

## PRC Court Issued Interim Injunction in a Case Involving Determination of Royalty Rates Globally

By Xun Yang

On 25 December 2020, the Wuhan Intermediate Court of Hubei Province (the “**Wuhan Court**”) issued an Interim Injunction (the “**Injunction**”) in a case (the “**Case**”) where the applicants Samsung Electronic Co. Ltd. and Samsung (China) Investment Co. Ltd. (collectively, “**Samsung**”) sued Telefonaktiebolaget LM Ericsson (“**Ericsson**”) for determination of royalty rates for using Ericsson’s standard and essential patents (the “**SEPs**”). The Injunction prohibits Ericsson from seeking injunction or awards from courts in or outside of China to prohibit Samsung from using the SEPs or on matters otherwise relating to the license of the SEPs.

The Injunction is significant because: (1) the Injunction was issued in a case between two foreign companies; (2) the Injunction has an extraterritorial effect; and (3) the Injunction was issued in a case of which the final decision may have global implications.

### Why PRC Courts

This Case is not the first case which a PRC court tried between two foreign companies. Why did Samsung select to initiate the Case in China?

In the case where Qualcomm sued Apple for patent infringement, Qualcomm selected to have the infringement case tried by a PRC court because China is among the most important market for Apple. It is non-controversial that China has the largest mobile device market in the world and this could be one of the factors which Samsung has taken into consideration when selecting the venue. However, given that Samsung only has 1% market share in China, the importance of the China market may not be the only reason.

.....  
For more Llinks publications,  
please contact:

Publication@llinkslaw.com

Other factors which Samsung may consider in selecting the venue include the experience which PRC courts have in trying cases involving standard and essential patents and the attitude of PRC courts towards the determination of royalty rates on a FRAND basis. In the case where Huawei sued IDC for determination of royalties for using standard and essential patents, the PRC courts took a comprehensive review of all relevant elements, including the rates used in comparable licenses and the validity of underlying patents. The case between Huawei and IDC could have given Samsung confidence in PRC courts to determine reasonable royalty rates for using SEPs.

### **Extraterritorial Effect**

The claims which Samsung asserted are extraterritorial; so is the Injunction which the Wuhan Court issued.

Samsung sought to the determination of the royalty rates for using the SEPs both inside and outside of China. In other words, the royalty rates which the Wuhan Court will decide will apply to both the China market and the overseas markets. The Wuhan Court has not discussed on the extraterritorial effect of the claims and its jurisdiction over these claims (as Ericsson may not have a chance to challenge the jurisdiction yet). However, the fact that the Wuhan Court accepted the Case and, more, importantly, issued the Injunction suggests that the Wuhan Court tends to believe that it has the jurisdiction to determine the royalty rates for using foreign patents and applicable to the overseas markets.

Moreover, the content of the Injunction is extraterritorial. The Wuhan Court issued the Injunction to prohibit Ericsson from seeking determinations of royalties from overseas jurisdictions (which will be further discussed below). The Injunction not only confirms the Wuhan Court's jurisdiction over the claims which Samsung asserted but also counteracts any jurisdiction which any foreign court may have on the same issue.

The position which the Wuhan Court holds confirms that a PRC court may extend its power to transactions outside of China. Traditionally, PRC courts are conservative in exercising their powers extraterritorially, especially in intellectual property related cases because intellectual property rights are subject to geographic restrictions. However, they have been realizing the limitations in their conservativeness that determination of IP related issues only in China may not be meaningful in the global market. In particular, a UK court decision may have shown the possibility to have a court in one nation to determine on global licenses. In a historical case between Unwired Planet and Huawei decided in August 2020, the UK Supreme Court held that a UK court does have the power to determine the royalty rates and the terms of a global 'FRAND' license. Following the UK court decision, Shenzhen Intermediate People's Court decided in the case between Oppo and Sharp in October 2020 that it had the power to determine the royalty rates for using Sharp's patents globally because the parties discussed the royalties for the licenses in Oppo's office in Shenzhen. It is not clear as to the base on which the Wuhan Court may exercise its global jurisdiction given that both parties are foreign companies. However, the grant of the Injunction suggests that the Wuhan Court has the ambition to determine the royalty rate applicable to the global market.

## Injunction to Block Counteractions

Samsung applied for an interim injunction (i) to prohibit Ericsson from applying for injunctions from China or from overseas courts to ban the use of its SEPs and to withdraw such applications if already submitted, (ii) to prohibit Ericsson from claiming in any foreign court to determine the royalty rates for using the same SEPs and to withdraw such claims if already made, and (iii) to prohibit Ericsson from seeking court orders to countermand the Injunction which the Wuhan Court issues. The Wuhan Court sustained all applications.

