

SEPs & FRAND Licensing in Global Trade: Work at the WTO

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Committee on Technical Barriers to Trade:

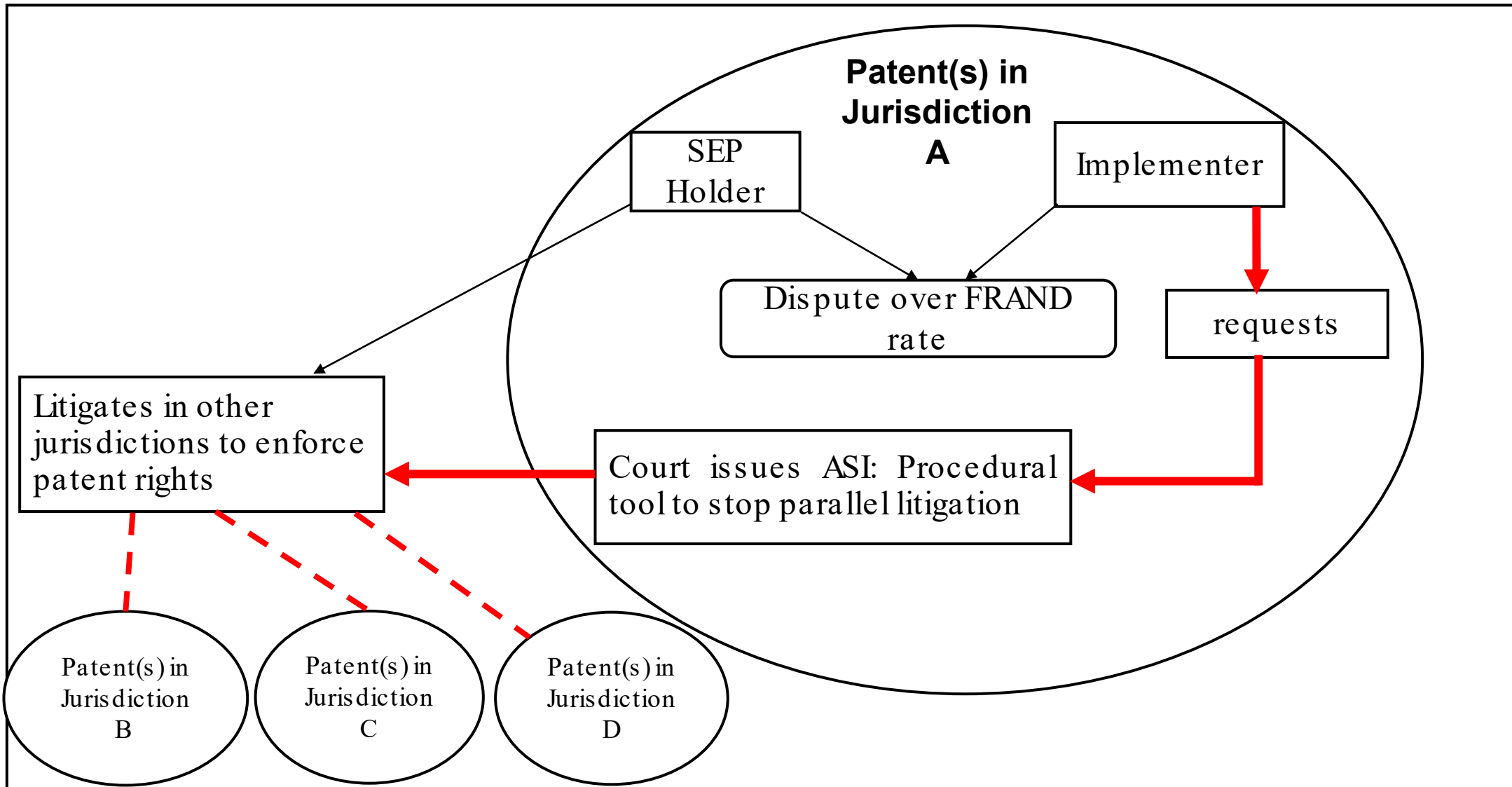
- ❖ China - IPRs and standardization (G/TBT/W/251 and Add.1):
 - Potential challenges to adopt international standards as encouraged by Art. 2.4 TBT in absence of disclosure of IPRs involved in standards / agreed licensing terms and conditions
 - SSO policies did not comprehensively solve issues
 - Development of common rules to regulate IPR issues when setting standards
 - Deals with a distinct topic, i.e. impact of patents on standardization and trade
 - Raised in 2005-2007, no conclusion reached

