

Responses of Mark A. Cohen to Questions for the Record

Hearing on

“IP and Strategic Competition with China: Part IV – Patents, Standards, and Lawfare”

Dec. 18, 2024

A. Questions for the Record from Rep. Darrell Issa

1. The PRC often touts the availability of injunctive relief in patent enforcement actions in an attempt to persuade rights holders to utilize their courts. Are injunctions regularly granted by courts in the PRC?

a. Are the injunctions actually enforced?

b. Does the identity of the parties, including whether they are foreign, appear to have any impact on the outcome?

Declining transparency in recent years has made this question more difficult to answer. Chinese courts have been publishing fewer cases. Any data-driven analysis regarding how often foreigners win, the availability of injunctions, damages, etc., needs to account for the increasing incompleteness of the judicial database. These risks are compounded when foreigners are involved due to the relatively small percentage of the IP docket that are “foreign-related.” For example, a decision not to publish one major foreign case that a foreigner lost could lead to a misimpression that foreigners never incur major losses in IP disputes in China.

Prior to recent declines in transparency, approximately 50% of all patent cases were being published.<sup>1</sup> A more recent study has suggested that there has been a two-third decline in publication of civil cases generally.<sup>2</sup> These data are based on case publication and does not necessarily support any conclusions regarding utilization of the courts, pre-judgment settlements, or any form of interim relief awarded by the courts.

With these caveats in mind, Profs. Brian Love, Christine Helmers and Markus Eberhardt have previously calculated that foreigners were awarded injunctions 100% of the time

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<sup>1</sup> Chris Bailey, Douglas Clark, Mark Cohen and Aria Tian, “Chinese Patent Litigation Data: What It Tells Us and What It Doesn’t”, Intellectual Asset Management (Nov. 17, 2021), <https://www.iam-media.com/article/chinese-patent-litigation-data-what-it-tells-us-and-what-it-doesnt>.

<sup>2</sup> Benjamin Liebman, Rachel Stern, Xiaohan Wu, and Margaret Roberts, “Essay, Rolling Bank Transparency in China’s Courts,” 123 Columbia Law Review No. 8 (2023).

during the period from 2006 to 2011 when infringement had been found. Domestic litigants were awarded injunctions 95% of the time.<sup>3</sup> Domestic state-owned entities were awarded injunctions 67% of the time. A major caveat to this data was that it was based on only four foreign-related cases analyzed during the relevant investigation period (Table 6). Another problem is that the study was based on data housed in a foreign legal database (CIELA) that is no longer available on-line. Nonetheless, their conclusions, at least with respect to win rates, were well supported by other data, including data published by the Chinese courts themselves.<sup>4</sup>

A more recent study using 2014 data calculated that injunctions were granted in 1,203 (90.25%) cases. For the 856 first instance final decisions included, courts granted injunctions in 766 cases, or 89.49% of the time. For the 477 second instance decisions included, courts granted injunctions in 437 cases (91.61%).<sup>5</sup> Another study looked at win rates for the Beijing IP court and came to similar conclusions.<sup>6</sup>

Focusing only on automaticity of injunctive relief only partially explains the influence of Chinese courts on rightsholders and foreign courts. Chinese courts also award injunctions on a faster timetable. Generally, first instance cases in China are decided in six months. A preliminary injunction can be granted sooner than that. One relatively well-known example: a Chinese court in Fuzhou, China was the first court to issue a preliminary injunction in a global patent dispute between Apple and Qualcomm. A German court awarded an injunction after the Chinese court.<sup>7</sup>

The efficacy of China's court-ordered injunctions and damage awards, among other remedies, has been supplemented in recent years through China's social credit system and the creation of blacklists against companies or individuals that fail to comply with court orders. An adverse listing on the social credit system can affect the operation of a business and its employees.<sup>8</sup>

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<sup>3</sup> Brian Love, Christine Helmers, and Markus Eberhardt, "Patent Litigation in China: Protecting Rights or the Local Economy?" (2016), Available at: <http://digitalcommons.law.scu.edu/facpubs/918>.

