

# DEVELOPMENT OF ADJUDICATING GLOBAL FRAND RATE IN CHINA: A REVIEW OF *OPPO v. SHARP*



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### Development of Adjudicating Global FRAND Rate in China: A review of *OPPO v. Sharp*

By Guanbin XIE, Shan JIAO & Qing YING



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## Development of Adjudicating Global FRAND Rate in China: A review of *OPPO v. Sharp*

By Guanbin XIE, Shan JIAO & Qing YING

In recent ten years, the Chinese courts have heard a series of SEP cases and are becoming more deeply involved in the international SEP disputes through anti-suit injunctions, anti-anti-suit injunctions, global royalty rate rulings, etc. In August 2021, the Supreme People's Court of China explicitly confirmed the Chinese courts' authority on adjudicating global FRAND rates for SEPs for the first time in the *OPPO v. Sharp* case, which attracted great attention in the field of mobile communications. It used the "closer connection" principle to determine whether China has jurisdiction over such cases. However, it is still to be observed how the principles set by the SPC will be further interpreted and applied by lower courts as the guidance from *OPPO v. Sharp* is not yet crystal clear. The SPC's ruling in *OPPO v. Sharp* is only the beginning and the battle for jurisdiction over global SEP royalty rate cases is far from order.

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On August 19, 2021, the Supreme People's Court of China (hereinafter referred to as the "SPC") issued a final ruling which rejected the jurisdictional objections raised by the appellants Sharp Corporation and ScienBizip Japan Corporation (hereinafter referred to as "Sharp") over the standard essential patents (hereinafter referred to as "SEPs") license dispute with the appellee OPPO Guangdong Mobile Communications Co., Ltd. and the Shenzhen Branch of OPPO Guangdong Mobile Communications Co., Ltd. (hereinafter referred to as "OPPO"). This is the first time that China's highest judicial authority explicitly confirmed the Chinese courts' authority on adjudicating global FRAND rates for SEPs, and clarified which court has jurisdiction over such cases.

Starting from the early 2010s, the Chinese courts have heard a series of SEP cases in the field of mobile communications. "Standard Essential Patents Licensing Dispute" is an independent cause of action in China, which can be filed either by the patent holder or the potential licensee. Such a cause of action does not necessarily connect with any infringement action or declaration of non-infringement action. In the past, precedents filed under the cause of action of SEP Licensing Disputes were limited to Chinese patents only, regardless of whether the negotiation was global in nature. For example, in *Huawei v. InterDigital*, the Shenzhen Intermediate Court adjudicated on the FRAND rate for InterDigital's Chinese SEP portfolio, and its ruling was affirmed by the Guangdong High Court. It is undisputed that the Chinese courts have authority to adjudicate the FRAND rate for Chinese SEPs as these patents are issued under China's Patent Law and implemented in China market.

However, in 2020, quite a few cases were filed before lower Chinese courts under the cause of action of SEP licensing Disputes for setting the FRAND global rate. For example, in December 2020, the Shenzhen Intermediate court ruled in *OPPO v. Sharp* that it will determine the global FRAND rate and other licensing terms for Sharp's 3G, 4G and WLAN SEPs. Despite the jurisdictional objection filed by Sharp, for the first time, a Chinese court expressed its willingness in a ruling to determine global FRAND royalty rates. The Shenzhen court states in its ruling that it "believes that the determination of global royalty rates by the court can facilitate the overall effectiveness, fundamentally resolve the disputes between two parties, avoid the repeated litigation in different countries and therefore is in accordance with the nature of FRAND principle."<sup>2</sup>

In addition, the Wuhan Intermediate Court accepted a lawsuit filed by Xiaomi against InterDigital related to determination of global FRAND rates and stated in its ruling that "*adjudication of global royalty rates can resolve the problem of choosing and determining the scope of licensing between two parties, save the licensing cost, reduce litigation exhaustion and therefore is extremely reasonable.*"<sup>3</sup> Samsung also filed before Wuhan Intermediate Court for the global rate setting of Ericsson's 4G and 5G SEPs.

However, it was not until the appeal of *OPPO v. Sharp* that the SPC was for the first time to review the issue of global rate setting by Chinese courts. This article will review why disputes on the jurisdiction over SEP royalty cases arises and how the *OPPO v. Sharp* ruling responds to these questions.

