

China's MIIT Releases Draft Intellectual Property Policies for Industry Standardization Organizations

If you have any questions regarding the matters discussed in this memorandum, please contact the following attorneys or call your regular Skadden contact.

Steven C. Sunshine
Washington, D.C.
+1.202.371.7860
steve.sunshine@skadden.com

Ingrid Vandenborre
Brussels
+32.2.639.0336
ingrid.vandenborre@skadden.com

Andrew L. Foster
Beijing
+86.10.6535.5531
andrew.foster@skadden.com

* * *

This memorandum is provided by Skadden, Arps, Slate, Meagher & Flom LLP and its affiliates for educational and informational purposes only and is not intended and should not be construed as legal advice. This memorandum is considered advertising under applicable state laws.

Four Times Square, New York, NY 10036
Telephone: 212.735.3000

WWW.SKADDEN.COM

The Electronic Intellectual Property Center of China's Ministry of Industry and Information Technology (MIIT) has released a draft "Template for Intellectual Property Policies in Industry Standardization Organizations" (the Draft Template),¹ seeking public comments by January 30. The Draft Template seeks to improve standardization efforts and reduce implementation costs in the context of Standard Setting Organizations (SSOs). Its terms provide for: (i) disclosure of essential patent claims, (ii) a prohibition against injunctive relief absent prior adjudication of a claim and (iii) factors to determine the reasonableness of licensing. While the provisions for disclosure of essential claims and reasonableness are similar to provisions in other jurisdictions, the limitations on injunctive relief may be very restrictive depending on their application in practice.

I. Mandatory Disclosure of Potentially Essential Claims

Article 4 requires SSO members to disclose the existence of essential patents to the extent of their "actual knowledge," potentially covering patents registered outside of China, but stops short of mandating members to conduct patent searches. Article 5 also encourages disclosure of information about those essential patents, including patentee names and patent numbers. This approach tracks current international practice in other jurisdictions, and a number of SSOs have adopted mandatory disclosure policies, including the European Telecommunications Standards Institute.

II. No Injunctive Relief for FRAND-Encumbered SEPs

Antitrust regulators in the U.S. and EU have acknowledged that a prohibition against seeking injunctive relief against potential licensees should exist only as an exception to the general right to assert patents. Seeking injunctive relief should ordinarily be considered a legitimate remedy unless a holder has given a voluntary commitment to license its standard essential patents (SEPs) on "fair, reasonable and nondiscriminatory" (FRAND) terms and the licensee is willing to enter into an agreement on such terms. The European Commission has recently taken actions against Motorola Mobility and Samsung for seeking injunctions on their FRAND-encumbered SEPs. To address the commission's concerns, Samsung has committed for a period of five years not to seek any injunctions in the European Economic Area (EEA) on the basis of any of its relevant SEPs against any company that agrees to a negotiation period of up to 12 months and — if no agreement is reached — a third-party determination of FRAND terms by a court or arbitrator. The language of the Draft Template takes a similar approach, with Article 10 stating that members under FRAND commitments "shall not" seek injunctive relief unless the potential licensee "is not subject to the jurisdiction of, fails to [attend], or fails to comply" with the outcome of, an independent adjudication. Thus, the Draft Template appears to require SEP licensors to enter into arbitration (or the like) before initiating a plea for injunctive relief. The Draft Template should be clarified on this issue — the requirement of submission to adjudication prior to seeking injunctions without requiring the counterparty to be a willing licensee could impose severe limitations to an SEP holder's ability to pursue injunctive relief.

1 The Draft Template represents the work of the MIIT Electronic Intellectual Property Center and not the official position of the entire MIIT.

III. Determining Reasonableness

Article 11 sets forth factors to determine the “reasonableness” of licensing terms. This is significant insofar as it moves away from the recent practice in China of using only end-user prices to determine reasonableness. In the closely watched *Huawei v. InterDigital* decision, the Guangdong Higher People’s Court affirmed the lower court’s finding of a FRAND rate based on end-user product price. In its ongoing Qualcomm investigation, the National Development and Reform Commission (NDRC) also appears to base reasonableness on end-user product prices. The Draft Template, however, sets forth the factors² to be evaluated: (i) the value contributed, to be assessed against the smallest component or device compliant with the Final Standard, (ii) the total cumulative royalties that may apply if other owners of intellectual property demand similar terms and (iii) the degree of innovation in the standard, the technical area of the standard, the nature of the standard, and the implementation scope of the standard. This is the first time that a standard comparable to the “smallest salable patent practicing unit” has been recommended as the proper royalty base in China, as opposed to end-user product prices. This marks a significant step toward convergence; however, the definitions of “smallest” and “component or device” would benefit from further refinement.