<sup>4</sup> Mark A. Cohen, Chinaipr.com Blog, "Patent Litigation Local Protectionism and Empiricism: Data Resources and Data Critiques" (Mar 10, 2016), <https://chinaipr.com/2016/03/10/patent-litigation-local-protectionism-and-empiricism-data-sources-and-data-critiques/>.

<sup>5</sup> Mark A. Cohen, Chinaipr.com Blog, "The Widening Impact of China's Publication of IP Cases" (April 10, 2018), <https://chinaipr.com/2018/04/10/the-widening-impact-of-chinas-publication-of-ip-cases/>.

<sup>6</sup> Id.

<sup>7</sup> Joff Wild, "After China win, Qualcomm Follows Up with German Injunction", Intellectual Asset Management, (Dec. 20, 2018), <https://www.iam-media.com/article/qualcomm-scores-german-injunction-against-apple>.

<sup>8</sup> Shazeda Ahmed, "The Messy Truth About Social Credit", (UC Berkeley School of Information, April 23, 2019), <https://www.ischool.berkeley.edu/news/2019/shazeda-ahmed-messy-truth-about-social-credit>.

## Questions for the Record from Rep. Scott Fitzgerald

1. The UK Supreme Court decided two landmark cases in the last few years in which it made FRAND determinations on a worldwide basis – Unwired Planet v. Huawei and Interdigital v. Lenovo. In those cases, the court articulated a framework for making FRAND determinations. What do you think of the decisions in those cases?

About the method of calculating FRAND royalties, I agree with the Unwired Planet court that “Licence terms should be made available which are ‘fair, reasonable and non-discriminatory’, reading that phrase as a composite whole.” I also agree with the court that ETSI Clause 6(1), which was the source of the applicable FRAND obligation, “lends itself naturally to being read in [a] unitary way” as well as its observation that Chinese courts had been applying the various FRAND elements as two or three distinct obligations.

A more challenging question concerns the willingness of the UK courts to make global FRAND rate determinations. When a court considers a global rate issue, it will need to undertake a difficult determination regarding the value, validity and infringement of the patents on a global basis, with due respect for legitimate national rate determinations.

Patents are territorial, and their validity, infringement, and value need to be determined by local courts. UK courts have decided in the past to offer a potential licensee a choice between taking a global license or being enjoined from accessing the UK market. This choice reflects the economic reality that the parties to SEP litigations are seeking global rate determinations and global settlements.

Strictly speaking the British courts are not imposing their rates globally. They are instead offering a choice in exchange for access to the U.K. market. This approach is less intrusive than a court that makes a global rate determination against the consent of one of the litigants.

The approach of the British courts should also be contrasted with the approaches of other courts that have issued anti-suit injunctions (ASIs) against parties pursuing SEP litigation in other countries including several Chinese cases which have issued ASIs and sought to make a global SEP rate determination against the consent of some of the litigants. Such actions can interfere with the sovereign rights of foreign courts to determine the validity, infringement and value of patent rights granted within their respective jurisdictions.

2. Despite being on multiple U.S. sanctions lists, Huawei utilizes its massive patent portfolio to collect licensing revenue from U.S. companies, which generated the sanctioned company more than \$560 million in 2022. Should the United States continue to allow sanctioned companies, like Huawei, to circumvent U.S. sanctions through the licensing of U.S. patents to U.S. companies?