## I. BACKGROUND

The dispute on jurisdiction over SEP royalty cases arise from multiple aspects. Firstly, it is not settled what the nature of FRAND obligation is under Chinese law and accordingly what the nature of a FRAND royalty dispute is. Under Chinese law, different jurisdictional rules are applicable for patent infringement cases and contractual disputes. On one hand, SEP royalty cases have some characteristics of patent infringement disputes, which may involve issues such as whether the involved patents are standard essential patents, whether the licensee has implemented the patent at issue, and the validity of the patents. On the other hand, SEP royalty cases have the characteristics of contract disputes, which may involve issues such as the determination of licensing conditions such as the subject matter of the license, royalty rates and license terms. Since the jurisdiction of infringement disputes and contract disputes are governed by different laws, it is difficult to determine the jurisdiction of an action for SEP royalty cases.

Secondly, FRAND royalty cases usually contain some extraterritorial elements, and international comity should be considered. In SEP royalty cases, it is not uncommon that one of the litigants is a non-Chinese company, which may have no domicile in China. In addition, a SEP license in many SEP royalty cases is a worldwide license to the patentee's owned and controlled SEPs, which raises the question whether a Chinese court can decide the FRAND rate for non-Chinese patents. A global license dispute may also result in parallel litigation around the world. As a result, there are disputes over jurisdiction, as well as issues of international judicial comity around the world, which complicate the jurisdiction of SEP global royalty cases.

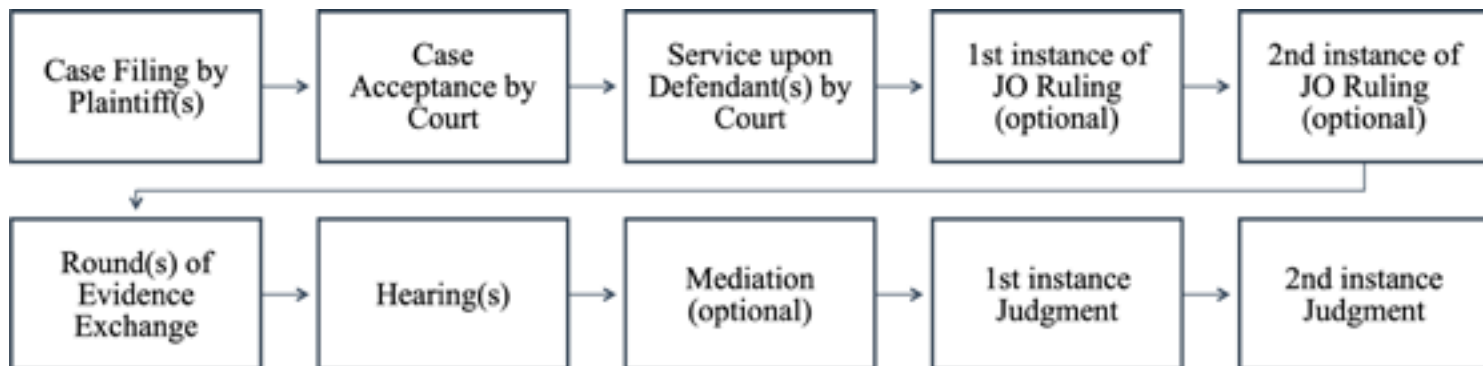
Before diving into the factual and procedural background of the *OPPO v. Sharp* case, it might be useful to introduce basics of Chinese procedural law to understand why the SPE stepped in at this stage of the case.

<sup>2</sup> Shenzhen Court's 1<sup>st</sup> instance Jurisdictional Objection ruling in *OPPO v. Sharp*.

<sup>3</sup> *Xiaomi Communication Technology Co., etc. v. InterDigital, Inc., etc.*, A Dispute over Standard Essential Patents Licensing, Dec. 4, 2020, (2020) E 01 Zhi Min Chu 169 Zhi Er.

Regardless of the type of case, SEP-related issues are almost all heard by an IP tribunal within a court, or by specialized IP courts. These cases all follow similar procedural steps. The flowchart below provides an overview of the entire life cycle of a civil litigation case in China, including those related to SEPs.

