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1 ARTICLE 28

1.1 Text of Article 28

Article 28

Rights Conferred

1. 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 importing⁶ for these purposes that product;

*(footnote original)*⁶ This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6.

- (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.

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

1.2 Article 28.1

1. In *Canada – Pharmaceutical Patents*, the Panel was called on to examine a complaint that a Canadian measure was in violation of Article 28.1:

"There was no dispute as to the meaning of Article 28.1 exclusive rights as they pertain to Section 55.2(2) of Canada's Patent Act. Canada acknowledged that the provisions of Section 55.2(2) permitting third parties to 'make', 'construct' or 'use' the patented product during the term of the patent, without the patent owner's permission, would be a violation of Article 28.1 if not excused under Article 30 of the Agreement. The dispute on the claim of violation of Article 28.1 involved whether Section 55.2(2) of the Patent Act complies with the conditions of Article 30."¹

2. In *China – IPRs Enforcement (EU)*, the Arbitrator in the *ad hoc* appeal arbitration under Article 25 of the DSU interpreted the obligation under Article 28.1 in light of its earlier interpretation of Article 1.1 of the TRIPS Agreement, as follows:

"However, we found in section 4.5 above that the proper interpretation of the term 'give effect' in Article 1.1, first sentence requires WTO Members, to make operative the provisions of the TRIPS Agreement in their own national systems and to do so without frustrating the functioning of the systems of IP rights protected pursuant to the implementation of the TRIPS Agreement by other WTO Members in their territories. This includes the rights of patent owners bestowed upon them by virtue of the implementation of Article 28.1 by Members in their territories.

¹ Panel Report, *Canada – Pharmaceutical Patents*, para. 7.18.

In the context of Article 28.1, this understanding would require an assessment of whether a Member's measure frustrates the conferral, by another WTO Member, of the patent owner's exclusive rights listed in that provision: in particular, the right of the patent owner to prevent third parties from certain acts without the owner's consent. These would include, e.g. the making, using, offering for sale, selling, or importing the product which is the subject matter of the patent."²

3. According to the Arbitrator, "what it means to frustrate the protection and enforcement of IP rights implemented pursuant to the provisions of the TRIPS Agreement in the territory of another Member should be assessed not only in light of the particular provision at issue, but also in light of the specific circumstances of the case."³

4. In *China – IPRs Enforcement (EU)*, the Arbitrator in the *ad hoc* appeal arbitration under Article 25 of the DSU noted the Panel's description of the challenged measure, in particular the elements of the measure that limited patent owners' enforcement rights, and found the measure to be inconsistent with Article 28.1:

"In summary, we understand that the Panel found the ASI policy to comprise a measure of general and prospective application that empowers Chinese courts to impose a range of possible prohibitions at the request of SEP implementers in the context of SEP litigation, which can be enforced through the imposition of cumulative daily fines, and which has been elaborated and promoted by the Supreme People's Court of the People's Republic of China (SPC) and endorsed by the National People's Congress (NPC) Standing Committee. The Panel understood that the range of possible prohibitions in this regard could include preventing the owner of a patent registered in another Member from commencing, continuing or enforcing the results of any proceedings before a non-Chinese court, such as proceedings concerning patent infringement or the terms on which a patent would be licensed. We provide further details on the Panel's reasoning and findings with respect to the ASI policy in section 4.4 in addressing the China's claim on appeal with respect to Article 3.2 of the DSU.

...

Article 28.1 provides for the exclusive right to the patent owner to prevent third parties from taking certain actions without its consent. The manner in which these rights may be exercised is *inter alia* through the initiation of infringement proceedings and the issuance of a court injunction to prevent unauthorized parties from certain acts without the patent owner's consent. In the context of SEP litigation, these rights are qualified by the SEP holder's commitment to license its SEP on FRAND terms through negotiation with implementers and the possibility for both to request a court to establish the FRAND terms. In this context, and considering that the factors for granting an ASI and the policy objectives underlying the ASI policy bear no relation to the SEP holder's ability to exercise the exclusive rights conferred on it by another WTO Member by means of infringement proceedings, the ASI policy affects the patent owner's right to prevent third parties not having its consent from making, using, offering for sale, selling, or importing the patented product.

The Panel confirmed the European Union's argument that the ASI policy empowers Chinese courts to impose a range of possible prohibitions at the request of implementers in the context of SEP litigation, which can be enforced through the imposition of cumulative daily fines, and which is a policy elaborated and promoted by the SPC and endorsed by the NPC Standing Committee. As such, 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 patent without its consent, as conferred on it by another WTO Member under Article 28.1 of the TRIPS Agreement."⁴

² Award of the Arbitrators, *China – IPRs Enforcement (EU)*, paras. 4.84-4.85.

³ Award of the Arbitrators, *China – IPRs Enforcement (EU)*, para. 4.93.

⁴ Award of the Arbitrators, *China – IPRs Enforcement (EU)*, paras. 4.8, 4.106-4.107.

1.3 Article 28.2

5. In *China – IPRs Enforcement (EU)*, the Arbitrator in the *ad hoc* appeal arbitration under Article 25 of the DSU interpreted the obligation under Article 28.2 in light of its earlier interpretation of Article 1.1 of the TRIPS Agreement, as follows:

"As we have explained above, the proper interpretation of the term 'give effect' in Article 1.1, first sentence, requires WTO Members to make operative the provisions of the TRIPS Agreement in their own national systems and to do so without frustrating the functioning of the systems of IP rights protected pursuant to the implementation of the TRIPS Agreement by other WTO Members in their territories. This includes the exercise of the rights of patent owners bestowed upon them by virtue of the implementation of Article 28.2 by Members in their territories.

