



Analysis on WAPI SEP (Process Patent) Infringement Case

IWNCOMM v. SONY

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Executive Summary

1. On direct infringement, the high court perused three stages of design and R&D, manufacture, and factory inspection of Sony China, affirmed infringement in the first stage and reversed the first-instance decision on the latter two stages.
2. On indirect infringement, the high court stated four elements to be met where an indirect infringer would bear liability, even if the direct implementer with academic purposes and the like doesn't infringe: "exclusive product + intentional + importance of the exclusive product in the patented technical solution + existence of the direct implementer". The court specified its intent to promote protection to a large number of process patents in communication and software field.
3. On SEP licensing negotiations and lawsuits, the court affirms that it is reasonable for a patentee to require signing NDA before providing claim chart. The courts suggested the following actions showing goodwill in. Potential licensee provides further explanations and suggestions to promote negotiation; and potential licensee submits to the court an amount of licensee fee it believes reasonable, or provides a guarantee with equivalent value during lawsuit.
4. On "patent exhaustion" defense, the high court affirmed on the ground that current law only recognizes its application to claims of product and manufacturing process. This point is controversial and awaits further guidance from Supreme Court of China.
5. On the amount of damages, the high court affirmed the amount and didn't re-elaborate the calculation, after it decided the infringement scope was narrowed down and admitted new evidences as reference to the license fee.

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Foreword

Recently, dust settled on the second instance for the case of invention patent infringement of Xidianjietong Radio Network Co. (hereinafter referred to as “IWNCOMM”) vs. Sony Mobile Communications Products (China) Co., Ltd. (hereinafter referred to as “Sony China”). Beijing Higher People’s Court (hereinafter referred to as “the court of second instance”) rejected the appeal of Sony China and affirmed the first-instance decision of Beijing Intellectual Property Court (hereinafter referred to as “the court of first instance”).

This case is regarded as the first standard patent infringement case in China, or the first case of Chinese standard patent, because it involves the aspects of standard patent, indirect infringement, liability of infringement, and the like. Moreover, since the claims involved in the case are drafted in the manner of method claims with multiple execution bodies. It is also of great concern of the public how infringement is determined. This article introduces the main facts of the case, and focuses on determination of direct infringement, indirect infringement and liability of infringement found in the case.

I. Basic information

The Parties

Plaintiff of the first instance and respondent of the second instance: Xidianjietong Radio Network Co.

Defendant of the first instance and petitioner of the second instance: Sony Mobile Communications Products (China) Co., Ltd.

The Venue

First instance: Beijing Intellectual Property Court ((2015) Beijing Intellectual Property Civil First Instance Document No. 1194, date of judgment: March 22, 2017)

Second instance: Beijing Higher People’s Court ((2015) Beijing Civil Final Document No. 454, date of judgment: March 28, 2018)

II. Facts

In July, 2015, IWNCOMM filed with the court of first instance an appeal against Sony China for infringement of a patent titled “Safe access of movable terminal in radio local area network and secrete data communication method in radio link” (Patent No.: ZL02139508.X, hereinafter referred to as the involved patent, which is a standard essential patent for the Chinese GB15629.11-2003/XG1-2006 (WAPI) standard; approximately from the year of 2009, smart phones can obtain a telecommunication



equipment model number approved by MIIT and a network access license merely by passing WAPI inspection; therefore, the standard involved in this case is mandatorily implemented in fact) and requested Sony China to cease the act of infringement and redress its damage.

The plaintiff alleged that the defendant infringes claims 1, 2, 5 and 6 of the plaintiff's patent. To be concise, only claim 1 is cited hereby:

“A method for the secure access and secure data communication of mobile terminal to the Wireless Local Area Network (WLAN), wherein: a certificate authentication comprising the following steps:

Step 1, MT sends to AP the MT certificate to file an access authentication request;

Step 2, AP sends to AS said MT certificate and AP certificate to file a certificate authentication request;

Step 3, AS authenticates the AP certificate and the MT certificate;

Step 4, AS sends to AP the certificate authentication response containing results of authentication of the AP certificate and the MT certificate and executes Step 5; if MT does not pass the authentication, AP declines the access of MT;

Step 5, AP sends back to MT certificate authentication response containing the results of authentication of the AP certificate and the MT certificate;

Step 6, MT judges the received result of authentication of the AP certificate, and, if AP authentication is passed, executes Step 7; otherwise, MT rejects to log on AP;

Step 7, MT and AP completes access authentication procedures and start communication.”

Claim 1 claims a method of safe authentication for the secure access of mobile terminal to the Wireless Local Area Network (WLAN). The patented method relates to multiple execution bodies, including the mobile terminal (MT), the access point (AP) and the authentication server (AS). The claims recite the particular operation and interaction to be respectively executed by the three bodies.

After trial, the court of first instance held the idea that, without authorization, Sony China performed WAPI functional test using the method of the involved patent during the process of design and research and development, production, and factory inspection, which infringed the patent right of IWNCOMM. The involved patent requires the three physical entities of the terminal MT, the access point AP and the authentication server AS to be implemented. Apparently, the accused product served as MT. Moreover, the act of each of MT, AP and AS did not independently infringe the involved patent. On this basis, the statement of IWNCOMM that Sony China committed joint infringement prescribed by Article 12 of the Tort Liability Law of the People's Republic of China (shortened as Tort Liability Law). However, without permission of IWNCOMM, Sony China provided, known that the accused product is embedded with WAPI functional module assembly that is exclusively used in a device for implementing the involved patent, the product for others to implement the involved patent for commercial purpose. Such behavior of Sony China constituted an act of contributory infringement. In addition, the involved parties



have been slow in entering formal patent licencing negotiation procedures, of which the fault lied in the party implementing the patent.

Therefore, the court of first instance entered the following first-instance judgment:

- (1) Sony China shall instantly cease the foresaid act of infringement against the patent of IWNCOMM of which the title is “Safe access of movable terminal in radio local area network and secrete data communication method in radio link” and the patent number is ZL02139508.X;
- (2) Sony China shall pay RMB 8,629,173 to compensate IWNCOMM for the incurred damages;
- (3) Sony China shall pay RMB 474,194 to compensate IWNCOMM for reasonable expenditure;
- (4) The rest pleadings of IWNCOMM are declined.

Sony China was not satisfied with the first-instance judgment and filed an appeal with the court of second instance.

The court of second instance corrected the first-instance judgment with regard to contributory infringement of Sony China, and admitted the other items. Therefore, the second instance rejected the appeal and affirmed the original decision.