**Chart 1: Life Cycle of Civil Litigation Proceeding in China**



The court system in China normally consists of the Basic People’s Court, the Intermediate People’s Court, the High People’s Court, and the SPC, in ascending order of hierarchy. But China has a relatively centralized jurisdiction over technology-related intellectual property cases where the appeal will go directly from intermediate courts to the SPC, skipping the high courts. The court of first instance for SEP cases is the Intermediate People’s Courts at certain locations appointed by the SPC, including Beijing, Shanghai and Guangzhou IP Courts. From January 1, 2019, the SPC’s own internal tribunal - the Intellectual Property Tribunal – handles all second instance appeals of SEP cases. If an Intermediate People’s Court issues a first instance judgment or jurisdictional objection ruling, the judgment or ruling does not take effect immediately, and any party may, within the appeal period, appeal to the IP Tribunal of the SPC, which will conduct a full hearing on the determination of facts, application of law, and procedural issues of the case, and issue a second instance judgment.

“JO” in the flowchart refers to the jurisdictional objection proceeding, which is an option to be exercised by defendant(s). In most, if not all, SEP cases, defendant(s) will choose to file for JO as a delaying tactic. Once filed, the trial and appeal of the JO may take six months to one year, allowing defendant(s) to better prepare evidence and litigation strategy. The chance of winning a JO is low, but it is almost a routine step taken by defendant(s) in civil litigation, given the fast-moving pace of Chinese litigation proceedings otherwise. The *OPPO v. Sharp* ruling we discussed here occurred at the stage of JO where Sharp appealed against the first-instance JO ruling by the Shenzhen Intermediate Court thus the SPC for the first time had the opportunity to review the jurisdictional issues in global FRAND royalty cases. In the other two cases, *Xiaomi v. InterDigital* and *Samsung v. Ericsson*, the JO stage did not go up to the SPC as the parties settled at an early stage of the litigation.

## II. INTRODUCTION OF *OPPO v. SHARP*

On March 25, 2020, the first-instance court - the Shenzhen Intermediate People’s Court - formally accepted the global SEP litigation filed by OPPO against Sharp. On October 16, 2020, the Shenzhen Intermediate People’s Court held in a first instance ruling that it has jurisdiction on the global royalty case. Sharp refused to accept the ruling and initiated an appeal to the SPC in December.

The SPC found out the following facts after the hearing:

1. OPPO’s main place of business, manufacturing and sales of smart terminal products are in China. As of December 31, 2019, OPPO’s sales in China accounted for 71.08 percent of its revenues.
2. The place of licensing negotiation: on February 19, 2019, the parties held conference at OPPO Shenzhen Company.
3. SEP Licensing terms: the SEP licensing period is 5 years. The licensed patents are 3G, 4G, WiFi and HEVC SEPs with a “worldwide non-exclusive license, without sub-license right, and limited to the field of use for the implementation of the licensed standards.”
4. During the negotiation period, from January 2020, Sharp filed patent infringement lawsuits against OPPO or its partners in the Tokyo District Court of Japan, the Munich District Court of Germany, the Mannheim District Court of Germany and the Intellectual Property Court of Taiwan.

Based on the parties' claims and preliminary findings, the SPC believed that the key issues in the second instance of this case include: (1) whether Chinese courts have jurisdiction over the present case; (2) if Chinese courts have jurisdiction over the present case, whether it is appropriate for the first-instance court to exercise this jurisdiction; and (3) if the first-instance court has jurisdiction, whether it is appropriate to rule on the global royalty terms of the involved SEPs.

After the trial, the SPC made a final ruling of this case, confirming that the Chinese courts shall have jurisdiction over the disputes on the determination of licensing conditions of the SEPs worldwide, provided that both parties are willing to reach a global licensing agreement and the case is more closely related to the Chinese courts.

### III. KEY POINTS IN THE SPC'S JUDGMENT

#### *A. Whether Chinese Courts Have Jurisdiction Over the Case.*

The SPC regards that under the circumstance that the defendants (Sharp) are foreign enterprises without residence and representative organization within the territory of China, the criteria for determining the proper connections to China may include whether the place is located within the territory of China, including the place of patent granted, the place of patent implementation, the place where the contract is entered into, the place of negotiation for the patent license, the place of contract performance, or the place in which the property subject to distraining or enforcement is located. As long as one of the aforementioned locations is within the Chinese territory, it should be deemed that the case is properly connected to China, and the Chinese court has jurisdiction over the case. In the present case, the Chinese court, no matter whether those courts are located at the place where the patents are granted, or at the place of patent implementation, or at the place of negotiation for the patent license, all have jurisdiction over the case in accordance with the law.