TRIPS Council: no discussion so far

Competition:

- ❖ No specific agreement at the WTO
- ❖ Article 40 TRIPS:
 - Recognizes that certain licensing practices or conditions that restrain competition may adversely affect trade and may impede technology transfer
 - Members may adopt appropriate measures to prevent or control such practices
 - Consultation mechanism among Members upon request

Background: Patents, Standards and FRAND Commitments



Global Standards and FRAND Commitments

China – Enforcement of IPRs (DS611): Subject-Matter of the Dispute

Context: Several SEP implementers requested Chinese courts to impose prohibitions on the SEP holder in the context of litigation over (global) FRAND licensing rates for the use of SEPs in the telecom sector. In parallel litigation in other jurisdictions, SEP holders sought injunctions to prevent import or use of unlicensed products in those territories.

Measures at issue: unwritten ASI policy in SEP litigation, five court decisions granting ASIs beginning in August 2020 with a decision from the SPC, as well as failure to publish certain ASI decisions.

Scope of the ASI: Barred SEP holders from enforcing foreign court judgments, ordered litigants to refrain from seeking judicial relief outside China, or continuing any pending litigation abroad.

EU claims: China violates certain of its obligations under the TRIPS Agreement and its WTO Accession Protocol.

General interpretative issues relating to Article 1.1, first sentence TRIPS

“Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.”

EU's Claim

- China is acting inconsistently with Art. 1.1, first sentence, read in conjunction with Art. 28.1, 28.2, and 44.1 of the TRIPS Agreement. (Para. 7.207)
- The obligation to "give effect to" the provisions of the TRIPS Agreement in Article 1.1, first sentence "includes an obligation to refrain from adopting or applying measures that frustrate the object and purpose of the TRIPS Agreement and interfere with the protection and enforcement of intellectual property rights in the territories of other WTO Members". (Para. 7.209)
- Members may not adopt measures that restrict or seek to restrict the exercise of IPRs in the territories of other Members, or that prevent or seek to prevent the judicial authorities of other WTO Members from ordering a party to desist from a patent infringement. (Para. 7.209)

China's Defense

- The EU's claims are based on a "mistaken understanding of the scope, purpose, and territorial application" of the TRIPS Agreement. (Para. 7.207).
- [...] "the phrase 'shall give effect to' in Article 1.1 refers to Members' obligations to effect whatever changes to their domestic laws are necessary to satisfy the agreement's minimum standards". (Para. 7.210)
- The TRIPS Agreement [...] does not establish a supranational system for recognition and enforcement of IPRs. (Para. 7.210)

Article 1.1, first sentence: Findings

Panel

- The plain meaning of the phrase "give effect to" is to "make operative" or "put into force". (Para. 7.213)
- The context provided by the second and third sentences indicates that the obligation in the first sentence to "give effect to" the provisions of the TRIPS Agreement imposes a duty on Members to implement the provisions of the TRIPS Agreement within their domestic legal systems. (Para. 7.215, see also paras. 7.222, 7.231)
- "...if a Member were to enact measures that negated the minimum standards of protection and enforcement that the TRIPS Agreement requires to implement within its domestic legal system, that would indeed be contrary to the obligation to give effect to the provisions of the TRIPS Agreement. That, however, does not imply that Article 1.1, first sentence also imposes obligations vis-à-vis another Member's implementation of the TRIPS Agreement." (Para. 7.230)
- The Panel sees no basis to conclude that Article 1.1, first sentence contains any additional obligation relating to the object and purpose of the TRIPS Agreement or implementation of the TRIPS Agreement by other WTO Members. (Para. 7.231)

Arbitrators

- The obligation to "give effect" refers to a Member actively making the provisions of the TRIPS Agreement operative on an ongoing basis, including through taking the steps necessary to ensure that its provisions are put into force and also realized (Para. 4.56)
- [...] there has to be a system of protection and enforcement of IPRs in each and every Member. (Para. 4.58)
- The ordinary meaning of the term in Article 1.1, first sentence must be interpreted in its context, particularly the three sentences of Article 1.1, and the objectives set out in Article 7. Actions that frustrate the ability of other WTO Members to protect and enforce IP rights in their own territories and which thereby upset the balance of rights and obligations embodied in the TRIPS Agreement would not be consistent with the requirement to "give effect" to the provisions of the TRIPS Agreement. (Para. 4.71, see also Paras. 4.70, 4.73. and 4.74)

Consistency of ASI policy with Art 1.1, first sentence, read in conjunction with Art. 28.1 TRIPS

“A patent shall confer on its owner the following exclusive rights:

- a) Where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling or importing for these purposes that product;
- b) Where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling or importing for these purposes at least the product obtained directly by that process.”