III. Disputes of the Case and Comments

In this case, the most striking disputes include:

- (1) whether the act of Sony China constitutes direct infringement as prescribed by Article 11 of the Chinese Patent Law;
- (2) whether the act of Sony China constitutes contributory infringement as prescribed by Article 9.1 of the Tort Liability Law;
- (3) whether the defense of Sony China holds;
- (4) what civil liability of infringement Sony China should assume.

With regard to these disputes, the opinions of each party involved and the court are concluded as follows, along with the comments of the writer.

1. On dispute (1)

1.1 Opinions of the involved parties

IWNCOMM alleged that according to the provisions of *Quality Management System Requirements*, it can be reasonably assumed that the defendant had a need in the process of design and research and development, production, and factory inspection, to verify whether the WAPI function runs normally.



Sony China alleged that *Quality Management System Requirements* is merely a voluntary standard and is not necessarily employed by the defendant or, if employed, could be cut down according to the actual situation. The defendant is a mobile phone manufacturer. According to the inspection report submitted by the defendant, the MAC chip and the WAPI software in coaction with the MAC chip for the wireless network adapter embedded in the accused mobile phone were from Qualcomm or Broadcom. The defendant merely needed to assembly the WAPI technical product, without performing a factory inspection. Sony China also alleged that the accused product produced and sold by it did not “fully cover” the technical solution of the involved patent.

1.2 Opinions of the court of first instance

Upon the request of the plaintiff for investigating and collecting evidence, the court of first instance ordered the defendant to submit evidences including all the technical documents, test specifications, equipment used, test data and test report for realizing WAPI function during the process of design and research and development, production, and factory inspection of the involved mobile phone. The defendant submitted 6 evidences including the data set of WAPI test in the stage of research and development, specifications for the correspondence between product model and platform, test data in the stage of production, and the like and clearly admitted that WAPI functional test was conducted for partial models of the accused product in the stage of research and development.

The court of first instance held the idea that, *Quality Management System Requirements* is a national standard jointly issued by the State Quality Inspection Administration and the SAC, which specifies the standard for the inspection performed during design, development and before delivery or implementation of the product. If the defendant alleges that the standard is not executed, documents of quality management regulations such as the internal test specifications shall be submitted under the request of the court. As the court requested the defendant to submit the test specifications used to implement the WAPI function while the defendant refused to do so, the court of first instance affirmed that, the defendant conducted WAPI functional test for partial models of the accused product, as admitted by the defendant, and that the defendant followed the standard of *Quality Management System Requirements* in the process of manufacture and inspection of the involved mobile phone, as well as performing the WAPI functional test.

1.3 Opinions of the court of second instance

The court of second instance held the idea that the affirmation should be made respectively according to the various stages of design and R&D, manufacture, factory inspection, etc. of the mobile phone.

With regard to the stage of design and R&D, the court of second instance agreed with the judgment of the previous instance. The court of second instance gives the following opinions: “as an initial matter, Sony China acknowledges that the accused product is capable of implementing the involved patent and that the accused product complies with the GB15629.11-2003/XG1-2006 standard. As remarked above, the related technical solution in the involved standard fully covers claim 1 of the involved patent.



Therefore, it is appropriate to directly affirm that the accused product produced and sold by Sony China in coaction with AP and AS infringes the involved patent right of IWNCOMM. Moreover, according to the general conventions of mobile communication device manufacturer, WAPI functional test is a test project for type approval, usually performed in the inspection stage prior to type approval and certification. The test is performed on a certain number of sample machines. Sony China admits that since 2009, smart phones can obtain a telecommunication equipment model number approved by MIIT and a network access license merely by passing WAPI inspection, and acknowledges that WAPI functional test is performed on some models of the accused products. Therefore, at least in the stage of design and R&D or sample inspection, Sony China implemented the complete technical solution of the involved patent without permission. Thus, it can be affirmed that Sony China implements the involved patent without permission during the manufacture of the accused product and infringes the involved patent of IWNCOMM. Considering that Sony China admits 35 types of mobile phones including the accused product to have WAPI function, this court reasonably concludes that Sony China employs the method of the involved patent in the test of 35 types of mobile phones involved in this case.”

With regard to the stages of manufacture and factory inspection, the court of second instance did not agree with the judgment of the previous instance. The court of second instance provided the following reasons: “the implementation of WAPI technical solution requires a certificate to be downloaded to MT in advance and requires complicated and time-consuming installation operations. In the stage of factory inspection, performing WAPI functional test on each mobile terminal does not fulfill the efficiency requirements of streamline operations in industrial production. WAPI functional test is generally performed in the stage of type approval and the inspection before certification, instead of in the stages such as factory inspection, and is usually performed by sampling. In addition, *Quality Management System Requirements* is a voluntary standard. Sony China explicitly alleged that the standard is not necessarily employed or employed with abbreviation according to the actual situation.”

Eventually, the court of second instance asserted that, even though the existing evidences could not prove that Sony China used the involved patent in the stage of manufacture and factory inspection, in the industry of mobile phone manufacture, use of the involved patent in whichever stage of design and R&D, manufacture after the model is determined and factory inspection constitutes an act of implementing the involved patent according to the Chinese Patent Law. Accordingly, Sony China implemented the involved patent during the manufacture of the accused product and infringed the involved patent of IWNCOMM.

1.4 Comments

In the stage of the first instance, Sony China submitted under the request of the court the data set of WAPI test in the stage of research and development, specifications for the correspondence between product model and platform, test data in the stage of production, and the like and clearly admitted that WAPI functional test was conducted for partial models of the accused product in the stage of research and development. According to the acknowledgement of Sony China and the general conventional of



mobile communication manufacturers, the above evidences are sufficient for the affirmation that at least in the stage of design and R&D or in the stage of sample inspection, Sony China fully implemented the technical solution of the involved patent without permission. Therefore, the affirmation of the court of first instance and the court of second instance should be reasonable.

However, with regard to the stage of manufacture and factory inspection, the court of second instance explicitly denied the presumption of the court of first instance that WAPI functional test is conducted during the factory inspection, which is made according to the *Quality Management System Requirements*. The court of second instance also pointed out that the existing evidences could not prove that the involved patent was employed by Sony China in the stage manufacture and inspection before leaving the factory. The opinion of the court of second instance seemed to reduce the scope of the act of infringement implemented by Sony China.

2. On dispute (2)

2.1 Opinions of the involved parties

IWNCOMM alleged that the involved mobile phone manufactured by the defendant provided help as a necessary tool for the implementation of the involved patent by others.

Sony China alleged that: only a user could directly implement the involved patent; there is no evidence proving that a user has implemented the involved patent; or, if a user did implement the involved patent, since there is no direct infringement of the user, the defendant does not constitute joint tort; the accused product had substantial non-infringing uses, it should not be affirmed that there is a fault of the defendant; therefore, the defendant did not help to implement the involved patent.