#### *B. Whether it is Appropriate for the Shenzhen Court to Exercise the Jurisdiction*

The SPC holds that consideration may be given to the jurisdictional join points of the place of patent granted, the place of patent implementation, the place where the contract is entered into or the place of negotiation for the patent license, the place of contract performance, or the place where the property subject to distraining or enforcement etc. based on the specific circumstances. Therefore, Shenzhen Court, the court of the first instance, as the court at the place of patent granted and the place of negotiation, can exercise jurisdiction over the present case.

#### *C. Whether the Shenzhen Court is Appropriate to Rule on the Global Royalty Terms of the Involved SEPs*

The SPC holds that whether it is appropriate for the first-instance court to rule on the royalty terms of the involved SEPs on a global scale should be comprehensively considered based on the investigation of the basic facts of the jurisdictional disputes in the present case, combined with the particularity of the SEP license disputes. Firstly, the parties in the present case were willing to reach global license agreement for the involved SEPs and they had conducted negotiations. Secondly, it is clearly that the present case has closer relationship to China. Finally, it should be noted that if the parties can reach agreement on the court which can make a judgement on the SEP global royalty terms, such court indeed has jurisdiction and can adjudicate on the global royalty terms for the SEPs between the parties. However, an agreement by the parties not a necessary condition for the jurisdiction of a specific court over the SEPs' global royalty terms. Given the willingness of the parties to reach a global license agreement and closer connection to Chinese courts, it is not improper to hold that the court of first instance is suitable to rule on the global royalty terms of the SEPs involved based on its jurisdiction over the case.

### IV. ANALYSIS OF *OPPO v. SHARP*

#### *A. The SPC has Determined the Following Basic Principles for Adjudicating the Jurisdiction over SEP Global Royalty Cases*

##### **1. SEP license disputes “may be regarded as a special type of disputes with a relatively more contractual nature”**

Whether a Chinese court has jurisdiction over a foreign civil dispute filed by defendants without domicile or a representative organization within the territory of China depends on whether the case is properly connected to China.<sup>4</sup> To determine whether the SEP license dispute has proper connection with China, the characteristics of such a dispute should be taken into account firstly. In the *OPPO v. Sharp* cases, the first-instance

<sup>4</sup> Article 272 of the *Civil Procedure Law of the People's Republic of China*.

court and the SPC reached basically the same conclusion on the nature of this type of case. The Shenzhen Intermediate People's Court held that the SEP royalty case was neither a typical contractual dispute nor a typical infringement dispute. Therefore, it could not be simply treated as a tort dispute when determining the competent court. The SPC basically agreed with this statement and added that the core of SEP license disputes is to request the court for the determination of royalty terms, in order to encourage the parties to eventually conclude or perform the license agreement. Therefore, SEP license disputes may be regarded as a special type of dispute with a relatively more contractual nature.

Previously, in *ZTE v. Conversant* and *Xiaomi v. IDG*, the SPC, Wuhan Intermediate Court and other courts' opinions were basically consistent with the Shenzhen Intermediate People's Court. In *OPPO v. Sharp*, the SPC for the first time proposed that a SEP licensing dispute be considered as a special type of dispute with a relatively more contractual nature.

## **2. The SPC Continues the use of the Principle of Closer Connection to Determine Whether the Chinese court has Jurisdiction over this Case**

In terms of the licensing scope of SEP royalty case, it generally includes two types: one is to request for adjudication on global royalty rate, such as the *Xiaomi v. IDG*, and *OPPO v. Sharp* cases; the other is to adjudicate the country-based SEP royalty rate, such as in *Huawei v. IDC*, *Huawei v. Conversant* and, *ZTE v. Conversant*, etc. *Huawei v. IDC* is a typical case in the early stage of the litigation concerning SEP royalties heard by Chinese courts. The underlying claim in the case was to request the court to determine the Chinese SEP royalty rate held or controlled by IDC, and the second instance court Guangdong Higher People's Court made the judgment based on the closer connection principle. The Guangdong High Court held that the involved SEPs were applied for or granted by IDC in the Chinese territory, and the parties had not previously agreed on the court with jurisdiction. Since the domicile of Huawei, the place of implementation of the patents and the place of negotiation were all in the Chinese territory, the court ruled that the case was subject to Chinese law.

