



Acts Considered as Violation against FRAND in SEP Negotiation

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II Court Decisions

In the attention-drawing cases of *IWNCOMM v. Sony* and *Huawei v. Samsung*, of which the decisions have been made this year, the Chinese court determined that the patentee did not violate FRAND terms, the implementer had behaviors that clearly violate FRAND terms, and thus decided to grant an injunction. The grounds of the Chinese courts to determine that the patentee does not violate FRAND terms and the implementer has behaviors that clearly violate FRAND terms in each of the decisions are summarized below. It can be seen from the below grounds that in these decisions, the criteria for determining whether FRAND terms are violated is consistent with the provisions of the afore-mentioned 3 documents of China and Japan.

IWNCOMM v. Sony

[First instance court: Beijing Intellectual Property Court, (2015) Jing Zhi Min Chu Zi No. 1194; second instance court: Beijing Higher People's Court, (2017) Jing Min Zhong No. 454]

▪Reasons why Sony as the implementer violated FRAND terms

Sony China first required IWNCOMM to provide a claim chart, and then required INWCOMM to “provide the claim chart without the NDA”. Later, Sony China further asserted that “Sony Mobile cannot have any business negotiation with INWCOMM before a comprehensive evaluation of the patents alleged by INWCOMM to determine that such patents possess reasonable value”. Sony China did not provide any suggestion promoting the negotiation and was clearly intended to delay the negotiation. Even in the litigation stage, Sony China failed to propose explicit licensing terms and failed to pay the royalty fee claimed by them to the People's Court or provide a guarantee of which the value is no less than the amount of said royalty fee. Sony China did not show its good faith in the licensing negotiation. Therefore, Sony China had apparent faults in the negotiation.

▪Reasons why INWCOMM as the patentee did not violate FRAND terms

A claim chart usually includes interpretations and explanations of the patentee with regard to the claims



and the technical standards of the patent, which involves key secrets of the patentee, and of which the contents are quite sensitive. Therefore, it is reasonable that INWCOMM requires signing an NDA upon consenting to provide a claim chart.

Huawei v. Samsung

[Involving two cases heard by Guangdong Shenzhen Intermediate People's Court, (2016) Yue 03 Min Chu No. 840 and (2016) Yue 03 Min Chu No. 816]

(Note: since the involved facts are the same, the statements regarding violation against FRAND terms are almost the same in the two court decisions)

In terms of procedure:

Samsung had apparent faults and violated FRAND terms while Huawei did not have apparent faults and did not violate FRAND terms.

▪ Reasons why Samsung as the implementer violated FRAND terms

1. In terms of the scope and the preconditions of patent cross licensing negotiations, Samsung insisted on negotiations of SEPs and non-SEPs in package and refused to have patent cross licensing negotiations with regard to SEPs only, which caused severe delay of the patent cross licensing negotiations between the two parties.

2. In terms of the technical negotiation in the patent cross licensing negotiations of SEPs between Samsung and Huawei, Samsung has been failing to diligently respond to the claim chart (CC) of the SEPs submitted by Huawei, which caused significant delay of the patent cross licensing negotiations between the two parties.

3. Samsung has been reluctant in proposing an offer, not diligently taking the initiative to give an offer to Huawei or diligently presenting a counteroffer to the offer of Huawei, which indicated a willful fault of Samsung to maliciously delay the negotiations.

4. In terms of the negotiation procedures of the two parties, Huawei intended to promote cross licensing of SEPs by arbitration of a neutral third party in consistence with negotiation practices. However, Samsung declined without adequate reasons, which indicated a willful fault of Samsung to maliciously delay the negotiations.

5. In terms of the SEP cross licensing negotiations organized by the court between the two parties, Samsung did not propose a substantive solution for mediation and apparently and maliciously delayed



the negotiations. Therefore, Samsung had willful faults.

▪ Reason why Huawei as the patentee did not violate FRAND terms

1. In terms of the scope of patent cross licensing negotiations, Huawei explicitly presented to Samsung that the scope of the cross licensing negotiations was limited to the SEPs of both parties, which conforms to the business practices.

2. In terms of the technical negotiation, Huawei provided, according to the agreement, to Samsung the SEP list and the CC, and sent to Samsung the written opinions with regard to the CC of Samsung in time.

3. In terms of the offers, from the start of the negotiations in July, 2011 to May 2016 when Huawei filed a lawsuit against Samsung before the court, Huawei has proposed to Samsung offers for the licensing of SEPs for six times.

4. As a cross licensing agreement was still not reached after negotiations lasting for 5 years, on August 8, 2016, Huawei explicitly expressed its willingness to entrust a neutral arbitration institution to solve the disputes between the two parties, and provided a full set of terms of arbitration agreement. In the meantime, Huawei expressed its willingness to withdraw the lawsuit seeking for an injunction on Samsung if an arbitration agreement to solve the disputes is reached between Huawei and Samsung.

5. During the mediation organized by the court between Huawei and Samsung, Huawei provided in time the royalty offer for its SEPs within the time period of 40 days as specified by the court. Moreover, after Samsung gave a non-substantive response to the offer of the SEPs, Huawei replied to the offer of Samsung in time without any delay.