EU's Claim

- [...] the obligation to "give effect to" Art. 28.1 prohibits Members from adopting measures that restrict patent owners from exercising these rights in the territories of other Members, to the extent that such measures “disrupt the carefully balanced system of protection and enforcement of patents laid down in the TRIPS Agreement”; “frustrate” the TRIPS Agreement's “object and purpose and interfere with the protection and enforcement of intellectual property rights in the territories of other WTO Members”; “interfere with the application” of the provisions of the TRIPS Agreement “in the territory of other Members”; or “unduly restrict the exercise by SEP owners of their exclusive rights and interfere with the protection and enforcement of patents in the territories of other Members”. (Para. 7.234)

China's Defense

- [...] Under Art. 28.1, Members must ensure that patent owners, within their territory, have “a negative right to prevent third parties not having the owner's consent from making use of the patent in the ways described” and, pursuant to Art. 1.1, a Member must give effect to this provision by “ensuring that its domestic law accords this negative right in respect of patents issued in its territory”. (Para. 7.236).
- [...] the drafters of the TRIPS Agreement did not hide in [Article 1.1, first sentence] a contrary intention to establish a supranational system of private international law to govern the litigation of intellectual property rights across national borders. (Para. 7.236).
- [...] patent owners in China are entitled to prevent unauthorized third parties from using a patent in the ways described in Article 28 [...] (Para. 7.237).

Art 1.1, first sentence, read in conjunction with Art. 28.1 TRIPS: Findings

Panel

- Art.1.1, first sentence read in conjunction with Article 28.1 requires Members to ensure that, within their domestic legal systems, a patent confers on its owner the exclusive rights set forth in Art. 28.1. Those rights are independent of patents obtained for the same invention in the territories of other Members, in accordance with Art. 4bis of the Paris Convention (1967) [...]. [...] the territorial nature of patent rights means that the exclusive rights identified in Art. 28.1 are only valid within the territory of the granting Member. [...] (Para. 7.240)
- no basis to interpret these provisions as addressing patent owner's rights in the territories of other WTO Members. (Para. 7.240) 
- The EU does not allege that patents granted in China fail to confer the exclusive rights set forth in Art. 28 [...]. (Para. 7.242)
- The EU has not demonstrated that the ASI policy is inconsistent with Art. 28.1, whether or not read in conjunction with Article 1.1, first sentence. (Para. 7.242)

Arbitrators

- Art. 28.1, read in conjunction with Art. 1.1, first sentence, requires that Members not frustrate the patent owner's ability to exercise the exclusive rights conferred on it by another WTO Member [...]. (Para. 4.86)

[Completion of the analysis]

- [...] the ASI policy establishes a course of action that frustrates the exercise of the exclusive right of a patent owner to prevent the use of the subject of its patents without its consent [...]. (Para. 4.107)
- The EU has demonstrated that the ASI policy is inconsistent with Art. 28.1, read in conjunction with Art. 1.1, first sentence, of the TRIPS Agreement. (Para. 4.109)

Consistency of ASI policy with Art 1.1, first sentence, read in conjunction with Art. 28.2 TRIPS

“Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.”

EU Claims

- Pursuant to Article 28.2 of the TRIPS Agreement, SEP owners are entitled to license their SEPs on FRAND terms. [...], to give effect to that provision pursuant to Article 1.1, first sentence of the TRIPS Agreement, WTO Members must refrain from adopting or applying measures that restrict, or seek to restrict, the exercise of that right. [...] China's ASI policy encourages Chinese courts to issue broad ASIs that restrict, or seek to restrict, patent owners from taking effective action against infringement when licensing negotiations break down [...] (Para. 7.245)
- The possibility for implementers to obtain broad ASIs "was intended to force SEP owners to reach settlements and sign licensing contracts with the implementers" at below FRAND royalty rates, and that "[g]iven the coercive effect of the [ASIs], it is not possible to establish that the SEP owners ... were able to conclude licensing contracts on terms that are in line with a normal exploitation of their patents." (Para. 7.245)

