right holder. The right holder can first initiate negotiations by specifying the relevant patents and identifying how those patents were or are being infringed. The following are examples of actions by a right holder that may increase the likelihood of the right holder being perceived as acting in bad faith: (1) demanding injunctive relief before or immediately after sending a warning letter to the implementer, or immediately after opening a negotiation; (2) not clarifying how SEPs are being infringed, etc.

Step 2: Expression from implementer of willingness to obtain a license. It does not mean the standard implementer gives up challenging the following issues, including whether the patents are truly essential, whether the patents are valid, whether the implementer has infringed these patents, whether the patent rights are enforceable, whether the entity who has exercised its rights is the true holder of the patents, and whether the patents have not been exhausted. The following are examples of actions by an implementer that may increase the likelihood of the implementer being perceived as acting in bad faith: (1) not giving any reason for a very late reply or refusing to negotiate at all, even while continuing to use the infringing technology; (2) claiming it will not start negotiation unless all grounds for essentiality and validity of the SEPs are first provided, etc.

Step 3: Specific offer from right holder on FRAND terms. If an implementer has expressed its willingness to obtain a license, the right holder may promptly present to the implementer a written offer for a license on FRAND terms. The right holder shall provide an explanation with specific grounds sufficient for the implementer to determine whether the terms are reasonable and non-discriminatory. Such specific grounds may include an explanation of how the right holder calculates royalties, or a list of comparable licenses and their terms, if any. The following are examples of actions by a right holder that may increase the likelihood of the right holder being perceived as acting in bad faith: (1) seeking an injunction against an implementer who has expressed its willingness to obtain a license on FRAND terms before offering a license on those terms, for the purpose of gaining leverage in the licensing negotiations; (2) sending letters warning that the right holder will seek injunctive relief to business partners of an implementer who has expressed its willingness to obtain a license on FRAND terms, despite ongoing negotiations, etc.

Step 4: Specific counteroffer from implementer on FRAND terms. If an implementer disagrees with the proposed FRAND terms presented by a right holder, the implementer may provide a FRAND counteroffer within a reasonable time limit, demonstrating with specific grounds that the presented terms are reasonable and non-discriminatory. Such specific grounds may include an explanation of how the right holder calculates royalties, or a list of comparable licenses and their terms, if any. The Guide stipulates that the reasonable time period is determined on a case-by-case basis. When the technologies of the SEPs are not complicated, the implementer may present its counteroffer in a relatively short period of time. When technological complexity or other issues require a certain amount of work to prepare a response, it may be deemed reasonable for an implementer to respond in several months or more.

Step 5: Rejection by right holder of counteroffer/settlement of disputes in courts or through Alternative Dispute Resolution (ADR). Generally, negotiations proceed through a process of offer and counteroffer between right holders and implementers, but if a right holder rejects a counteroffer from the implementer and the parties fail to reach an agreement, and if one or both parties do not wish for time to go by without agreement being reached, they may be able to address their dispute in court or through ADR. While the refusal of ADR options may not immediately be viewed as bad faith, continuing to do so was raised as one of elements to consider bad faith in some cases.

### III. Suggestions for improving the definition of FRAND obligations

Generally speaking, major jurisdictions all provide examples of steps and procedures of good-faith licensing negotiations in policy norms and establish corresponding negotiation frameworks in view of the development of industries, creatively use the method for calculating the FRAND royalty rate to determine the licensing conditions like the royalty rate and resolve SEP licensing disputes in judicial practice, which fully demonstrate the importance of constructing a good-faith licensing negotiation environment and building a good SEP legal ecosystem.

Some local courts in China have summarized and extracted the specific content of the FRAND obligations to guide and establish a good-faith SEP negotiation mecha-

nism.<sup>23</sup> Shenzhen City has listed the obligations in detail that should be fulfilled by both parties during SEP licensing through local legislation.<sup>24</sup> The author is intended to define the good-faith negotiation obligations of SEP holders and standard implementers from the procedural and substantive aspects.

#### 1. Substantive and procedural obligations of SEP holders

“Fair and reasonable” is the kernel of the FRAND principle and also the most ambiguous part that is difficult to define. Since, objectively speaking, the determination of licensing conditions is largely susceptible to the comprehensive strength of the negotiating parties, the FRAND principle places emphasis on keeping both parties equal in terms of the legal status, maintaining the balance of interests between them, and ensuring the fairness and reasonableness of allocation of interests, thereby preventing the patentee from patent hold-up by taking advantage of its dominant position. The SEP holder’s good-faith licensing and negotiation obligations first require that the negotiations between the SEP holder and the standard implementer should be aimed to reach an agreement on fair, reasonable and non-discriminatory terms and the SEP holder should initiate the licensing negotiations.