2.2 Opinion of the court of first instance

The court of first instance held that the following opinions: “In general, indirect infringement should be premised on the existence of direct infringement. However, this does not mean that the patentee should prove actual direct infringement implemented by another principal party. The patentee only needs to prove that the use of the accused product by the user according to the predefined usage of the product fully covers the technical features of the patent right. As to whether the user is liable for the infringement, it does not affect the establishment of indirect infringement. The court makes the above explanation because, in most use of process patent, the main body realizing the technical features of claims of the involved patent is the user; yet the user does not constitute infringement due to the “non-commercial purpose. In this case, if the provision that ‘indirect infringement should be premised on the existence of direct infringement’ is rigidly applied, the use of the process patent involving the user will no longer be protected by the laws, which is against the original purpose of the Chinese Patent Law to grant a patent right for such a process. Knowing that the accused product is embedded with WAPI functional module assembly and that the assembly is exclusively used for a device for



implementing the involved patent, the defendant still provided the product for others to implement the involved patent without permission of the plaintiff. Such an act constitutes contributory infringement.”

2.3 Opinion of the court of second instant

The court of second instance held the following opinion: the following necessary conditions should be fulfilled by an exception where the direct implementer does not infringe the patent right while an actor of “indirect infringement” assumes civil liability:

- i. the actor knows that the related product is exclusive product such as raw material, intermediate, part or device exclusively for implementing the technical solution of the involved patent, yet still provides that exclusive product for an direct implementer for commercial purposes without permission of the patentee;
- ii. the exclusive product plays a “substantial” role in the technical solution of the involved patent; that is, the product of, for example, raw material, intermediate, part or device, not only is necessary, but has a prominent importance to the implementation of the technical solution of the involved patent, and is not any tiny product of secondary importance;
- iii. the exclusive product does not have “substantially non-infringing uses”; that is, the related product such as raw material, intermediate, part or device is not a general product or a common product and does not have any other reasonable economic and commercial use apart from being used for the technical solution of the involved patent;
- iv. There is evidence proving the existence of a direct implementer, and the direct implementer has a “non-commercial purpose” or falls within the circumstances prescribed by Article 69.3, 69.4 and 69.5 of the Chinese Patent Law.

Furthermore, the court of second instance gave the opinion that the WAPI functional module assembly combining hardware and software in the accused product provided by Sony China does not have any other substantial use apart from the implementation of the involved patent, and thus should be affirmed as a device used exclusively for the implementation of the involved patent.

However, eventually, the court of second instance did not judge that the act of Sony China constituted contributory infringement. The reason was: “the involved patent is a process patent. Except the WAPI functional module embedded in the mobile terminal, coactions with AP and AS is further required. Thus, the involved patent is a typical process patent implemented by multiple bodies that requires participation of multiple bodies in the implementation of the technical solution and of which the technical solution can merely be completely implemented by coactions or interaction of the multiple bodies. In this case, as Sony China merely provided the mobile terminal inbuilt with the WAPI functional module and did not provide devices of AP and AS, and as the involved patent could only be implemented completely by a three-way equivalent security infrastructure comprising MT, AP and AS and coactions of MT, AP and AS, any implementer in this case, including individual users, could not



individually fully implement the involved patent. Meanwhile, it was not a case where a single actor controlled or directed others of the implementation or where multiple actors coordinated to implement the involved patent. Without a direct implementer, it would be away from the necessary conditions for contributory infringement and would improperly damage public interests to determine that a provider of a part of foresaid devices constitutes contributory infringement.”

2.4 Comments

The involved patent has process claims of multiple bodies. In order to fully implement the technical solution of the involved patent, there is a need for coactions of MT, AP and AS. Therefore, the act of Sony China selling mobile terminals to the uses certainly did not directly infringe the patent right of the involved patent. However, on the matter whether the act of Sony China constituted contributory infringement, there was disagreement between the court of first instance and the court of second instance. Such disagreement related to indirect patent infringement that has been a long-term discussion in Chinese legislation and judicature.

i. Current situation of legislation involving indirect infringement

Article 9 of Tort Liability Law prescribed that

Article 9 One who abets or assists another person in committing a tort shall be liable jointly and severally with the tortfeasor.

Article 21 of Interpretation on Several Issues Concerning the Application of Law in the Adjudication of Patent Infringement Dispute Cases by the Supreme People’s Court (II) (Legal Interpretation Document No. [2016] 1) prescribed that

“Where one explicitly knows that a product is the raw material, equipment, part, intermediate etc. exclusively for the implementation of a patent and, without authorization from the patentee and for a production or business purpose, supplies the product to another person who implemented an act infringing the patent, if the right holder claims that the supplier’s act is an act auxiliary for others’ tortious act as prescribed under Article 9 of the PRC Tort Law, the People’s Court shall support his claim.

Where one explicitly knows that a patent is granted on a product or method and, without authorization from the patentee and for a production or business purpose, induces another person into having implemented an act infringing the patent, if the right holder claims that the inducer’s act is an act abetting others’ tortious act as prescribed under Article 9 of the PRC Tort Law, the People’s Court shall support his claim.”

ii. Development of indirect patent infringement in China

Early in the year of 2000 at the second amendment to the Chinese Patent Law, articles prohibiting indirect infringement were written in the draft amendment submitted by the SIPO with the State Council. Later, considering that TRIPs agreement did not regulate indirect patent infringement, it was



improper to provide a protection surpassing TRIPs in China. Therefore, these articles are removed from the draft amendment of the Chinese Patent Law reported to the National People's Congress. In the reported draft for the third amendment to the Chinese Patent Law, articles prohibiting indirect infringement were still not included. Regarding this, the SIPO explained as follows: "the addition of provisions to stop indirect patent infringement to the Patent Law essentially extends the protection of patent rights to products involving patented technologies but not patented itself. Therefore, the issue of indirect patent infringement has fallen into a very sensitive gray area between the interests of the patentee and public interests. The formulation and application of relevant rules will, if being slightly inappropriate, impair the right of the public right to free use of existing technologies. The acts involving indirect infringement could be remedied according to the provisions of the *General Principles of Civil Law* concerning joint torts. Therefore, it is not the proper time to regulate indirect patent infringement under the Patent Law."

In practice, multiple disputes on indirect infringement have been trialed in China since 1993. As the previously mentioned three amendments to the Chinese Patent Law did not systemize the provisions and prescriptions over the issue of indirect patent infringement, there has been inconsistency in the application of the relevant laws and articles in the practice of the court.