In addition to the statutory requirements for seeking interim relieves, being prima facie good case and provision of securities, the Wuhan Court justified the issuance of the Injunction as follows: (1) had Ericsson obtained an injunction to ban the use of its SEPs, the royalty rates which the Wuhan Court determines will be meaningless in the jurisdiction where such injunction is effective; (2) had Ericsson sought to determine royalty rates in any other foreign court, the rates which a foreign court determines may prejudice to the determination made by the Wuhan court if they are different; and (3) had Ericsson sought to counteract on the Injunction, such counteraction may prejudice to the power of the Wuhan Court. As such, the Wuhan Court issued the Injunction largely to avoid the same issue being tried by any foreign court, resulting in its decision being compromised.

The Wuhan Court issued the Injunction with a clear vision that this Case has a global nature and that, without such Injunction, the same issue may be tried by competing courts resulting in failure to enforce any judgement effectively and in the global marketing being fragmented. The Injunction is an attempt to block potential competing trials on the same issue and to safeguard the effective enforcement of the final judgement.

## Implications

This Case and the Injunction indicate that China courts have been becoming a popular venue to try cases involving royalty rates for global licenses and a well-designed claim for an interim injunction, if granted, can help the applicant secure exclusive jurisdiction by China courts.

The acceptance of this Case by the Wuhan Court and the subsequent issuance of the Injunction sent out a clear signal that China courts are actively participating in reviewing global licenses for standard and essential patents. China courts not only follow the “precedent” created by the UK Supreme Court and confirmed its jurisdiction over global licenses, but may also establish a suite of “standard” practice by issuing interim injunctions to avoid foreign courts’ counteractions on its decisions.

This Case also suggests that China courts are beginning to compete with UK courts (and the courts in other jurisdictions as well) in trying cases involving royalty rates and other terms for global licenses of standard and essential patents. Different from UK courts which are more friendly to patent owners, China courts consider more from licensees’ aspects. This is not only because China has more manufactures which are licensees and understand the licensees’ needs to secure reasonable and predictable royalty rates; but also because China has a tradition, rooted deeply in its legal culture, that courts may exercise discretion in reviewing the

reasonableness and fairness of terms of transactions, disregarding the terms dictated by the parties. In the previous case between Huawei and IDC, the court looked deep into the constituent of the royalty for using IDC's patent package, excluded the price for using patents which had been invalidated or expired, and compared the royalty rates which IDC offered to other companies. This position largely favors licensees of standard and essential patents as, in the negotiation of these licenses, the licensors, i.e., the owners of the patents, usually dominate the negotiations.

The wide range of coverage by the Injunction blocks the possibility to seek remedies from other courts. This reflected the efforts which the Wuhan Court made to exclude possible inconsistent judgements issued by overseas courts. As a result, Samsung which selected the Wuhan Court may enjoy the privilege to have the case tried exclusively by the Wuhan Court.

If you would like to know more information about the subjects covered in this publication, please contact:



**Xun Yang**

+86 21 3135 8799

xun.yang@llinkslaw.com

**SHANGHAI**

19F, ONE LUJIAZUI  
68 Yin Cheng Road Middle  
Shanghai 200120 P.R.China  
T: +86 21 3135 8666  
F: +86 21 3135 8600

**BEIJING**

4F, China Resources Building  
8 Jianguomenbei Avenue  
Beijing 100005 P.R.China  
T: +86 10 8519 2266  
F: +86 10 8519 2929

**SHENZHEN**

18F, China Resources Tower  
2666 Keyuan South Road, Nanshan District  
Shenzhen 518063 P.R.China  
T: +86 755 3391 7666  
F: +86 755 3391 7668

**HONG KONG**

32F, Alexandra House  
18 Chater Road  
Central, Hong Kong  
T: +852 2592 1978  
F: +852 2868 0883

**LONDON**

1/F, 3 More London Riverside  
London SE1 2RE  
United Kingdom  
T: +44 (0)20 3283 4337  
D: +44 (0)20 3283 4323



[www.llinkslaw.com](http://www.llinkslaw.com)



Wechat: LlinksLaw

**WE LINK LOCAL LEGAL INTELLIGENCE WITH THE WORLD**

This publication represents only the opinions of the authors and should not in any way be considered as legal opinions or advice given by Links. We expressly disclaim any liability for the consequences of action or non-action based on this publication. All rights reserved.

© Links Law Offices 2021