

Standard Essential Patents – Licence to kill?

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1. Competition law sets increasingly deeper limits to the exercise of Intellectual Property Rights by dominant companies, namely in cases involving Standard Essential Patents. In this context, the Huawei v ZTE case (still pending), concerning patent dispute between two Chinese companies, may become a landmark judgement. It is another case of patent wars in the EU, illustrating the attempt of Standard Essential Patents (SEPs) holders seeking injunction to exclude potential licensees from the market, reminding us of the famous James Bond film “License to kill”. Although this comparison may be considered exaggerated, it has the advantage of drawing attention to the role that competition rules should play in cases of abuses by SEPs owners.

We will begin by presenting the *plot* of the Huawei case, referring the anticompetitive problems that such kind of situations may raise, the solutions that have been pointed out by the European Commission and the Advocate General, comparing them with the ones followed by the US and Japan, and we will end with a few thoughts on the opportunity of a new test of abuse.

The Huawei case concerns a Chinese telecommunications company, Huawei, that holds a European patent regarded as essential to the ‘Long Term Evolution’ (LTE) standard developed by the Standard-Setting Organisation ETSI (European Telecommunications Standards Institute) to fourth generation mobile phone. Huawei is a member of ETSI and made a commitment to grant licences to third parties on fair, reasonable and non-discriminatory terms (FRAND). Therefore, Huawei entered into negotiations with ZTE, a multinational mobile phone producer,

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for the conclusion of a licensing agreement on FRAND terms. However, those negotiations were not successful and Huawei brought an action for infringement before a German court against ZTE, in order to obtain an injunction prohibiting the continuation of the infringement and an order for the rendering of accounts, the recall of products and the assessment of damages. ZTE, on the other hand, claims it is a willing licensee and that its competitor Huawei is abusing its dominant position by seeking injunctions. In the course of this dispute, the German Court referred several questions to the Court of Justice seeking to ascertain whether and in which circumstances an action for infringement, brought by a standard essential patent owner encumbered with FRAND commitments against a manufacturer of products complying with that standard, is an abuse of dominant position under the EU competition law.

2. Although nowadays Competition Law and Intellectual Property (IP) Law are considered complementary, as both seek innovation and growth², there are still certain areas of tension in which antitrust law should apply. Particularly relevant is the possibility to apply Article 102 to a SEP holder abusing its dominant position³, as it is discussed in the Huawei case.

² There is a large consensus nowadays between US and European antitrust agencies concerning the goals of competition law. Taking into account the lessons from Schumpeter, it is generally accepted that competition law protects competition in order to promote efficiency and consumer welfare and that technical changes, strengthened namely by intellectual property, also promote efficiency and welfare gains. So the antitrust-IP interface should find an equilibrium, allowing antitrust authorities to pursue anticompetitive practices without compromising innovation in the process. Cf. US Department of Justice - ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: Promoting Innovation and Competition, 2007, cf. <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf>

³ The interface antitrust-IP can raise, therefore, certain concerns as it is the case of “patent ambush” or “patent trolls”. For the first scenery, see the Rambus case -COMP/C-3/38 636- concerning intentional deceptive conduct, in the context of the standard-setting process; the company could commit an abuse by not disclosing the existence of the patents and subsequently claiming unreasonable royalties for the use of those relevant patents (although in the Rambus case Article 102 didn’t apply, as Rambus had low market power in the beginning of the Standardization process); see also the similar case AstraZeneca, C-457/10, in which the Court held that misleading representation made by a dominant firm to patent offices in several Member States in order to obtain the issue of Supplementary Protection Certificates to which they were not entitled, and deregistration of the

In order to fully understand the antitrust concerns involved in SEPs licensing, it is necessary to recall the concepts of SEPs and standards as well as the benefits of standardisation.

SEPs are patents that are essential to implement a specific industry standard; e.g. it has been estimated that 100,000 patents are relevant to manufacture smartphones⁴. Therefore, products that comply with a certain standard cannot be manufactured without those patents.

Standards, on the other hand, can be approved by a Standard Setting Organisation or, in more rare situations, result from the market, from consumer choices. Standards, as the Commissioner for Competition Alexander Italianer has already mentioned, form the basis of success of technology we take for granted: radio, cable-TV, wi-fi, computers, mobile telephones, railroads, internet, being important to industry, manufacturers and consumers⁵.