In 2001, Beijing Supreme Court formulated a series of regulations over the concept and scope of indirect patent infringement in the *Opinions on Several Issues of Infringement Determination (Trial)*. Article 73 prescribes indirect infringement as follows: "indirect infringement means that the act committed by the actor does not constitute direct infringement of other People's patent right; but the actor intentionally induces, incites or abets others to implement other People's patent right and causes direct infringement; in such case, the actor has the intention to induce or abet infringement against other People's patent right and objectively provides necessary conditions for the direct infringement performed by others."

In addition, the *Opinions* of 2001 made an attempt of establishing an individual system for indirect infringement. It recited:

"78. Indirect infringement should generally be premised on the occurrence of direct infringement. In the absence of direct infringement, there is no indirect infringement.

79. The tort liability of the indirect infringer may be investigated directly in the following cases where an act of direct infringement shall not be pursued or regarded as infringement of patent right: (1) said act falls within the acts not considered as infringement to a patent right under Article 63 of the Chinese Patent Law; (2) said act is an act of manufacture, use of a patented product, or use of a patented method of an individual out of non-profit purpose.

80. If an act of direct infringement identified in accordance with Chinese laws occurs or may occur overseas, the tort liability of the indirect infringer may be investigated directly."

The above provisions have confronted with objections in practice. The reason for the objections mainly



includes that there was no legal basis for indirect infringement, and it was not appropriate for a local court to introduce a regulatory document that broke through legal provisions. Beijing Higher People's Court accepted the above reason and removed the provisions on indirect infringement from the *Guide to Patent Infringement Determination* issued in 2013. As for indirect infringement, acts of indirect infringement such as inciting and contributing to infringements performed by others were identified as contributory infringement under the joint tort theory in the *General Principles of Civil Law* and the Tort Liability Law.

In March, 2016, the Supreme People's Court issued the above-mentioned Legal Interpretation Document [2016] No. 1. Article 21 of the Interpretation specifically regulated indirect patent infringement, thereby ending the long-period dilemma of lack of applicable regulations in judicial trials. In December 2015, the State Council Legislative Affairs Office promulgated the "Revised Draft of the Patent Law of the People's Republic of China (Draft for Ratification)", of which new Article 62 prescribed substantially the same rule as Article 21 of the Legal Interpretation Document [2016] No. 1

Based on the above judicial interpretation, *Guidelines for Patent Infringement Determination (2017)* issued by Beijing Higher People's Court in 2017 still determined acts of indirect patent infringement including abetting and helping patent infringement behaviors of others as joint infringement, and thereby regulating the acts of indirect patent infringement. Article 118 of *Guidelines for Patent Infringement Determination (2017)* stipulated that "where one abets and helps another person when knowing that the implementation of said person constitutes infringement to a patent right as prescribed by Article 11 of the Chinese Patent Law, the person abetting and helping is a joint infringer together with the person of the implementation, and shall assume joint liability. Articles 119 and 120 prescribed specific helping behaviors. Articles 121 and 122 prescribed specific abetting behaviors.

However, Article 119 of the *Guide to Patent Infringement Determination (2017)* prescribed that

"Where a person explicitly knows that a product is the raw material, equipment, part, intermediate etc. exclusively for the implementation of a patent and, without authorization from the patentee and for a production or business purpose, supplies the product to another person who implemented an act infringing the patent, the act of said person providing the exclusive product constitutes an act helping others to implement patent infringement as prescribed by Article 118 of this Guide, yet the another person falls within the circumstances prescribed by Article 130 of this Guide or Article 69.3, 69.4 and 69.5 of the Patent Law, said person shall assume the civil liability."

Article 130 of the *Guidelines for Patent Infringement Determination (2017)* prescribed that

"Implementing other People's patents for private use and other non-commercial purposes does not constitute an infringement of the patent right."

iii. Necessary conditions for establishing indirect patent infringement

Regarding the necessary conditions for establishing indirect patent infringement, in particular, whether



it is premised on the existence of direct infringement, there has always been a dispute. There is one opinion that indirect patent infringement depends on direct infringement, which is known as the idea of “subordination”, and a different opinion that indirect patent infringement is an independent type of infringement and is not premised on the existence of direct infringement, which is known as the idea of “independence”. There is further a compromised opinion that indirect infringement is generally premised on the establishment of direct infringement; but, under certain conditions, the liability of indirect infringers can be directly assumed.

According to the content of the documents, Article 21 of Legal Interpretation Document [2016] No. 1 employed the idea of “subordination”. The article included 2 items with regard to indirect infringement, prescribing contributory infringement and abetting infringement, respective, which were included in the system of the Tort Liability Law. Thus, Legal Interpretation Document [2016] No. 1 did not consider indirect patent infringement as independent from patent infringement, but took it as contributing behavior and an abetting behavior depending on patent infringement, where the actor assumes joint liability with the infringer. The necessary conditions for the establishment of contributory infringement could be concluded as “exclusive product + intentional behavior + infringement implemented by other people”. The necessary conditions for the establishment of abetting infringement could be concluded as “intentional behavior + active induction + infringement implemented by other people”.

According to the idea of “subordination”, if the actor intentionally supplied an exclusive product to a consumer for commercial purpose and the consumer completed the final product or employs the patented method, the liability of the actor could not be investigated. The reason is that, first, the actor did not fully implement the patented technical solution and thus, did not constitute direct infringement; and second, the act of the consumer was not out of commercial purpose, which did not constitute direct infringement and did not cause infringement liability of the consumer; as direct infringement did not occur, the actor did not constitute indirect infringement.

Perhaps taking into account the above problems of the idea of “subordination”, Beijing Higher People’s Court still adopts the idea of “subordination” in the case of indirect infringement of abetting others to implement the act of patent infringement, which is premised on direct infringement. As for the act of indirect infringement of helping others to implement patent infringement, Beijing Higher People’s Court exhibits a compromised attitude, using the idea of “subordination” as the principle and employing the idea of “independence” for exceptions. According to the above provisions of the *Guide to Patent Infringement Determination (2017)*, the necessary conditions for the establishment of a case where the “other people” who is the direct implementer did not infringe the patent right and the actor of “indirect infringement” assumes civil liability could be summarized as “exclusive product + intentional + implementation of a patented technical solution by other people”.

As for this case, the court of first instance introduced essentially the compromised opinion and did not strictly follow the provisions of Article 21 of Legal Interpretation Document [2016] No. 1, modifying



the necessary conditions for the actor of “indirect infringement” assuming civil liability as “exclusive product + intentional + necessary occurrence of an act covering the patented technical solution”. That is, if it could be proved that the actor intentionally provided the exclusive product for the “user “out of commercial purpose, it would be certain that an act covering the patented technical solution happened. Thus, the actor committed contributory infringement regardless of whether the behavior of the “user” constituted direct infringement. The court of first instance expressly pointed out in the first-instance judgment that “in most use of process patent, the main body realizing the technical features of claims of the involved patent is the user; yet the user does not constitute infringement due to the “non-commercial purpose. In this case, if the provision that ‘indirect infringement should be premised on the existence of direct infringement’ is rigidly applied, the use of the process patent involving the user will no longer be protected by the laws, which is against the original purpose of the Chinese Patent Law to grant a patent right for such a process.”