When Huawei was denied access to the US market for its products through export controls and other sanctions, a predictable outcome was that it would thereafter seek to monetize its technology through licensing of its extensive United States patent portfolio. For certain products, Huawei has effectively become a non-practicing entity in the United States, or what I have sometimes called an “Overseas Patent Assertion Entity,” as Huawei may be unable to practice its inventions in the United States, but nonetheless continues to practice its inventions in markets where it can sell its products.<sup>9</sup>

The global intellectual property system, like the global trade system, has long operated on a basis where foreign rightsholders would be accorded national treatment and most favored nation treatment in U.S. markets. In recent years, this system has eroded considerably. For example, in recent years the United States has unilaterally imposed tariffs against Chinese goods, in part due to concerns about “IP Theft” and other unfair activities. Similarly, if we are to single out Chinese companies from access to our judicial system, or to deny them equal treatment at the USPTO, we may also be offending equal treatment obligations regarding intellectual property. As with tariffs, these actions would invite overt or covert retaliation by the Chinese government. An inability to monetize patents in key markets could also impair the global technology ecosystem by imposing disincentives to disclosures of new technologies in patents to potential competitors. Notwithstanding these costs, there are precedents for unilateral actions against adversaries involving their IP rights under our Export Control Laws, including the Trading with the Enemy Act, which authorized auctioning off patents as early as World War I.

In sum, any unilateral action and its consequences need to be carefully evaluated for benefits, risks and costs.

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<sup>9</sup> Mark Cohen, “A New Era of Licensing with China”, Competition Policy International, Antitrust Chronicle (Sept. 2019).

3. If you ask five people to define what constitutes fair, reasonable, and non-discriminatory (FRAND) licensing terms, you are likely to get five different answers. What do you think is the best method to determine FRAND terms, and who should ultimately be the arbiter of that decision?

I note that your question includes an Oxford comma inserted between reasonable and non-discriminatory. This was also the approach of the US Court of Appeals for the Federal Circuit in a recent decision, *Telefonaktiebolaget LM Ericsson v. Lenovo (United States), Inc, Motorola Mobility LLC*, No. 24-1515, (Oct. 24, 2024). I agree with that grammatical clarification to FRAND, which is not included in the original definition of FRAND in ETSI's IPR Policy. FRAND should be understood as a unitary concept, not as a collection of discrete terms that can be individually applied to determine a royalty rate. Thus, FRAND may be understood as Fair + Reasonable + Non-Discriminatory, and not as Fair + (Reasonable + Non-Discriminatory).

There are many explanations of what FRAND's components mean. "Fair" has nearly 50 definitions by itself. As FRAND and RAND are often equated, I believe that "fair" is best interpreted as meaning "equitable" or "just." Reasonable means that the calculation has to be capable of being rationally explained. Non-Discriminatory means that differences in rates should be based on differences in licensing conditions and circumstances and not on arbitrary criteria. FRAND does not require equal treatment of all prospective licensees. It does require similar treatment of similarly positioned licensees. However, FRAND should ultimately be applied in accordance with French law, although its constituent terms are written in English. Nonetheless, FRAND has been translated into dozens of different languages. Fair has often been translated as equitable, reasonable as in accordance with reason and non-discriminatory typically refers to prohibiting arbitrary bases for price discrimination.

As a matter of policy, FRAND royalty rates should provide reasonable compensation to the patentee for its contribution to standardized technology. Ideally, these calculations should be based primarily on the aggregate quantity and quality of the patented contributions, rather than only the quantity of patents, or other non-quality-based metrics (such as the number of declarations to different standards). Quantitative patent counts alone would generally unduly favor Chinese entities due to the hyper patenting environment in that country and the distortions created by government subsidies for patenting and participating in standardization activities.

A fair royalty rate should ideally be determined on a reasonable basis from the bottom up, rather than based on a predetermined maximum rate, which can risk undervaluing the cumulative technological contributions to a new inventive product. FRAND should allow for inclusion of adjustments based on the willingness of the licensee to enter negotiations, the duration of the negotiations, the necessity of litigation, and the contribution of the licensor's patents to the value of the accused product. Reference should also be made to comparable royalty rates paid by other licensees. "Non-Discrimination" should be understood as permitting differentiation of royalties based on "reasonable" factors previously noted.