IV. Other Recent Intellectual Property Developments in China

China has been advancing domestic innovation by helping local firms develop proprietary technologies and lowering technology barriers erected by foreign multinationals. Thus, while the language of the Draft Template takes important steps toward convergence, a holistic evaluation of the other Chinese antitrust regulators’ attitudes toward intellectual property rights suggests that a material gap still remains. For example, the State Administration of Industry and Commerce (SAIC) is now finalizing its “Rules on Prohibiting Abuse of Intellectual Property Rights to Eliminate or Restrict Competition”. Previous drafts have raised serious concerns by: (i) applying essential facilities doctrines to intellectual property rights, (ii) creating liability for failure to disclose essential patents without requiring patent holders to be active voting participants in an SSO and (iii) creating liability for failure to license patents found to be essential on FRAND terms, even in the absence of a voluntary commitment to do so. The NDRC, as mentioned above, is concluding its investigation into Qualcomm’s telecommunications technology licensing.

The Draft Template is another significant action taken by Chinese authorities concerning IP rights in 2014. Earlier in the year, the Anti-Monopoly Bureau of China’s Ministry of Commerce (MOFCOM) published two conditional decisions with surprising intellectual property implications. In *Merck/AZ*, notwithstanding the lack of horizontal overlaps or vertical relationships in the transaction, MOFCOM relied on a conglomerate effects argument to require future licenses to be non-exclusive and concluded on commercially reasonable and non-discriminatory terms. In *Microsoft/Nokia*, MOFCOM imposed conditions on Nokia’s future SEP licensing behavior, notwithstanding its position as seller in the transaction. In recent remarks, Zheng Wen, deputy director general of MOFCOM’s Anti-Monopoly Bureau, presumptively equated SEP licensors to firms holding a dominant market position and suggested that it may therefore be appropriate for the licensors to be subject to FRAND commitments. This mirrored the position taken by the Chinese courts in *Huawei v. InterDigital*. Given this backdrop, the important progress of the Draft Template must be carefully shepherded forward to ensure that its steps toward convergence result in a final, published guidance.

² The list appears to be limited compared to, for example, the modified version of *Georgia-Pacific* factors adopted in *Microsoft v. Motorola* by the U.S. District Court for the Western District of Washington. The modified *Georgia-Pacific* test applied therein has 15 factors.

Additional Contacts in the Antitrust and Competition Group

Clifford H. Aronson	New York	212.735.2644	clifford.aronson@skadden.com
Simon Baxter	Brussels	32.2.639.0310	simon.baxter@skadden.com
Jess Biggio	New York	212.735.2060	jessica.biggio@skadden.com
Alec Y. Chang	New York	212.735.4142	alec.chang@skadden.com
C. Benjamin Crisman, Jr.	Washington, D.C.	202.371.7330	benjamin.crisman@skadden.com
Frederic Depoortere	Brussels	32.2.639.0334	frederic.depoortere@skadden.com
Paul M. Eckles	New York	212.735.2578	paul.eckles@skadden.com
Shepard Goldfein	New York	212.735.3610	shepard.goldfein@skadden.com
Peter E. Greene	New York	212.735.3620	peter.greene@skadden.com
Matthew P. Hendrickson	New York	212.735.2066	matthew.hendrickson@skadden.com
James A. Keyte	New York	212.735.2583	james.keyte@skadden.com
Karen Hoffman Lent	New York	212.735.3276	karen.lent@skadden.com
John H. Lyons	Washington, D.C.	202.371.7333	john.h.lyons@skadden.com
Gary A. MacDonald	Washington, D.C.	202.371.7260	gary.macdonald@skadden.com
Jeffrey A. Mishkin	New York	212.735.3230	jeffrey.mishkin@skadden.com
John M. Nannes	Washington, D.C.	202.371.7500	john.nannes@skadden.com
Neal R. Stoll	New York	212.735.3660	neal.stoll@skadden.com
James S. Venit	Brussels	32.2.639.0300	james.venit@skadden.com