The benefits of standardisation are obvious whether in terms of efficiency - reducing transaction and production costs, increasing efficiencies and reducing the level of uncertainty about the outcome of R&D investment- or interoperability. In other words, compatibility among related products will allow systems and devices to interconnect through the same technology; hence, information, data or services can

(pharmaceutical products) marketing authorizations in several Member States, without justification, to prevent the appearance of competing generic drugs could constitute an abuse). On the other hand, "patent trolls" (also called 'patent assertion entities' or 'non practicing-entity') concerns companies that don't manufacture products or are not engaged in research and development, but enforce patent rights against infringers; NPE became a source of litigation in US, because it didn't have the loser cost regime until *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* and *Highmark v. Allcare Health*, issued in 2014, in which the Supreme Court made easier the applicability of the loser pay for attorney costs if the lawsuit is considered baseless. In this paper we will only address seeking an injunction by a SEPs holder under Article 102.

⁴ The concept of 'standard' depends on the context in which the term is used. Nevertheless, similar definitions have been adopted by the World Trade Organization (Technical Barriers to Trade Agreement, Annex 1-2), Standards Organization (ETSI) and European Institutions, such as the European Commission. In the EU the concept given in Directive 98/34/EC of 22 June laying down a procedure for the provision of information in the field of technical standards and regulations, as amended by Directive 2006/96/EC of 20.11 and Regulation 1025/2012 of 25.10 is particularly clear: 'standard' is a technical specification approved by a recognised standardisation body for repeated or continuous application, with which compliance is not compulsory" (Article 1 no 4; in addition, to these formal standards there are also 'de facto standards' that arise in the market as a result of consumer choices or the conduct of a certain undertaking); it can promote interoperability and efficiency.

⁵ Speech p. 10.

be exchange among them and/or their users.

The EU has promoted standardisation as a “tool for European competitiveness”⁶, as it enables consumers to switch more easily between products from different manufacturers and strengthening the integration of national markets in order to complete the internal market.

On the other hand, standards may raise antitrust concerns, particularly when competing technologies are eliminated in favour of the selected one. In this context, as Shapiro emphasized in the beginning of the XXI century⁷, involuntary infringement of patents might favour abusive conducts of the SEPs owner. In fact, the dominant firm owner of the patents essential to that standard may hold-up manufacturers imposing excessive royalties, or other abusive conditions, to the potential licensees (given the sunk cost supported by them) or even refusing to license the patent through an injunction against the infringer.

In order to address these concerns, Standard-Setting Organisations require SEPs owner to commit to license on fair, reasonable and non-discriminatory (FRAND) terms. This commitment will assure SEPs holder an adequate remuneration and at the same time prevent the hold-up issue giving all the market players access to a standard. In practice, FRAND commitments don't always avoid anticompetitive conducts by SEPs owner and competition law intervention might be necessary.

The need for antitrust intervention is not, however, a consensual matter. While some authors⁸ consider that only in rare situations will the standard-setting lead to exploitative abuse, as there is little evidence of that in practice, others⁹ doubt the

⁶ Samsung decision n.º 22.

⁷ Shapiro, “Navigating the Patent Thicket: Cross licenses, patent pools and standard settings”, *Innovation Policy and the Economy* (2001).

⁸ D. Geradin-M.P.Rato, “Can Standard-Setting lead to exploitative abuse? A dissonant view on patent hold-up, royalty stacking and the meaning of FRAND”, *European Competition Journal* (2006). See also the recent article by Damien Geradin, cf. Working Paper http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2371732, in which the Author sustains that FRAND regime has largely worked out and that available data suggests that the mobile communication device markets are healthy.

⁹ Kobayashi – Wright “Federalism, substantive preemption and limits on antitrust: an application to patent holdup”, *Journal of Competition Law and Economics* (2009).

ability of competition laws to address this kind of concerns and it would be preferable to apply Patent Law or Civil Law¹⁰.

Legal and economic literature do not, therefore, agree which is the better legal solution and, in the context of antitrust law, whether competition rules should play a role when, for instance, the SEPs owner seeks an injunction against infringers or imposes abusive licensing conditions. Nevertheless, antitrust agencies from both sides of Atlantic agree that antitrust rules should apply when dominant SEP owner's request for an injunction against infringers of a FRAND-encumbered patent leads to abuses and we will accept this premise to analyze the Huawei case and its background.

