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IP UPDATE

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Apple's Lawsuit against Qualcomm's Standard Essential Patents in China

Apple has filed a claim against Qualcomm at the Beijing IP Court alleging that Qualcomm has abused its dominant market position, claiming damages of RMB 1 billion (US$150 million). Simultaneously, Apple also filed a claim relating to the licensing terms of Qualcomm's standard essential patents ("SEP"). This follows a change in licensing policy by Qualcomm in 2015 after Chinese regulators fined the company RMB 6 billion (US$975 million) in 2015 on charges that it abused its control over technology to charge excessive fees.

Apple alleges, in its statement of claim, that Qualcomm, is one of the largest baseband chip manufacturers in the world and dominates the ownership of SEPs for mobile communication in China. As a result, Qualcomm should have the obligation to license SEPs to Apple under the FRAND principle. Although Apple has tried negotiating in good faith with Qualcomm on the licensing of its SEPs, Qualcomm declined to license some of its SEPs to Apple. Other allegations include that of Qualcomm abusing its market position include demanding unfair license fees and attaching unfair conditions to the licenses (bundling Qualcomm products together with the license).

Currently, there are no specific laws and regulations on SEPs in China. SPC's Judicial Interpretation which came into effect in April 2016 provides that when the two parties cannot reach an agreement on licensing terms for SEPs, they may request clarification from the courts. The court should make the determination based on the FRAND principle with reference to factors including the inventive step possessed by the patent, the role of the patent in the standard, the technical field of the standard, the nature and scope of application of the standard and relevant licensing conditions.

Regarding the claim of abuse of dominant market position, it is provided in the Chinese Anti-Unfair Competition Law that a business operator may not, against the will of purchasers, bundle in goods/services and/or attach any other unreasonable conditions to the sale of their goods.

These cases are expected to follow the landmark case of ***Huawei v. IDC*** where the Shenzhen Intermediate Court held that IDC held a dominant position in the relevant market and engaged in discriminatory pricing and bundling of its non-essential patents to Huawei. In the judgment, Huawei was awarded damages of RMB20 million (US$3.1 million).

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Pointers on Mastering 11th Nice Classification Changes in China

Details of the introduction of the 11th Nice Classification to China ("Introduction") can be found in our last Issue here. This time we will dive into several issues brought forth by the Introduction and in particular its impact on trademark practice in China:

1. Impact on PRC Trademark Filing

As previously discussed, one of the most significant changes from the Introduction is the reclassification of goods/ services. For example, under the 11th Classification, certain goods such as "medicated soap; disinfectant soap; medicated shampoos" have now been transferred from Class 3 to Class 5. The impact of reclassification is significant as the CTMO adopts a very stringent approach in considering whether the goods/ services concerned are similar according to the classification table. As the status of cross-class protection is generally uncertain, it is advisable for trademark owners to review their portfolios and consider refiling their mark in the new class after the reclassification to prevent new filings by trademark squatters from purposely taking advantage of a trademark owner's oversight.

In addition, under the 11th Classification, goods may be reclassified according to their function or raw materials. For example, jewelry charms fall under Class 14 while charms (other than for jewelry, key rings or key chains) fall under Class 26. Another example is that labels are now classified on the basis of their raw materials. For example, label of metal falls under Class 6 and label of leather falls under Class 18. Hence, it is advisable for trademark applicants to pay close attention to the subtle differentiation in classification going forward and not subject themselves to the risk of non-use cancellation by filing for the broadest classes for the broadest protection.

2. Impact on Trademark License Agreements and Co-Existence Agreements

Another point that worth noting is the impact the Introduction has had on trademark licensing and co-existence agreement. For example, if the license agreement or co-existence agreement permit the licensee to use a mark in relation to "medicated soap in Class 3", its legal effect may be in doubt as these goods have now been transferred to Class 5. Hence, it may be prudent for parties to review all relevant contracts and possibly amend those agreements in question and close any potential loopholes. Going forward, caution has to be exercised when license agreements or co-existence agreements are drafted. One of the possible ways to avoid this problem arising from reclassification is to only make reference to the goods/ services concerned but avoid making reference to the class/ subclass in the license agreement or co-existence agreement.