The court of second instance was in fact pro the compromised opinion of the court of first instance. The second-instance judgment expressly pointed out that “in special circumstances, the actor that directly implements the patent right is an individual for ‘non-commercial purpose’, or the act of directly implementing the patent right falls within the circumstances prescribed in Articles 69.3, 69.4 and 69.5 of the Chinese Patent Law. Since the direct implementation does not constitute infringement of patent right, if the court could not determine the actor of ‘indirect infringement’ to assume civil liability, there would be a large number of process patents in communication and software which cannot be effectively or sufficiently protected by the law, which goes against encouraging scientific and technological innovations and protecting the legal rights of patentees”. The judgment further provided four items of necessary conditions of such exceptions, as listed above.

iv. Judgment of infringement on process claims with multiple execution bodies

The reason why the court of the first instance and the court of the second instance came to different conclusions with regard to the judgment of indirect infringement is that the court of first instance neglected the particularity of process claims with multiple execution bodies in the judgment of infringement. According to the foresaid first-instance judgment, the court of first instance held the idea that the user using the product in a predetermined manner would fully cover the technical features of the patent right and thus determined the user as the body “fully” realizing the technical features of the claims of the involved patent. However, in fact, the involved patent is a process patent with multiple execution bodies. In this case, as pointed out by the court of second instance, any implementer including individual users could not independently completely implement the involved patent. Without a direct implementer, a supplier of one part could not be determined to commit contributory infringement because the above necessary conditions for the establishment of contributory infringement are not fulfilled.

The involved patent has typical process claims with multiple execution bodies. In such claims, there are several steps to be carried out by different execution bodies. Such kind of claims is written in a manner



for presenting process claims. The presentation manner does not pay special attention to the execution bodies of an interactive process, but presents the protection scope by describing multiple steps performed by multiple execution bodies according to the actual execution of the interactive process. According to the principle of full coverage, merely when the actor executes all the steps of the process claims, the infringement will be considered committed. Therefore, it is extremely difficult to determine the patent infringement of process claims with multiple execution bodies.

Some industry insiders believe that in this case, Sony China did not implement the steps executed by the AP and AS in the patented method and merely implemented the actions performed by the MT side; however, as any one of MT, AP and AS respectively executed the steps according to the standard corresponding to the process, the executors of MT, AP and AS shared intentional communication therebetween; and the integral behavior consisting of the three executors fell within the protection scope of the patent, constituting infringement of the patent. Therefore, according to the provision of Article 8 of the Tort Liability Law that “where two or more people jointly implement the infringement behavior and cause damage to others, joint liability shall be investigated”, Sony China shall, as the executor of the behavior of MT and as a member committing the joint infringement, assume the joint liability of direct patent infringement.

The author does not agree with the above opinion. The above opinion ignored the fact that among the cooperative operations of MT, AP, and AS, the action of MT was performed by the terminal user, and Sony China merely provided one component for the cooperative operations performed by three bodies.

Article 8 of the Tort Liability Law requires common subjective intention and uniform damaging results to be found in a joint tort, including the joint fault in the form of joint intention and contributory negligence, with the damaging result of the act of the infringer being uniform with the common intention. Specifically in patent infringement cases, a typical performance of joint torts is that several infringer intentionally infringes a patent right together. Hereby, the expression “joint fault” means that the actors have the intention to jointly commit an act to infringe the patent right of other people; that is, the actors work in cooperation with a due division of labor, knowing that their actions performed respectively will be seen as an integral behavior. Similarly, the *Guide to Patent Infringement Determination (2017)* prescribed in Article 116 that “where two or more people conspire to commit or work in cooperation with a due division of labor to commit an action of infringing a patent right, they commit joint infringement.”

In this case, the user of the terminal only wanted to use the WAPI module to connect to the wireless network and did not know the process and steps to be specifically executed, not to mention the process and steps to be executed by AP and AS. The user might not know the existence of AS. This apparently fails the standard of joint intention of joint liability. Therefore, in personal use of the terminal, as stated by the court of second instance, there was not such a case where multiple actors cooperated to implement the involved patent.



In addition, in the second-instance judgment, Beijing Higher People’s Court further mentioned that “it was not a case where a single actor controlled or directed others of the implementation”. The court might have referred to the “control or direction” standard developed from the judicial practice of the United States. The “control or direction” standard emphasizes that only when the accused infringer is the mastermind of the infringement and controls or directs others to complete the integral infringement, can the liabilities of other actors be attributed to the accused infringer, and further, the accused infringer be determined to have committed direct patent infringement. Does it mean that Beijing Higher People’s Court judges patent infringement involving process claims with multiple execution bodies based on the “control or direction” standard? It cannot be simply affirmed in the current stage. Along with the technical development of the Internet, Cloud calculation and the like, infringement cases involving process claims with multiple execution bodies will increasingly arise. We look forward seeing how the court copes with such cases.

3. On dispute (3)

The counterargument of Sony China included three items, including: the AP and AS device (IWNA2410) used by Sony China for WAPI test was a device exclusive for the implementation of the involved patent and was legally sold by IWNCOMM, by which the right of the patent involved has been exhausted; the chip for implementing the WAPI function of the accused product was provided by the chip manufacturer, by which the patent right of IWNCOMM has been exhausted; the involved patent was included in the national mandatory standards, for which IWNCOMM has made a fair, reasonable and non-discriminatory license statement, thus, Sony China did not infringe a patent right.

Among the above, regarding the second item of defense, Qualcomm, the chip manufacturer providing chips for Sony China, has issued a written correspondence in response to the Notification of Assistance in Investigation and Evidence Collection issued by the court of first instance and explained that Qualcomm, together with its affiliates, did not obtain permission of using the involved patent. Therefore, this defense of Sony China with regard to exhaustion of patent right does not have a factual basis. The arguments around this item of defense will not be further detailed. As for the rest two items of defense, the opinions of the court and the comments of the author are concluded in the following paragraphs.

3.1 Whether selling exclusive device causes a patent to be exhausted

i. Opinions of the court of first instance

The court of first instance pointed out that a simple “use of a process patent” would not cause the patent to be exhausted for the following two reasons:

As an initial matter, according to Article 61.1(1) of the Chinese Patent Law, where, after the sale of a patented product or a product obtained directly by a patented process by the patentee or any entity or individual authorized by the patentee, any other person uses, offers to sell, sell, or imports that product,



shall not be deemed as infringement of the patent right. Accordingly, under the current legal framework of China, the exhaustion of a process patent right is applicable merely to the circumstances where the product is “a product obtained directly by a patented process”, that is, the “manufacturing process patent”. Simple “use of a process patent” would not cause the patent to be exhausted.