3. The applicability of Article 102, or its equivalent in the national law, to SEPs holder seeking an injunction against infringers was addressed, in the beginning, by national courts, particularly by German courts. In 2009, the German Federal Court of Justice decided on the anticompetitive concerns of injunctions in the so-called "Orange Book Standard" case, which did not involve FRAND commitments. The Court stated that even before signing an agreement, companies had to behave as a licensee and pay royalties, at least into an escrow account, and provide regular account of those payments. On the other hand, the party seeking the license must make a binding, unconditional and reasonable offer for concluding a licence. Therefore, SEPs owner seeking injunction abuses its dominant position by refusing to conclude a patent license agreement when there is a willing potential licensee. The German Courts apply the compulsory license defense in a conservative way as it is considered an exception to the right of patent enforcement.

The test established by the German court will influence the European Commission some years later when the European institution issued decisions concerning seeking injunctions by dominant SEPs owner against infringers of FRAND encumbered patents. The Commission's approach will, nevertheless, be more generous. For

¹⁰On the application of Patent Law and Competition Law in the EU, see Pierre Larouche – Nicole Zingales, "Injunctive relief in disputes related to standard essential patents: time for the CJEU to set fair and reasonable presumptions", TILEC Discussion Paper, DP 2014-048. Concerning the application of contract law, see *infra* no. 5.

instance, it will not consider, as some lower German courts did, a potential licensee 'unwilling' if it challenges the validity or essentiality of the patent (and the problem with a termination clause is that it may limit defendant's ability to influence the level of royalties or may lead it to pay invalid patents, when it is in the public interest that users and consumers should not have to pay for invalid patents¹).

The first infringement decision adopted by the European Commission was the Motorola case¹¹. In this case, Motorola owned a Standard Essential Patent ("SEP") reading on the General Packet Radio Service ("GPRS") standard (part of the 2G mobile telecoms standard) and has committed to the European Telecommunications Standards Institute ("ETSI") to license it on fair, reasonable and non-discriminatory ("FRAND") terms and conditions. In April 2014, the Commission decided that a SEP owner's request of an injunction was an abuse and ordered Motorola to eliminate the negative effects of its conduct. The Commission found that in the exceptional circumstances of this case (the standard setting process and Motorola's commitment to license the SEP on FRAND terms) and in the absence of any objective justification (Apple was not unwilling to enter in a license agreement on FRAND terms), Motorola had infringed Article 102 TFEU by seeking and enforcing an injunction against Apple before the court of the Federal Republic of Germany.

The Commission strengthens the concern, already mentioned in 2012, in the Google/Motorola Mobility¹² merger clearance, that the threat or the seeking of injunctions could be used to exclude competing products from the market or to impose burdensome licensing terms.

A fine was not imposed, however, by the Commission in this case as there were no previous decisions of the Commission or case-law of the Court in these matters and national decisions were divergent. Nevertheless, as the former member of the European Commission Joaquin Almunia mentioned, the EU and the US "share the view that a FRAND commitment given in a standardisation context means that the holder of standard- essential patents can no longer issue an injunction if the licensee is willing to negotiate a FRAND license".

¹¹ Case AT.39985 – Motorola, 29.4.2014.

¹² Case No COMP/M.6381 – Google/Motorola Mobility.

In a similar case, concerning 3G UMT (Universal Mobile Telecommunication System) SEPs, owned by the Samsung company¹³, the European Commission enforced the safe harbour test shaped in the Motorola case. Outside this safe harbour, however, no more guidance was provided.

The Commission in its Statement of Objections (issued in spite of Samsung's withdrawal of its injunction request as this had already caused harm) considered that under the specific circumstances where a commitment to license SEPs on FRAND terms had been given and where a potential licensee (in this case Apple) had shown itself to be willing to negotiate a FRAND licence for the SEPs, then recourse to injunctions harms competition, as it can exclude products from the market, harm the consumers and hinder innovation.