In my view one common error made by courts in calculating FRAND licensing rates involves the calculation of special, lower rates for licensing to China. A lower royalty rate that is not based on objective independent factors offends the "non-discrimination" leg of FRAND, as well as international obligations to afford equal treatment by the courts and in adoption of technical standards. Any form of differential royalty should be based on the facts and circumstances of the licensed product, not based on nationality. As China has emerged as a major innovator in cell phone technology, as well as the world's largest manufacturer of cell phones and the world's largest market, it is hard to justify lower royalty rates based on China being a 'developing' country or market or that it sells more lower priced phones. In fact, it is conceivable that lower priced phones with fewer features may depend proportionately more on standardized technology compared with more expensive feature-rich phones that may incorporate proprietary or non-standardized technology.

## Questions for the Record from Rep. Ben Cline for Mr. Cohen

1. Please explain how Chinese courts issuing anti-suit injunctions (ASIs) in SEP lawsuits are different than American courts that have followed similar practices?

The following are some of the differences between Chinese ASIs and US ASIs:

- (a) Chinese ASIs are part of long-term efforts by the Chinese government to increase the value of Chinese technology and decrease the value of foreign technology.
- (b) Unlike common law countries, Chinese ASIs are exclusively extraterritorial in nature.
- (c) Chinese ASIs are part of a national effort to increase the role of Chinese courts in establishing global judicial norms.
- (d) Chinese ASIs have also precipitated other changes in the adjudication of SEPs to accommodate this more aggressive posture, including a greater willingness to set global FRAND rates, and the courts have extended jurisdiction when there is a very limited basis (such as due to negotiations having occurred by phone with a Chinese counterparty).
- (e) China's ASI practices have been promoted and endorsed by the highest levels of China's political and judicial leadership.
- (f) China's ASIs may be experimental in nature. In fact, it is possible that the courts will increasingly focus on setting global rates in lieu of ASIs.
- (g) U.S. and other common law courts have had a long history of comity or deferring to other courts to minimize conflicts. Such traditions are often less common in civil law jurisdictions.
- (h) China's ASIs are the subject of an ongoing WTO dispute filed by the European Union. The European Union has most recently also recently drawn attention to China's practice of imposing global rate determinations against the wishes of litigants as similarly violating WTO / TRIPS disciplines.

Prior to the China's experimentation with ASIs, expedited Chinese civil actions have had the impact of undercutting foreign parallel litigation. Courts in the United States and in third countries have also raised objections to China's lack of transparency in Chinese ex parte judicial decisions, including the failure to advise counsel of pending decisions. For example, the Delhi High Court in *Interdigital Technology v. Xiaomi Corp & Ors.* (May 3, 2021), noted that there were six separate times when counsel for Xiaomi had appeared before the court without revealing that it was undertaking steps to take away the court's jurisdiction.

"Submarine" cases which are hidden from foreign courts by China involving ASIs, such as *Interdigital v. Xiaomi*, raise difficult questions regarding how to accommodate two jurisdictions' differing procedures, cultures, and professional behavior. Among the many troubling aspects: Courts may not feel obligated to disclose key nonfinal decisions,

service of process may not have been officially effected for initiation of the case, counsel may claim that there are violations of fundamental notions of due process or TRIPS obligations, and affected countries may complain of a lack of transparency. Judges may also raise concerns about the ethical responsibilities of counsel to inform bench and bar of developments affecting a court's jurisdiction. Hearings and deadlines may be timed to conflict with national holidays. The issues of civility and professional responsibility raised by such decisions have thus far been handled inconsistently by courts throughout the world.

For further background on this issue, please see my article: "China's Practice of Antisuit Injunctions in Standards Essential Patent Litigation – Transplant or False Friend" in *5G and Beyond* (2023).<sup>10</sup>

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<sup>10</sup> Mark A. Cohen, "China's Practice of Antisuit Injunctions in Standards Essential Patent Litigation – Transplant or False Friend" in *5g and Beyond: Intellectual Property and Competition Policy in the Internet of Things*, Jonathan M. Barnett and Sean M. O'Connor eds. (Cambridge University Press 2023), <https://www.cambridge.org/core/books/5g-and-beyond/chinas-practice-of-antisuit-injunctions-in-standardessential-patent-litigation/22512315C001CFC69054198ED2057AF3>.