China's Defense

- It is uncontested that patent owners under Chinese law have those rights. Consequently, China submits that it has given effect to Article 28.2, in accordance with Article 1.1. [...] (Para. 7.246)
- Article 28.2 does not govern the effect of a measure on the negotiating power of a SEP owner and SEP licensee, nor does it govern the terms of a SEP licence. (Para. 7.246)
- [...] there is no evidence that the ASIs affected the licence negotiations in a manner contrary to the normal exploitation of the patent. (Para. 7.246)

Art 1.1, first sentence, read in conjunction with Art. 28.2 TRIPS: Findings

Panel

- Article 1.1, first sentence read in conjunction with Article 28.2 of the TRIPS Agreement requires Members to ensure that, within their domestic legal systems, patent owners have the right to assign or transfer by succession their patent, as well as the right to conclude licensing contracts. (Para. 7.247)
- [...] Art.1.1, first sentence does not contain additional obligations relating to the object and purpose of the TRIPS Agreement or implementation of the TRIPS Agreement by other WTO Members (Para. 7.248)
- The possibility that a court might be called upon to determine what constitutes FRAND terms does not change the fact that the SEP owner has agreed to license its patent on such terms. [...] That a court may impose provisional measures while litigation is pending before it does not negate the holder's right to license the patent. [...] nothing in this dispute indicates that the owners of patents granted in China lack the right to conclude licensing contracts. (Para. 7.251)
- The EU has failed to demonstrate that China's ASI policy is inconsistent with Article 1.1, first sentence read in conjunction with Article 28.2 of the TRIPS Agreement. (Para. 7.252)

Arbitrators

- [...] Article 28.2, read in conjunction with Art. 1.1, first sentence, requires that Members not frustrate the patent owner's ability to exercise its "right ...to conclude licensing contracts" as conferred in the territory of another WTO Member under that provision. (Para. 4.123)
 - If the terms of a concluded contract do not reflect the meaningful exercise of a patent owner's "right" due to the impact of a Member's measure, then it cannot be said that the patent owner's "right" under Art. 28.2 was fulfilled. (Para. 4.128)
- [Completion of legal analysis]
- The availability of ASIs to SEP implementers under the ASI policy alters the negotiating position of SEP holders in a fundamental way. It removes the main incentive for SEP implementers to negotiate with a SEP holder a licensing contract on FRAND terms. (Para. 4.158)
 - [...] which in turn leaves a SEP holder potentially facing litigation in China and an inability to enforce its SEP rights outside China wherever its SEP is patented at risk of cumulative daily fines. (Para. 4.161)
 - The EU has demonstrated that the ASI policy is inconsistent with Art. 28.2, read in conjunction with Art. 1.1, first sentence of the TRIPS Agreement concerning patents in China and outside of China. (Para. 4.164)

Other Claims : Brief Overview

Art. 1.1, first sentence, in conj with Art. 44.1 TRIPS:

- Panel finding, upheld by Arbitrators: EU failed to substantiate its claim
- Note: different reasoning of Panel / Arbitrators

Art. 41.1 TRIPS:

- Panel finding, upheld by Arbitrators: ASI policy is not an enforcement procedure

Art. 63.1 TRIPS:

- Panel finding, upheld by Arbitrators: decision in *Xiaomi v. InterDigital* is a final judicial decision of general application and falls within the scope of Art. 63.1
- As China did not publish it or made it publicly available in such a manner as to enable governments and right holders to become acquainted with it, it failed to comply with Art. 63.1.

China — Worldwide Licensing Terms for Standard Essential Patents (DS632)



EU requested consultations on 20 January 2025



To date, establishment of Panel not requested



Measure at issue:

Authority of Chinese courts to determine, without the consent of both parties, worldwide licensing conditions, and in particular royalty rates, for SEP portfolios, including non-Chinese SEPs



EU claim:

Restricts ability of parties to enforce rights regarding non-Chinese SEPs in courts of jurisdictions where those patents were granted, as well as ability of courts in those other jurisdictions to adjudicate actions



Legal basis:

Same as in DS611: Art. 1.1, first sentence, read in conjunction with Art. 28.1, 28.2 and 44.

Additional: Art. 4bis Paris Convention, alone and read in conjunction with Art.28.1 and 28.2