A SEP holder is entitled to take reasonable steps to protect its interests by seeking preliminary and permanent injunctions against a potential licensee in, for example, the following scenarios: "(1) a potential licensee is in financial distress and unable to pay its debts; (2) a potential licensee's assets are located in jurisdictions that do not provide for adequate means of enforcement of damages; or (3) a potential licensee is unwilling to enter into a licence agreement on FRAND terms and conditions, with the result that the SEP holder will not receive FRAND compensation for the use of its SEPs"¹⁴. As such conditions were not met in this case (in fact, Apple made six offers including an unconditional licensing offer, deposited funds into an escrow account and agreed to let Motorola define the royalties subject to judicial review by German courts), the Commission informed Samsung that its injunctions could be an abuse of a dominant position and Samsung offered commitments under Article 9 (proposed a specific licensing framework, and promised not to seek injunctions).

Several and pertinent doubts were cast by these two European Commission decisions: What is a willing licensee? Is it sufficient that the licensee merely declares its willingness or should the licensee act in accordance? Should the licensee make the first offer or is it enough to request an offer?

Some of these uncertainties will be addressed by the Advocate General Whatelet in the Huawei case, still pending. Huawei is a Chinese Telecommunications company

¹³ IP 12/1448.

¹⁴ Samsung para 67.

holding a European patent essential to the 'Long Term Evolution' standard developed by ETSI, related to the fourth generation mobile phone. Huawei made a commitment to license on FRAND terms and started negotiations with ZTE, which were not successful. Therefore, Huawei sought injunctions against ZTE in the Dusseldorf Regional Court which referred to the Court of Justice several questions concerning the applicability of competition law to SEPs holder seeking an injunction against infringers of FRAND encumbered licenses.

The Advocate General (AG) in its Opinion proposed a 'middle path' and held the need to strike a balance between the right to intellectual property and the SEP-owner's right of access to the courts, under article 47 of the Charter and the freedom of companies implementing the standard to conduct business, protected by Article 16 of the Charter. In addition, the AG enhanced the differences between the Orange-Book case and Huawei: while in the Huawei case a formal standard was adopted and FRAND commitments assumed, the Orange-Book case concerned a *de facto* standard and no FRAND commitments were agreed.

It is an abuse, according to the AG, and it should be considered a solution of last resort, the fact that a holder of a SEP which has given a commitment to grant third parties a licence on FRAND terms required an injunction or corrective measures where it is shown that the SEP holder has not honoured its commitment, even though the infringer has shown itself to be objectively ready, willing and able to conclude such a licensing agreement: the SEP holder has to alert the alleged infringer to that fact in writing, giving reasons and presenting a written offer of a license on FRAND terms with all the information and conditions usually established in that sector, particularly the precise amount of the royalty and the way in which that amount is calculated and if necessary request that the FRAND terms be fixed either by a court or by an arbitration tribunal.

In addition, it is legitimate for the SEP-holder to ask the infringer either to provide a bank guarantee for the payment of royalties or to deposit a provisional sum at the court or arbitration tribunal in respect of its past and future use of the patent.

On one hand, the infringer must respond to that offer in a diligent and serious manner: "if it does not accept the SEP- holder's offer, it must promptly present to the latter, in writing, a reasonable counter-offer relating to the clauses with which it

disagrees". On the other hand, an infringer's conduct cannot be regarded as dilatory if it can, during or after the negotiations, challenge the validity or essentiality of the patent.

With this solution the AG sets aside the rigid patent owner friendly approach by the German Court, which argued that the infringer must, even before concluding a licensing agreement, fulfil the obligations of the future licensing agreement, and also the test of a merely declaration of willingness to negotiate by the potential licensee. The test of the AG meets the demands of today's economic activity and follows a licensee friendly approach, consistent with the guidelines of the Commission.

5. The European Commission in its both decisions – Motorola and Samsung- and the Advocate General in the Huawei case rely on the overall framework of 'wholly exceptional circumstances' - and as the Court has highlighted in several cases the list of exceptional circumstances is not exhaustive¹⁵- to apparently introduce a new test of abuse: the willing licensee. In fact, although compulsory licensing and potential abusive litigation tests were both invoked before the European authorities, they were not fully enforced and the willing licensee test took apparently precedence.

