

Huawei v. Samsung - A new benchmark for standard essential patent litigation in China?

Kluwer Competition Law Blog

June 14, 2018

Adrian Emch (Hogan Lovells, China)

Please refer to this post as: Adrian Emch, "Huawei v. Samsung – A new benchmark for standard essential patent litigation in China?"; *Kluwer Competition Law Blog*, June 14 2018, <http://competitionlawblog.kluwercompetitionlaw.com/2018/06/14/huawei-v-samsung-new-benchmark-standard-essential-patent-litigation-china/>

On 4 January 2018, the Shenzhen Intermediate People's Court (**Court**) rendered a landmark judgment in the *Huawei v. Samsung* standard essential patent (**SEP**) case that is expected to reshape dynamics between SEP licensors and licensees. On 21 March 2018, the Court released the non-confidential version of its judgment to the public.

The Court ruled in Huawei's favor – finding that Huawei had fulfilled its obligations under the fair, reasonable and non-discriminatory (**FRAND**) principle, but Samsung had not. Based on that finding, the Court granted an injunction against Samsung, forbidding any future infringement of Huawei's SEPs through the commercialization of Samsung's devices.

Case background

SEPs are patents which are meant to be indispensable for the proper working of a product implementing a standardized technology. The SEPs involved in the *Huawei v. Samsung* case concerned patents for telecommunication technologies, in particular what is known as 2G, 3G and 4G mobile communication standards.

Both Huawei and Samsung own extensive patent portfolios including numerous SEPs. This case was mainly about Huawei's SEPs – in particular, to what extent Samsung was allowed to use those SEPs in its communication devices like mobile phones, tablets etc. without having obtained a formal license from Huawei. Huawei brought its court action alleging that Samsung's devices infringed its SEPs, and asked the Court to grant an injunction against Samsung. Huawei argued that Samsung, by selling communication devices compliant with the 2G, 3G and 4G standards, had by definition implemented Huawei's SEPs. The Court accepted these arguments without much discussion.

The only aspect where the Court made an in-depth analysis was whether Huawei was entitled to seek an injunction based on its SEPs, as SEPs are subject to a set of specific conditions.

When a patent is incorporated into an industry standard and the patent holder believes it may become essential to the implementation of the standard, it will generally need to make a pledge to license the patent to all interested parties on FRAND terms.

Both Huawei and Samsung agreed to license their communication SEPs on FRAND terms. The question before the Court was whether in the negotiations to license their patent portfolios, each of the two companies had complied with their FRAND obligations. The Court found that Huawei had, while Samsung had not.

The Court re-phrased the FRAND analysis as an assessment of whether the SEP holder was "at fault" in terms of their procedural actions during the negotiation phase. It examined the extensive records of Huawei and Samsung's licensing negotiations and determined that Samsung deliberately "delayed the negotiations" that began in July 2011 and was "clearly at fault." Then, the Court also looked at the substance of the respective licensing offers – i.e. whether the royalty rates that each party offered were compliant with the FRAND principle.

Procedural aspects

The Court started its legal analysis by examining Samsung's conduct during the lengthy (cross)-licensing negotiations. When analyzing Samsung's compliance with the FRAND principle, the Court found the company "at fault" on several aspects, as Samsung was found to have:

- insisted on offering a portfolio license including both SEPs and non-SEPs (while Huawei insisted on only cross-licensing SEPs and later narrowed down the scope to LTE SEPs);
- failed to timely respond to Huawei's claim charts sent during technical discussion (alleging, in part, that its employees were too busy dealing with lawsuits with other competitors and licensors);
- failed to make a proper licensing offer or counteroffer until very late in the negotiations (and not in satisfactory form);
- rejected Huawei's proposal to submit the dispute on the FRAND royalty to arbitration; and
- continued its delaying tactics even during the Court-ordered mediation phase.