Moreover, Article 11 of the Chinese Patent Law prescribes that “After the grant of the patent right for an invention or utility model, except where otherwise provided for in this Law, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes”. As shown above, Article 11 of the Chinese Patent Law explicitly prescribes the scope of the right of a process patent as “use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process”. The expression “use the patented process” is not recited in Article 61.1 (1) of the Chinese Patent Law, which further indicates that in the opinion of legislator, “use the patented process” does not cause the patent to be exhausted or it is unnecessary to prescribe the case where the patent right is exhausted. Therefore, “use the patented process” does not fall within the scope of exhaustion of rights under the Chinese patent law.

Therefore, the court of first instance found that the sale of the testing device by IWNCOMM did not result exhausting the rights of the process patent of the device.

ii. Opinions of the court of second instance

The court of second instance held the following opinions: although the device sold by IWNCOMM is a device exclusive for implementing the method of the involved patent, "the patent exhaustion doctrine prescribed by Article 69.1 of the Chinese Patent Law only exhausts the exhaustion of a patent of the product itself that is legally for sale, and cannot be deemed that the patent right of a product or a process is exhausted by a legally on-sale device, element or part exclusive for implementing the patented process or for manufacturing the patented product. The patent right can be exhausted only by the patented product or a product obtained directly according to the patented process. A simple use of a process patent does not, as there is no product involved therein, cause exhaustion of patent right". Therefore, the contention of Sony China that the right of the involved patent has been exhausted cannot be established.

iii. Comments

Regarding the exhaustion of patent right, in terms of legislation, only Article 69.1 (1) is relevant. As the opinions of the court stated in the previous paragraphs, according to the articles and provisions of the foresaid laws, only "product patent" and "manufacturing process patent" are involved. Relative case is not common in the judicial practice.

Beijing Higher People’s Court enacted detailed provisions on the exhaustion of rights in Article 131 of the *Guidelines for Patent Infringement Determination (2017)*:



"Where, after the sale of a patented product or a product obtained directly by a patented process by the patentee or any entity or individual authorized by the patentee, any other person uses, offers to sell, sell, or imports that product, shall not be deemed as infringement of the patent right, including:

- (1) After the sale of a patented product or a product obtained directly by a patented process within the territory of China by the patentee or one authorized by the patentee, a purchaser uses, offers to sell or sell that product within the territory of China;
- (2) After the sale of a patented product or a product obtained directly by a patented process outside China by the patentee or the one authorized by the patentee, a purchaser imports that product into China and then uses, offers to sell or sell that product in China;
- (3) After the sale of an exclusive part of a patented product by the patentee or one authorized by the patentee, any other person uses, offers to sell or sell that part or assemble that part to manufacture the patented product;
- (4) After the sale of a device exclusive for implementing a patented process by the patentee of the process patent or one authorized by the patentee, any other person uses he device to implement that process patent."

Among the above, items (1) and (2) completely fall within the scope prescribed by Article 69.1(1) of the Chinese Patent Law, while items (3) and (4) are extension to the circumstances combining with indirect infringement. In particular, item (4) seems to be applicable to this case, leading to the exhaustion of the involved patent right. However, according to the main body of Article 131, this article is still based on the provisions of the Chinese Patent Law; that is, it is still about the issue of right exhaustion of a patented product and a product directly obtained according to the patented method. Moreover, the *Guidelines for Patent Infringement Determination (2017)* of Beijing Higher People's Court, as a guide for the trials performed at local courts, can only be interpreted within the framework prescribed by the law and can hardly serve as grounds for judgment going beyond the law.

The action of selling or inducing others to use a device known to be exclusive for implementing a patented method may constitute joint infringement of contributing or inducing infringement; and the person who performs said action shall assume the liability of infringement. Based on judicial logic, in light of balancing the rights and obligations and the interests of the patentee and the public, the sale of the exclusive device for implementing the patented method by the patentee and the explanation of the application method made by the patentee could be deemed as default permission for the use of the device.

As for this case, the defense of Sony China is reasonable to some extent. However, under the current legal framework, the judgments made by the court of first and second instance are legal. The problems arising could only be expected to be solved by further improvement of the laws and regulations and the applicable interpretations.



3.2 Whether the defense of Sony China that its behavior did not constitute infringement because the involved patent has been included in the national mandatory standards and because IWNCOMM has made FRAND licensing commitment

i. Opinions of the court of first instance

The court of first instance held the following opinions. First, the standard involved in this case was a mandatory national standard; and the patent involved was an essential patent included mandatory national standards. Second, under the current legal framework, the legal basis for judging patent infringement is the provisions of Article 11 of the Patent Law. The specific rule is the “full coverage doctrine” prescribed by Article 7 of Interpretation on Several Issues Concerning the Application of Law in the Adjudication of Patent Infringement Dispute Cases by the Supreme People’s Court. These related legal provisions and judgment rules according to the judicial interpretation did not distinguish whether the involved patent is a common patent or a standard essential patent. Even if the patent implemented without permission is a standard necessary patent, patent infringement still exists. Third, the FRAND licensing commitment is only a commitment made by the patentee, which is a unilateral civil legal act. The commitment was not equal to a license. That is to say, based on the FRAND licensing commitment in question, it cannot be concluded that a patent license contract was achieved between the involved parties. Therefore, the fact that the involved patent was included in the national mandatory standards and that the plaintiff has already made the FRAND licensing commitment could not be used as a defense of the defendant against infringement.

ii Opinions of the court of second instance

The court of second instance held the following opinions. First, due to the delay in implementation of the above-mentioned national mandatory standard involved in this case, the above technical standard should be regarded as a voluntary national standard in terms of effectiveness. Second, according to Article 24.1 of the Judicial Interpretation of the Supreme People’s Court for Patent Applicable Laws, where a voluntary national, industrial or local standard explicitly indicates information of an essential patent involved, if the accused infringer pleads that the implementation of said standard does not require permission of the patentee and thus the accused infringer does not infringe the patent right, the people’s court usually shall not support the defense of the accused infringer. According to such a provision, the fact that the involved patent was included in the national standards does not serve as a defense of Sony China against the infringement.

iii Comments

The court of first instance and the court of second instance reached the same conclusion yet for different reasons. The court of first instance put forward that standard patent is not distinguished from general patents in the judgment of infringement; whether or not a patent is included in the national mandatory standards does not affect the judgment of infringement. The court of second instance stated that where a patent is included in the national mandatory standards, usually the implementer can implement the



patent without permission of the patentee. However, in this case, the involved standard was determined as a voluntary national standard. Further, according to the provisions of the Judicial Interpretation II, the court of second instance asserted that as the information of the essential patent has been disclosed in the voluntary standard, the defendant cannot use the fact that the patent involved was included in the national standards as a defense.