The licensing conditions established on FRAND terms should be an interest allocation scheme on fair terms, and should not be exploitative, let alone have the effect of excluding or restricting competition. In view of the patent complexity, the SEP holder is obliged to disclose the essential information of the patent and testify or explain the FRAND conditions, and shall not impose unreasonable restrictive conditions, such as tying clause for purchasing non-essential patents, no-challenge clause, clause restricting patented technology improvements, and compulsory grant-back clause. In order to fully fulfill the obligation to testify or explain the FRAND conditions, the SEP holder shall disclose the list of SEPs it owns, provide a claim chart to showcase the similarities and differences between a certain proportion of SEPs and standards, sample and provide an adequate number of claim charts between SEPs and standards to reasonably represent the quality of the patent portfolio, and meanwhile make a reasonable reply to the issues regarding the stability and mapping of patents sampled by the standard implementer within a reasonable time limit. In addition, the SEP holder must present the strength of the patent within a reasonable time limit, provide a comparable agreement



and effective court judgments for determining the royalties as soon as possible, and fully explain the basis for calculating the royalty rate and the corresponding method for calculation.

## 2. Substantive and procedural obligations of standard implementer

The good-faith consultation obligations of a standard implementer are that first, the standard implementer should express its good-faith willingness to obtain a license within a reasonable time limit, and should not cause delay in bad faith or refuse licensing negotiations without justifiable reasons; and second, the standard implementer has the obligations of e. g. notification, cooperation and confidentiality, and shall actively analyze the conditions like the royalty rate proposed by the patentee, and promptly respond to whether to accept the licensing conditions within a reasonable time limit. The standard implementer that does not accept the licensing conditions shall provide a scheme regarding the licensing rate on fair, reasonable and non-discriminatory terms within a reasonable time limit.

## Conclusion

The patentee or standard implementer shall fulfill bilateral good-faith negotiation obligations on FRAND terms under the negotiation framework. The fulfillment of such obligations, that is, whether the patentee or standard implementer participates in the negotiations in good faith or bad faith, serves as the important factor when the court decides whether to grant an injunction or antitrust relief.

In July 2023, the 2023 Outline for Building China into an Intellectual Property Power and the 14<sup>th</sup> Five-Year Plan Implementation and Promotion Plan issued by the Office of the Inter-Ministerial Joint Conference on Intellectual Property Strategy Implementation under the State Council definitely proposed the plan to study and formulate the Anti-Monopoly Guidelines for Standard Essential Patents. Article 7 of the Anti-Monopoly Guidelines for Standard Essential Patents (Draft for Comments) drafted by the State Administration for Market Regulation sets forth provisions on good-faith SEP licensing negotiations. It is foreseeable that in the future, China's legislative and relevant administrative departments will formulate SEP licensing guidelines that conform to Chinese laws, international rules and commercial conventions, which define and improve the FRAND obligations of SEP holders and standard implementers from procedural and

substantive aspects, so as to establish relatively clear legal regulations for negotiations between patentees and implementers, guide both parties to achieve patent licensing through good-faith negotiations, and further create a preferred litigation venue for resolving SEP disputes. ■

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<sup>1</sup> Zhang Guangliang (2015). *Order and Boundary — IP Studies on Issues Concerning Competition Law* (p. 109). Intellectual Property Publishing House.

<sup>2</sup> Jiang Huasheng (2023). Study on the comprehension and judicial adjudication of FRAND principle for standard essential patents. *Journal of Law Application*, 7, 131.

<sup>3</sup> The Civil Judgment No. Shenzhongfazhiminchuzi 857/2011.

<sup>4</sup> The Civil Judgment No. Jingminzhong 454/2017.

<sup>5</sup> Guan Yuying (2019). Analysis of legal nature of FRAND statement by standard essential patent holders. *Global Law Review*, 3.

<sup>6</sup> Sui Pengsheng (2018). *Essentials of Contract Law* (p. 31). China Renmin University Press.

<sup>7</sup> Wang Liming (2018). *Research on General Principles of Civil Law*. China Renmin University Press.

<sup>8</sup> Zhang Guangliang (2019). Study on the application of FRAND rule for standard essential patents in China. *Journal of Renmin University of China*, 1, 117-118.

<sup>9</sup> *Microsoft Corp. v. Motorola Inc.*, 696 F. 3d 872 (9<sup>th</sup> Cir. 2012).

<sup>10</sup> For example, 6.1bis of ETSI Intellectual Property Rights Policy reads that FRAND licensing undertakings shall be interpreted as encumbrances that bind all successors-in-interest. Any Declarant who has submitted a FRAND undertaking according to the POLICY who transfers ownership of ESSENTIAL IPR that is subject to such undertaking shall include appropriate provisions in the relevant transfer documents to ensure that the undertaking is binding on the transferee. Article 6.2 of the IEEE-SA Standards Board Bylaws stipulates that the Submitter and all Affiliates shall not, with the intent of circumventing or negating any of the representations and commitments made in the Accepted Letter of Assurance, assign or otherwise transfer any rights in any Essential Patent Claims that they hold, control, or have the ability to license and for which licensing assurance was provided on the Accepted Letter of Assurance.