As a next step, the Court then examined Huawei's actions during the negotiation phase. It found that Huawei had not committed a material fault. In the Court's view, Huawei's actions during the negotiations did not violate the FRAND principle, as the company had:

- responded quickly to Samsung's declaration of its intention to negotiate a (cross)-licensing agreement;
- insisted on cross-licensing only SEPs;
- sent a list of its patents and claim charts, as well as an evaluation of Samsung's list of patents;
- made six detailed and diverse cross-licensing offers to Samsung;
- proposed to submit the dispute of the royalty rate to a third-party arbitrator (together with a detailed arbitration proposal);
- upon the Court's request during the mediation phase, quickly tabled a new cross-licensing offer; and
- promptly replied to Samsung's licensing offer.

Still, the Court also found a minor fault in Huawei's behavior during the licensing negotiations: the company was not clear enough about the amount of LTE SEP families acquired from Sharp, which were to be included in the cross-license. Nonetheless, since Huawei was found to have corrected its fault later on, the Court held the issue not to materially affect the overall negotiation process.

Substantive aspects

After the analysis on the procedural aspects, the Court also examined the substance of the parties' respective licensing offers. It examined the royalty rates that each party proposed, and held that the Samsung's offer was "clearly at fault," whereas Huawei's was not.

To reach this conclusion, the Court essentially made a two-step analysis: first, it assessed the relative strength of Huawei's and Samsung's SEP portfolios, and, second, it compared the licensing offers by the two companies with their respective SEP portfolio strength.

In the first step of the analysis – assessing Huawei's and Samsung's 3G and 4G SEP portfolio strength – the Court basically followed a "top-down" approach, although it did not use this precise term. In essence, the "top-down" approach looks first to the overall level of royalties associated with a standard and then allocates a portion of this total to an individual SEP holder based on the relative strength of its SEPs in that standard.

In its assessment, the Court used numerous pieces of evidence and testimonies (including by economics experts) put before it and conducted a multi-factor analysis. Among others, the Court looked at:

- the number of the parties' technology proposals accepted by the standard-setting organizations;
- their relative estimates of confirmed SEPs (as compared to unilaterally declared SEPs); and
- the eight SEP invalidity decisions before Chinese courts (as Huawei and Samsung each challenged the validity of their patents before the Patent Reevaluation Board and courts).

For many of the factors of this analysis, Huawei's number was higher than Samsung's. Hence, the Court held that the relative strength of Huawei's and Samsung's SEPs was at least similar (on a worldwide basis, with Huawei being stronger in China).

Then, the Court undertook the second step of its analysis, comparing the respective licensing offer to the relative strength of the SEP portfolio.

The Court examined Huawei's and Samsung's licensing offers in quite some detail and concluded that Huawei's proposed royalty was, and Samsung's was not, in compliance with the FRAND principle. This finding was made against the backdrop that the parties were discussing a SEP cross-license agreement and Samsung asked for a royalty three times as high as Huawei. Having concluded before that Huawei's SEP portfolio was at least as valuable as Samsung's, the Court decided that Samsung's demand was not reasonable and therefore not in line with the FRAND requirement.

Conclusions

The Court's judgment in *Huawei v. Samsung* establishes a new approach for SEP licensing. The Court examined the conduct of both parties, both from a procedural and substantive perspective, to assess whether they behaved on FRAND terms.

The judgment is in line with the outcome in *Xi'an Iwncomm v. Sony*, where the Beijing High People's Court at second instance affirmed that the licensor (Iwncomm, a Chinese company) had complied with FRAND obligations when negotiating SEP licensing with Sony. At the same time, however, the *Huawei v. Samsung* judgment departs (both in terms of outcome and analysis) from a prior key judgment of the same court – the Shenzhen Intermediate People's Court – in *Huawei v. InterDigital*. As a couple of SEP cases are pending before Chinese courts at this point in time, it will be interesting to see whether the *Huawei v. Samsung* judgment indicates a shift to a more pro-licensor position more generally.

The Shenzhen Intermediate People's Court's judgment is clearly not the last word spoken in this case. Indeed, in addition to a potential appeal in China, on 13 April 2018, the District Court of the Northern District of California granted Samsung's anti-suit injunction application against Huawei. The injunction enjoins Huawei from enforcing the injunction orders issued by the Shenzhen Intermediate People's Court in China, pending the result of the US litigation, in order to avoid a "hold-up" settlement before the US case is concluded.

To make sure you do not miss out on regular updates of the *Kluwer Competition Law Blog*, please subscribe to this **Blog**.