6. During the negotiations with Samsung, Huawei included the patents bought from Sharp in the scope of licensing to Samsung. There was ambiguity in Huawei's expression about the number of patent families bought from Sharp, which brought, to some extent, adverse influence to the negotiations, and was the fault of Huawei. However, Huawei clarified the fact of the number of patent families bought from Sharp later. Therefore, the fault of Huawei did not significantly affect the whole progress of the negotiations, and does not belong to significant faults in the cross licensing negotiations of SEP.

In terms of substance:

The offer presented to Samsung by Huawei conformed to FRAND terms; the offer presented to Huawei by Samsung did not conform to FRAND terms.



▪ Reasons why Samsung as the implementer violated FRAND terms:

1. The SEPs of Huawei and Samsung are comparable in strength worldwide (without significant difference). However, as shown by the offer presented by Samsung to Huawei, the licensing rate charged by Samsung is three times the licensing rate charged by Huawei. In addition, the strength of the 3G/UMTS SEPs owned by Samsung on a global scale is weaker than that of its 4G/LTE SEP patents. Regardless of the above facts, Samsung offered to Huawei a licensing rate for the above 3G and 4G SEPs which is U times (concealed in the court decision since confidential information is involved) the unilateral UMTS SEP licensing rate of 2.4% proposed by Samsung to Apple Inc. on July 25, 2011. A difference to a certain extent is allowed between the offered licensing rate for SEPs and the finally agreed licensing rate. The offered rate can be adapted as the negotiation progresses, leaving room for bargain in the licensing negotiations. However, the offered rate should not depart significantly from the value of the SEPs and the relative strength of the SEPs owned by the two parties. The offer of Samsung clearly mismatched the strength of the SEPs owned by Samsung, which was obviously in conformity to FRAND terms. Samsung had malicious intentions.

2. With regard to the licensing rate offered by Samsung for its SEPs, the rate was calculated with reference to the licensing rate in the case of *Huawei v. IDC*, which is the SEP rate which Huawei shall pay to IDC in the territory of China instead of in a worldwide scope. However, the SEPs involved in the bilateral licensing negotiations between Huawei and Samsung are SEPs worldwide. Thus, it is inappropriate for Samsung to present an offer with reference to the incomparable royalty concluded in the case of *Huawei v. IDC*. As per IDC, it is a non-practicing entity of a SEP which uses the SEP licensing as a business mode. Therefore, IDC is also incomparable with Huawei and Samsung who are world-leading SEP practicing entities. As verified by the agreement between Huawei and IDC submitted by Huawei, after the final decision of Guangdong Higher People's Court with regard to the case of *Huawei v. IDC*, the two parties have reached and performed a new global licensing agreement. The SEP royalty in China determined in the original judgment was not implemented in the agreement. Therefore, the IDC Chinese royalty determined in the final decision of Guangdong Higher People's Court was not suitable for serving as a comparable royalty in this case. That is, in terms of the characteristics of the licensing bodies, the scope of the licensed SEPs, and the licensing geographic regions, it is obviously unreasonable for Samsung to provide an offer with reference to the decision in



Huawei v. IDC.

▪ Reasons why Huawei as the patentee did not violate FRAND terms:

1. The offer provided by Huawei to Samsung for the SEPs including primarily 4G SEPs and further including 3G SEPs conformed to the business practices.

2. The above offer of Huawei as the patentee of the SEPs included royalty rate and the licensing fee for each mobile phone, which conformed to FRAND terms. The offer of Huawei as the patentee of the SEPs was an offer of legal nature and was provided based on the factors including the strength of the SEPs in a global scope, the accumulated royalty rate of the SEPs in the fields of 3G and 4G, and the market sales information of Samsung mobiles. The offer was provided within a reasonable scope according to the strength of the SEPs owned by Huawei and did not obviously depart from the strength of the SEPs owned by Huawei. There was still room to bargain for Samsung as the offered party. Therefore, the court considered that the offer of Huawei was in line with FRAND terms.

3. Indeed, reasonable profit factor of the industry should be taken into consideration when determining whether the SEP royalty conforms to FRAND terms. The court has considered achieving reasonable profits for the industry in the above analysis of the accumulated royalty in the industry and the appropriate royalty determined according to the relevant patent strength of the patentees. According to the report from Strategy Analytics submitted by Samsung with regard to the global profit of each mobile phone sold in the third quarter of 2014, the third quarter of 2015, and the third quarter of 2016 (intended to prove that the offer of royalty proposed by Huawei to Samsung was obviously unreasonable and would make Samsung unable to achieve reasonable profits, and thereby violating FRAND obligations), the profits of each company varied, which is the result of market competition. Whether the companies can gain profits was affected by internal causes and various market factors. The profits earned by the companies from the mobile phones have taken off the costs including the intellectual property royalty. The period of time selected in the above evidence submitted by Samsung to show the operating profit was limited, which can neither comprehensively reflect the global operation profits of Samsung mobiles nor exhibit the ratio of the patent royalty to the mobile sales revenue and the influence of the royalty to the profits of the mobile sales. In addition, in order to guarantee healthy operation of the SEP system, reasonable return should be considered for the patentee of the SEPs. Therefore, the afore-mentioned evidence of Samsung could not prove that the offer of Huawei to



Samsung would cause inability of Samsung to earn a reasonable profit.