As it is settled case law in the EU, although a dominant company has "a special responsibility not to allow its conduct to impair competition on the common market"¹⁶, a refusal by a dominant firm to license IPRs "cannot in itself constitute an abuse of a dominant position"¹⁷. However, there are several exceptions to that rule, recognized by the Court of Justice. Magill¹⁸, IMS¹⁹ and Microsoft²⁰ are just the most famous examples. In these cases, the Court held that the refusal to license IPRs to a competitor by a dominant firm is an abuse if it concerns an 'essential facility' -such as copyright over weekly listings necessary to publish a broader television guide (Magill), or copyright over the 1860 brick structure, a system for collecting

¹⁵ See *Infra* Magill, IMS and Microsoft cases.

¹⁶ Case 322/81, Michelin, 1983 ECR 03461

¹⁷ Case 238/87 Volvo V. Erik Veng 1988 ECR 6211.

¹⁸ Independent Television Publications Ltd (...) (ITP) v Commission (Magill), joined Cases C-241/91 P & C-242/91 P, [1995] E.C.R. 1-743

¹⁹ Case C-418/01 IMS Health v NDC Health [2004] ECR I-5039

²⁰ Case T-201/04 Microsoft v Commission [2007] ECR II-3601.

pharmaceutical sales data in Germany (IMS) or the interface information (Microsoft). In other words, a refusal must concern an input necessary to compete on a downstream market, preventing the appearance of a new product, the refusal is not objectively justified and the result is the elimination of competition.

In the context of SEPS, however, instead of assessing whether the 'exceptional circumstances' established in Magill, IMS and Microsoft are met, the European Commission apparently presumes that those requirements are automatically fulfilled in SEPs involving FRAND commitments, (which is not totally evident, as the European authority claims).

Furthermore, the 'abusive litigation test', established in *ITT Promedia*²¹ and *Protégé Internationale*²² cases, concerning proceedings in relation to unfair commercial practices and to trademark oppositions, should also be considered in the SEPs context. It has been invoked by Motorola in the first Commission decision and supported by certain authors as the best solution in the SEPs context. The Court held in those cases that bringing a judicial action is a fundamental right and it can only infringe competition rules in "wholly exceptional circumstances" -the action "cannot reasonably be considered as an attempt to establish its rights and can therefore only serve to harass the opposite party" and that action is "conceived in the framework of a plan whose goal is to eliminate competition"-, and those criteria, are not fulfilled in this case and must be applied strictly (any other conclusion, as Motorola argued, would mean that hundreds of SEP holders would find themselves in wholly exceptional circumstances giving rise to liability under Article 102 TFEU). However, the Commission didn't subscribe those arguments. In fact, the Commission confirmed that restrictions on a dominant undertaking's right to enforce its IP in court may be ordered in application of Article 102 TFEU, irrespective of the criteria used in *ITT Promedia* and *Protégé Internationale*; in addition, the standardisation context and Motorola's commitment to license on FRAND terms and conditions would differentiate this case from *ITT Promedia* and *Protégé Internationale*²³.

²¹ Case T-111/96, *ITT Promedia v Commission* [1998], ECR II-2937.

²² Case T-119/09 - *Protégé International v Commission*.

²³ Para 531.

In spite of the settled case law under Article 102 TFUE, European Commission tends to see SEPs, especially when FRAND commitments were assumed, as ‘special cases’ that need a ‘special solution’, for the reasons outlined above. The ‘willing licensee’ test would be, therefore, a new test of abuse, in spite of being severely criticized, specially in the beginning, by its ambiguity and inconsistency²⁴.

According to the Commission the ‘willing licensee’ test will be determined on a case by case basis, taking into account the specific facts. Nevertheless certain guidance is provided in Motorola and Samsung decision: ‘willing licensees’ include “companies which, in case of dispute, are willing to have FRAND terms determined by a court or arbitrators (if agreed between the parties) and to be bound by such a determination”²⁵. Outside this “safe harbour” no more guidance is provided.

The AG, in the Huawei case, added that the SEP holder before seeking injunction has to alert the alleged infringer to that fact in writing, giving reasons and presenting a written offer of a license on FRAND terms with all the information and conditions usually established in that sector, and if the infringer does not accept the SEP-holder’s offer, it must promptly present to the latter, in writing, a reasonable counter-offer relating to the clauses with which it disagrees.