<sup>11</sup> Draft Policy Statement on Licensing Negotiations and Remedies for

Standards-Essential Patents Subject to Voluntary F/RAND Commitments (6 December 2021). Retrieved from <https://www.justice.gov/atr/guidelines-and-policy-statements-0/public-comments-draft-policy-statement-licensing-negotiations-and-remedies-standards-essential>. Last visit on 1 September 2023.

<sup>12</sup> Standard Essential Patents and Innovation: Call for views. Retrieved from <https://www.gov.uk/government/consultations/standard-essential-patents-and-innovation-call-for-views/standard-essential-patents-and-innovation-call-for-views>. Last visit on 25 September 2023.

<sup>13</sup> Standard Essential Patents (SEPs) Explained. Retrieved from <https://www.gov.uk/guidance/standard-essential-patents-seps-explained>. Last visit on 25 September 2023.

<sup>14</sup> *Optis v. Apple* [2023] EWHC 1095 (Ch). Retrieved from <https://www.managingip.com/pdf/public-non-confidential-version-of-optis-v-apple-trial-e-judgment-2023-ewhc-1095-pdf>. Last visit on 10 October 2023.

<sup>15</sup> *InterDigital v. Lenovo*, [2023] EWHC 539 (Pat). Retrieved from <https://www.bailii.org/ew/cases/EWHC/Patents/2023/539.html>. Last visit on 27 September 2023.

<sup>16</sup> Commission seeks views and input on fair licensing of standard essential patents. Retrieved from [https://ec.europa.eu/growth/news/commission-seeks-views-and-input-fair-licensing-standard-essential-patents-2022-02-15\\_en](https://ec.europa.eu/growth/news/commission-seeks-views-and-input-fair-licensing-standard-essential-patents-2022-02-15_en). Last visit on 27 October 2023.

<sup>17</sup> Proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001. Retrieved from <https://eur-lex.europa.eu/legal-content/EN/>

[TXT/?uri=COM%3A2023%3A232%3AFIN](#). Last visit on 13 October 2023.

<sup>18</sup> European Court of Justice's Judgment in Case C-170/13 *Huawei v ZTE*. Retrieved from [https://www.cov.com/-/media/files/corporate/publications/2015/07/alert\\_huawei\\_judgment\\_\(072015\)](https://www.cov.com/-/media/files/corporate/publications/2015/07/alert_huawei_judgment_(072015)). Last visit on 13 October 2023.

<sup>19</sup> The defendant, Deutsche Telekom AG, asserted that the plaintiff should seek a license from its supplier—the mobile phone terminal manufacturer, and the supplier also participated in relevant litigation as a third party.

<sup>20</sup> *Saint Lawrence v. Deutsche Telekom*, LG Mannheim, Urteil vom 27.11.2015, 2 O 106/14.

<sup>21</sup> Good Faith Negotiation Guidelines for Standard Essential Patent Licenses. Retrieved from [https://www.meti.go.jp/english/policy/economy/chizai/gfn\\_guidelines.html](https://www.meti.go.jp/english/policy/economy/chizai/gfn_guidelines.html). Last visit on 17 September 2023.

<sup>22</sup> Guide to Licensing Negotiations Involving Standard Essential Patents. Retrieved from [https://www.jpo.go.jp/e/news/public/document/220509\\_hyojun-hissu\\_e/01\\_e.pdf](https://www.jpo.go.jp/e/news/public/document/220509_hyojun-hissu_e/01_e.pdf). Last visit on 15 September 2023.

<sup>23</sup> Articles 152 and 153 of the Guidelines for Patent Infringement Determination issued by Beijing High People's Court in 2017 and Articles 13 and 14 of the Work Guidance for Trial of Standard Essential Patent Disputes (Trial) issued by Guangdong High People's Court in 2019.

<sup>24</sup> Article 28 of the Several Provisions on Protection of Intellectual Property Rights in Shenzhen Special Economic Zone (Revised Draft).

## CNIPA and JPO Finish Report of Comparative Study on AI-Related Inventions

In recent years, there have been rapid technological advances in the area of “AI-related inventions” which have resulted in significant increases in AI-related patent applications. The China National Intellectual Property Administration (CNIPA) and the Japan Patent Office (JPO) have jointly conducted a comparative study on AI-related inventions and finished the related report, with the aim of providing applicants with insights into AI-related examination criteria and practices.

The report comprises two parts, examination rules, regulations and guidelines and study of example cases.

The part of examination rules, regulations and guidelines elaborately introduces the two offices' examination criteria on eligible subject matter, novelty, inventive step, enablement requirement / sufficiency of disclosure, and claims supported by the description. The part of example cases selects 16 typical cases, comparing and analyzing the two offices' examination processes and outcomes.

Source: CNIPA