As for whether the involved standard is a mandatory standard, since the involved standard has been put into force in fact since 2009, the factual state of the delay in the enforcement on July 1, 2004 of the involved standard did not exist. Neglecting such a fact, the court of second instance far-fetchingly determined the standard in question as voluntary national standard, which is, to some extent, self-deceiving. The fundamental reason why the court of second instance gave the above opinions lies in that the Judicial Interpretation II only specified the case where the voluntary standard relates to an essential patent and did not specify the case of mandatory standard essential patent. According to the second-instance judgment, apparently, the court of second instance agrees that where a patent is included in the national mandatory standard, usually the implementer is allowed to implement that patent without permission of the patentee. The patentee may stop alleging infringement and put forward requirements such as a corresponding license fee to be paid. Thus, the accused infringer may plea that no infringement was committed.

Reviewing the attitude exhibited by the courts of China, the following judicial interpretations are of great significance.

The Supreme People's Court pointed out in (2008) Civil Third Other No. 4 issued in July, 2008 in response to the "Consultation on Patent Infringement Dispute between Ji Qiang, Liu Hui and Xingnuo Construction (Chaoyang) Co., Ltd" of Liaoning Higher People's Court that: "In view of the fact that the standard-setting bodies of China have not yet established the system for public disclosure and use of information of patents in the standards, where the patentee participates in the standard setting, or, with the patentee's consent, a patent is included in national, industrial, or local standards, it is deemed that the patentee permits other people to implement said patent when implementing the standards; relevant implementation of other people does not fall within the scope of infringement of patent right as stipulated in Article 11 of the Patent Law."

The above judicial interpretation seemed to directly negate the establishment of infringement involving standard essential patents, and did not subdivide mandatory standards and voluntary standards. Moreover, the above judicial interpretation also mentioned "in view of the fact that the standard-setting bodies of China have not yet established the system for public disclosure and use of information of patents in the standards". However, on December 19, 2013, the National Standards Committee and the State Intellectual Property Office issued the "Regulations on the Administration of Patents involving National Standards (Interim)" that was implemented from January 1, 2014. This Regulation specified the corresponding regulations of the system for public disclosure and use of information of patents in the standards. If the implementation of this regulation were considered to have changed the background



mentioned in the aforementioned judicial interpretation, the Judicial Interpretation II implemented in April 2016 could be a further step to change the practice regarding standard essential patents, at least specifying the process to cope with infringement cases involving voluntary national standard essential patents.

As for mandatory national standards, the aforementioned “Regulations on the Administration of Patents involving National Standards (Interim)” mentions that mandatory national standards generally do not involve patents. Of course, the introduction of the Regulations was later than the formulation of the standards involved. In this case, there is indeed the problem of a mandatory standard concerning a patent. Based on judicial reasons, the thought of the court of second instance, which is, the implementation of mandatory standard essential patents is default allowed, saving the need for permission, is more reasonable, while the way the first instance court resolves the issue, that is, it is not distinguished whether the patent is a standard essential patent, is more in line with the legal status quo.

4. On dispute (4)

Usually, in a patent infringement case, the civil liability of infringement includes desisting from infringement and damaging. Generally, the amount of damages is the focus of disputes. However, as this case related to a standard essential patent, it was a further focus of disputes whether the civil liability of desisting from infringement should be applicable.

4.1 Regarding desisting from infringement

i. Opinions of the involved parties

IWNCOMM alleged that since 2009, IWNCOMM has been offering patent license to Sony China, providing a list and quotation, that Sony China, on the contrary, did not show the will to reach a deal, and that the court should determine Sony China to desist from infringement.

Sony China alleged that IWNCOMM did not provide an infringement chart, thereby Sony China did not know whether its behavior constituted infringement, that Sony China did not have obvious misdoing, and that the court should not determine Sony China to desist from infringement.

ii. Opinions of the court

In this case, the involved parties conducted a negotiation on license of the involved patent from March, 2009 to March 2015, during which IWNCOMM provided Sony China a licensing list and Sony China questioned whether the accused mobile phone product really infringed the patent right and required IWNCOMM to provide a detailed claim comparison table. Throughout the negotiation, Sony China has insisted the request of “detailed claim comparison table” till March 13, 2015 when Sony China proposed to terminate the negotiation. During the negotiation, IWNCOMM once proposed to provide the claim comparison table on the condition that a non-disclosure agreement is signed or on the basis of the non-disclosure agreement of 2009. However, the Sony China insisted that IWNCOMM provide a



claim comparison table without any confidential information.

The court of first instance gave the following opinions. First, the involved patent was a standard essential patent. The defendant should have told whether the WAPI software running in the involved mobile phone fell within the protection scope of the claims of the involved patent, not necessarily by means of a claim comparison table provided by the plaintiff. Therefore, the request of the defendant that the plaintiff provides the claim comparison table was not reasonable. Second, the claim comparison table might have contained the opinions and assertions of the patentee. Under such circumstances, it was reasonable that the patentee requested a non-disclosure agreement to be signed by the two parties.

For the above reasons, the court of first instance determined that the fault caused that the involved two parties did not enter an official patent licensing negotiation lay in Sony China and supported the request of IWNCOMM that the defendant desists from infringement.

The court of second instance substantively supported the opinions of the court of first instance and determined that Sony China had obvious misdoings during the negotiation. Further, the court of second instance mentioned expressly in the written second-instance judgment that “even in the stage of litigation, Sony China did not put forward clear licensing conditions and did not submit to the People’s Court the alleged amount of licensing fees or a guarantee of a value no less than the amount. Sony China did not show its good faith in the licensing negotiation.”

iii. Comments

According to the provisions of Article 24 of Judicial Interpretation [2016] No. 1, if the patentee has a fault while the accused infringer did not have obvious misdoings during the negotiation, the court shall not support the patentee’s claim of ceasing the implementation of the standard.

Beijing Higher People’s Court provided further specified provisions in the *Guidelines for Patent Infringement Determination (2017)*.

The *Guidelines for Patent Infringement Determination (2017)* prescribed in Articles 152, 153 that

“Where there is no evidence to prove that the patentee of the standard essential patent intentionally violated the fair, reasonable and non-discriminatory licensing obligations, and the alleged infringer has not been at fault in negotiating the implementation of the standard essential patent, if the accused infringer promptly submits to the people’s court its claimed license fee or provide the provision of a guarantee no less than that amount generally does not support the claim of the patentee to stop the implementation of the standard.”