In the context of Article 28.2, this understanding would require an assessment of whether a Member's measure frustrates the conferral, by another Member, of the patent owner's 'right ... to conclude licensing contracts' with respect to a patent held in that other Member's territory. In that respect, we agree with the European Union's contention that the proper inquiry under Article 28.2, read in conjunction with Article 1.1, first sentence is whether the ASI policy 'affect[s] not only the right of patent holders to conclude licensing contracts concerning patents granted in China, but also their right to conclude licensing contracts concerning patents granted by other countries within the same family or families of patents.'⁵

6. In *China – IPRs Enforcement (EU)*, the Arbitrator in the *ad hoc* appeal arbitration under Article 25 of the DSU disagreed with China's argument that the fact that Chinese law provides the right to conclude licensing contracts discharges the European Union's claim of violation of Article 28.2:

"As explained in section 4.5, the first sentence of Article 1.1 requires Members to ensure that the provisions of the TRIPS Agreement are made operative on an ongoing basis. We therefore disagree with China's view that the fact that Chinese law enshrines a right to conclude licensing contracts discharges the European Union's claim. The ordinary meaning of Article 28.2 requires that a patent owner be able to exercise its 'right' to conclude a 'licensing contract', i.e. that the rights bestowed on it can be exercised until it 'concludes' a licence. The Panel seems to have found that the exercise of the rights under Article 28.2 is fulfilled once 'the SEP owner has agreed to license its patent on [FRAND] terms.' This interpretation ignores the Panel's own factual finding that a SEP holder's agreement in this regard does *not* reflect the *conclusion* of a licensing contract.

Furthermore, the Panel considered it significant that 'the outcome of each of the cases at issue in this dispute was a settlement between the parties that entailed the conclusion of a licensing agreement that covered the patents granted in China.' Nonetheless, the fact that a 'licensing contract' has been 'conclude[d]' does not in itself demonstrate that the patent owner was able to exercise its 'right' to conclude licensing contracts under Article 28.2. 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 Article 28.2 was fulfilled. It would be artificial to distinguish between a contract on the one hand, and the terms of a contract on the other hand, when speaking of an obligation that aims to protect a patent owner's 'right ... to *conclude* licensing contracts'.⁶

7. Turning to the measure at issue, the Arbitrator noted that the measure patent holders' right to conclude licensing contracts:

"The option created by the ASI policy for SEP implementers to obtain ASIs alters the process of negotiation in a fundamental way. As described in section 4.6, an ASI

⁵ Award of the Arbitrators, *China – IPRs Enforcement (EU)*, paras. 4.121-4.122.

⁶ Award of the Arbitrators, *China – IPRs Enforcement (EU)*, paras. 4.127-4.128.

prohibits SEP holders from pursuing or enforcing the legal proceedings outside China that are specified in the given ASI, particularly injunctive relief for infringement by SEP implementers. It therefore abates the very 'risk' that the Panel identified as the main incentive for SEP implementers to seek to obtain a licence and start paying royalties for use of a SEP. Meanwhile, SEP holders have made an irrevocable commitment to provide licences on FRAND terms or risk facing litigation for breach of contract or other relief. Their ability to withdraw from negotiations is accordingly constrained. In our view, therefore, the grounds on which an ASI can be obtained by a SEP implementer are pivotal to understanding whether the ASI policy frustrates SEP holders' 'right ... to conclude licensing contracts' which they have, in effect, conditionally waived through the irrevocable FRAND undertaking. If the ASI policy undermines the process of negotiations to arrive at FRAND terms, this would mean that SEP holders would be entering into licensing contracts without fulfilment of the central condition on which their exercise of that right was premised.

Turning to the grounds on which ASIs are granted under the ASI policy, we recall the Panel's factual findings described above. In particular, ASIs can be issued under the ASI policy without any inquiry into the SEP holder's ability to exercise the 'right ... to conclude licensing contracts' in light of the FRAND undertaking made in respect of that 'right'. The fact that some ASI decisions may reflect considerations on the negotiating process when raised by the SEP implementer does not detract from the ability for ASIs to be issued under the ASI policy without necessarily engaging in an inquiry into the SEP holder's ability to exercise its right under Article 28.2.

Accordingly, we consider that 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. This is confirmed by the Panel's factual finding that SEP implementers are incentivised to enter into licensing contracts to avoid the 'risk [of] infringing upon patent owners' rights and the attendant legal consequences of doing so'.⁷

8. The Arbitrator noted in particular that the measure removes a key incentive for negotiating licences, and concluded that it therefore violated Article 28.2:

"In our view, the availability of ASIs to SEP implementers in China on the grounds described in section 4.7.3.2 removes a key incentive for negotiating licences, 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. It is important to recall, in this regard, that SEPs emerge as part of the process of development of a technical standard by an SSO for which the SEP holder has decided to invest in creating a patentable invention. In creating that invention, the patent owner expects that, in agreeing to an irrevocable commitment to licence to all users on FRAND terms, it will be able to negotiate the FRAND terms with SEP implementers, and will be able to prevent third parties from using its patented invention without payment of royalties by seeking injunctive relief, court-determined FRAND terms, or other legal remedies.

...

In summary, for the reasons outlined in this section, we find that the European Union has demonstrated that the ASI policy is inconsistent with Article 28.2, read in conjunction with Article 1.1, first sentence, of the TRIPS Agreement concerning patents in China and outside of China."⁸

Current as of: June 2026

⁷ Award of the Arbitrators, *China – IPRs Enforcement (EU)*, paras. 4.156-4.158.

⁸ Award of the Arbitrators, *China – IPRs Enforcement (EU)*, paras. 4.161 and 4.164.