Recently, in *Xiaomi v. IDG*, the Wuhan Intermediate Court for the first time determined that a Chinese court should have jurisdiction over a global SEP royalty dispute. The Wuhan Intermediate Court held that Xiaomi's domicile, R&D, production and sales bases are all located in the Chinese territory, and one of its affiliates is located in Wuhan and is responsible for the implementation of the SEPs. Therefore, the Wuhan Intermediate Court should have jurisdiction over the case.

Based on an analysis of the above two matters, we could conclude that although the scope of the patents involved in the two cases is different, there is no substantive difference in the internal logic for the courts to determine whether they have jurisdiction or not. Both cases are based on the principle of closer connection. In *OPPO v. Sharp*, the SPC confirmed the "closer connection" principle to determine whether China has jurisdiction. It noted that the Chinese SEPs account for a high proportion in the relevant SEP portfolio. It also noted that the place of implementation and licensing negotiation for the relevant patents are all located in China, so there is a connection between this case and China, and the Chinese courts should have jurisdiction.

### **a) Elements of "Closer Connection"**

The SPC held that when determining whether the court of first instance has jurisdiction over global royalty cases, the court should firstly consider whether the parties are willing to reach worldwide licensing for the involved SEPs, which constitutes a fundamental factual basis for the court to determine the jurisdiction. In *OPPO v. Sharp*, it is clear that the negotiations of between the parties included global license terms for SEPs.

Once it is confirmed the parties are willing to enter into a global license, the court should use the principle of the closer connection and the notion of a "convenience court" to decide whether the Chinese court is best placed to adjudicate global license terms for the involved SEPs. This includes consideration not only whether the court in question is best placed to ascertain the involved SEPs, but also to facilitating the enforcement of judgments.

In *OPPO v. Sharp*, the SPC considered the following four factual elements: (a) SEPs licensed countries and distribution involved in licensing negotiations; (b) the main place of implementation, main place of business, or main place of revenue source of the SEPs implementer; (c) the place of negotiation, or the place where the contract is entered into between the parties; (d) the locations of the parties' property subject to distraining or enforcement. In this case, because most of the patents involved are Chinese patents, the licensee's place of patent implementation, the place of main business, main source of revenue, and patent licensing negotiation place are all in China, and China is also the place where the property can be seized or enforced. Therefore, the Chinese court adjudicating on the licensing conditions and terms of the involved SEPs on a global scale is not only conducive to the identification of patent enforcement, but also facilitates the enforcement of the case ruling. Due to the fact that the court of first instance, as the court of the place where the patent was implemented and the place where the license was negotiated,

could exercise jurisdiction over this case. On the basis that the court of first instance has jurisdiction over this case, it is appropriate to make a ruling on the global licensing conditions of the involved SEPs.

### ***b) Consensus on Jurisdiction is Not a Must***

The SPC held that if the parties to an SEP licensing dispute voluntarily reach an agreement during the negotiation process, jointly choosing the courts of a certain country to adjudicate the global royalty rate, then the courts of that country may govern and rule on the global licensing conditions between the parties. The practice of choosing the competent court by agreement is in line with international practice. The SPC recognizes a mutual agreement and autonomy between the parties to confer jurisdiction on a national court to hear a global royalty litigation over SEPs. However, in the absence of a mutual choice between the two parties, it should be premised on the willingness of both parties to reach a global license, and the court should follow the principle of closer connection to make jurisdictional decisions.

## **V. WHAT TO EXPECT NEXT?**

From *Huawei v. IDC*, *Huawei v. Samsung*, *ZTE v. Conversant*, to *Xiaomi v. IDG*, *OPPO v. Sharp*, and *OPPO v. Nokia*, the Chinese courts are becoming more deeply involved in the coordination and resolution of international SEP disputes through anti-suit injunctions, anti-anti-suit injunctions, global royalty rate rulings, etc. From the *Xiaomi* SEP royalty case to the *OPPO* case, the courts at all levels have begun to accept to hear litigation for global royalty rates, and to prohibit extraterritorial courts from conducting parallel proceedings through anti-suit injunctions, in order to effectively resolve disputes between parties. The SPC has clarified this issue through the *OPPO* case, which means that the Chinese courts will take more affirmative steps to hear global FRAND cases in the future. However, this is far from the end of the story. It is still to be observed how the principles set by the SPC will be further interpreted and applied by lower courts. For example, what elements should be considered in deciding “closer connection”? And what priority should be given to certain elements? The battle for jurisdiction over global SEP royalty rate cases is far from order, and the SPC’s ruling in *OPPO v. Sharp* is only the beginning.



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