“Where the patentee did not fulfill its fair, reasonable and non-discriminatory licensing obligations, and the alleged infringer also had obvious faults in the negotiation, the court should analyze the degree of fault of both parties and judge the party that assumes the main responsibility for the interruption of the negotiation, and then determine whether to support the claim of the patentee of stopping the implementation of the standard.”



Although the above provisions do not clearly stipulate how to deal with a situation where the patentee is not at fault and the accused infringer has obvious faults, it is clear that the conclusion of supporting the ban will be derived. Moreover, if the court cannot order to stop the infringement in such cases, it basically negates the possibility that the patentee of the standard essential patent seeks injunctive relief, resulting in the actor “reverse hijacking” the patentee, which is not conducive to the protection of standard essential patent right. Therefore, it should not be controversial that the implementer party who has committed the fault should stop its implementation.

The court’s determination on the situations of “fault” is worth knowing. The opinions from the court of first instance including “the request of the defendant that the plaintiff provides the claim chart was not reasonable”, “it was reasonable that the patentee requested a non-disclosure agreement to be signed by the two parties”, and the opinions of the court of second instance including “(Sony China) did not provide further explanations and suggestions for promoting negotiations”, and “(Sony China) did not submit to the People’s Court its acceptable amount of licensing fees or a guarantee of a value no less than the amount”, are worth special attention by enterprises in future licensing negotiations involving a standard patent.

4.2 Regarding the damages

i. Opinions of the parties involved

IWNCOMM determined the license fee at the standard price of 1 yuan/mobile terminal and alleged a damage of an amount three times the licensing fee. To verify its claim, IWNCOMM submitted to the court four copies of patent implementation license contract signed with outsiders in which the agreed patent royalty was 1 yuan/piece.

Sony China thought that the contract was for patent packages while the involved patent was one piece in a patent package, thus the price of 1 yuan/piece was not reasonable. Sony China also submitted the judgment of the U.S. court on Wi-Fi licensing rate to assert that no matter counting by the number of terminals or by the number of patents, the standard of licensing fees of 1 yuan/piece did not comply with the FRAND principle.

Further, in the second instance, Sony China submitted supplementary evidence including citations, notarial certification documents and translated documents (confidential evidence) of licensing agreement between IWNCOMM and Apple, Inc. to prove that the fees determined for patents including the patent involved in this case in the patent license agreement reached by IWNCOMM and Apple, Inc. was much lower than 1 yuan/terminal.

ii. Opinions of the court

In this case, neither party submitted relevant evidences for the loss of the plaintiff or the benefit obtained by the defendant. Therefore, the court of first instance reasonably determined the amount of compensation for the infringement of the patent right involved in the case with reference to the multiple



of the license fee of the patent involved. According to the four patent licensing contracts signed by IWNCOMM with outsiders, the patent royalty fee was 1 yuan/piece. The patent royalty fee was multiplied by the number of mobile phone products manufactured by Sony China (2,876,391 pieces), thereby determining that the license fee was 2,876,391 yuan. Taking into account the facts that the patent involved is the basic invention in the field of wireless local area network security, has won relevant scientific and technological awards, and has been included in national standards, and taking into account the fault of the defendant in the bilateral negotiation process, the court of first instance upheld IWNCOMM's claim of "determining the amount of compensation as three times the amount of the license fee". Thus, the amount of compensation for economic losses was determined to be 8,629,173 yuan.

The court of second instance confirmed in the second-instance judgment the supplementary evidence provided by Sony China on the agreement between IWNCOMM and Apple, Inc., and based on this evidence, ascertained that on July 8, 2010, IWNCOMM and Apple signed a patent license agreement covering 35 patents and 16 patent applications of IWNCOMM, including the involved patent. The license fee contracted was paid in the form of the initial fee plus a package fee annually paid according to the specific product category. However, with regard to the determination of the amount of compensation, the court of second instance simply upheld the amount of compensation determined by the court of first instance by stating that "the court of first instance considered the type of the patent involved, the nature and circumstances of the infringement, the nature, scope, and time of the patent license, and reasonably determined the amount of compensation for the infringement of the involved patented right of Sony China based on the multiple of the patent license fee involved, which has factual and legal basis".

iii. Comments

The basic principle of compensation for tort in China is principle of compensation or principle of equalization, that is, to compensate for the losses suffered by the patentee as much as possible. Moreover, the determination of tort compensation is closely related to the nature and scope of the infringement. In other words, the principle is the punishment shall be proportional to the fault.

As mentioned above, the court of second instance found that the scope of infringement of Sony China Company was different from that determined by the court of first instance, including not recognizing and assisting infringement, and pointed out that the patented process was not implemented on all of the accused mobile phones before the mobile phones left the factory.

In this case, the court of first instance held that Sony China's sale of the accused infringing product constituted contributory infringement, and that the patented method was applied during the factory inspection process. Therefore, the amount of compensation was determined based on a patent royalty fee of 1 yuan/piece multiplied by the amount of the accused product, considering all the mobile phones were accused infringing products.



However, Beijing Higher People's Court determined in the second instance that the behavior of Sony China providing mobile terminals equipped with WAPI functions did not constitute contributory infringement, and that based on existing evidences, it could only be proved that direct infringement took place in the stage of design and R&D of the mobile phones. There was no way to prove that Sony China used the patent in the manufacture stage and the factory inspection stage. Under such circumstances, the amount of compensation was still calculated based on the total number of mobile terminals. Moreover, in terms of the license fee, the court did not mention at all the license fees agreed in the license agreement signed between IWNCOMM and Apple. These lead to the situation that in the second instance, where the scope of the infringement was found to be significantly reduced, and the evidence to be referred to for the license fee increased, yet the amount of compensation finally determined did not change. The second-instance judgment did not comprehensively explain on this matter, but simply upheld the judgment of the first-instance judgment, which would easily lead to criticism.

Postscript

As shown above, due to its involvement with standard patents, indirect infringement, liability of infringement, etc., this case received a great deal of attention and was worthy of study. Although the second-instance judgment upheld the first-instance judgment, the court of second instance gave opinions different from the court of first instance on the application of many laws. As mentioned earlier, some legal issues could be controversial because there is short of a clear legal basis. Although China employs a second-instance system, and the second-instance judgment has already become effective, Sony China, after receiving the second-instance judgment, may file a request with the Supreme People's Court for retrial. In view of the significant impact of this case and the fact that there still exists in the second-instance judgment ambiguity and issues requiring further study, it is highly probable that the Supreme Court will conduct a retrial on this case, or, at least, specify its opinions in the decision of the retrial application. We will continue to pay attention to the follow-up progress of this case, and expect the Supreme Court to give more instructive answers.