In spite of the guidance provided by the AG, uncertainties remain, namely concerning the specificity of the license offer and the time frame namely the time for the potential licensee to request for a license. Should the potential licensee proactively seek for a license before the dispute? Is it possible for a potential licensee to know all the SEPs involved in the manufacture of the product? Even if the SSO maintain a database of all SEPs, available to the public, is it reasonable to

²⁴ Bo Verterdorf, Article 82: Where do we stand after the Microsoft judgement?, *Global Antitrust Review*, pp. 1 and ff., and also “IP rights and competition law enforcement questions” , *Journal of European Competition Law and Practice*, , 2013, 109 and Nicolas Petit, “Injunctions for Frand-pledged SEPs: the quest for an appropriate test of abuse under article 102”, *European Competition Journal*, 2013, 677 (“tests of abuse that treat injunctions as a bargaining device are economically inconsistent, and should thus be disregarded” and from “a legal standpoint, it would indeed be problematic, and contrary to best administrative practice, of agencies were ever to build theories of antitrust liability on the basis of fictional economic assumptions, ie that the act of seeking an injunction – or the threat of so doing – can induce potential licensees to accept unfair terms “–cit., p. 42.

²⁵ Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics - Frequently asked questions, cf. http://europa.eu/rapid/press-release_MEMO-14-322_en.htm

demand the potential licensee to know all the SEPs necessary to manufacture the product when some of the recent studies have shown that there might be millions of them? On the other hand, if we accept that the potential licensee needs to be proactive only after the dispute isn't we burdening the SEPs owner and affecting the difficult equilibrium of the interests involved? Aren't we rewarding the infringement of SEPs? What is the reasonable period of time for making the offer and the counter offer? For how long can the negotiations last before they are considered dilatory? The European Commission hasn't solved those problems and the open solution given by the Advocate General – the time must be assessed in the light of the 'commercial window of opportunity' available to the SEP-holder for securing a return on its patent – doesn't favour legal certainty. In addition, the AG distinguished between SEPs and SEPs with FRAND commitments and apparently there is no justification for that, unless the subliminal reason was the desire not to confront the German court.

5. The uncertainties still pending in the EU cases justify a quick glimpse at the U.S. and Japan solutions in this field.

In the U.S. antitrust concerns regarding SEPs can be addressed either by Section 2 of Sherman Act, similar to Article 102 TFEU, or Section 5 of the FCTA.

Section 2 of the Sherman Act prohibits "monopolization, attempts to monopolize, as well as conspiracy to monopolize any part of the trade or commerce between several States or with foreign nations". Concerning the SEP owner's market power, neither the EU nor the U.S. establish a presumption of dominance for patent owners (as there is no economic justification for it; in fact, in certain cases the standard was not successful in the market or there were other standards in the market, or other non standardized product that could compete with the standard *in casu*). In certain cases, however, SEP ownership may confer market power, particularly when, in addition to the elimination of intra-standard competition as a consequence of the standardization process, there is also a restriction on the inter-standard

competition²⁶. Regarding the use of ‘compulsory licensing’ test, the approach in the US is, nonetheless, slightly different. In the U.S. context, after the uncertainty caused by apparently divergent solutions regarding refusal to license in Kodak (in this case Ninth Circuit considered that there wasn’t any valid justification for refusal to licence) and Xerox (in this case the Federal Circuit accepted apparently a *quase per se* legality rule concerning the refusal to license) cases , the Supreme Court in *Trinko* judgement²⁷ , narrowed *Aspen Skiing*, clarified the issue and held: “Under certain circumstances, a refusal to cooperate with rivals can constitute anticompetitive conduct “. In other words, under certain conditions there is no duty to license:(i) the refusal is not anticompetitive; it is (ii) justifiable; and when satisfying the request of rivals would require the dominant firm to (iii) share an input that is not indispensable; or (iv) produce an input (or a combination of them) that it does not use to employ; or (v) enter in a new joint venture with its competitors. In conclusion, a refusal to license “is unlikely to constitute an act of monopolization” under U.S. antitrust law.

Section 5 of FCTA can also apply to SEPs holder conduct. It prohibits “unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce”. While this last prohibition is usually considered a consumer protection statute (e.g. it applies to misleading advertising), the first one may apply to anticompetitive conducts that are not prohibited by the Sherman Act, such as

²⁶ As it is well known the Court defined the dominant position, in *United Brands* judgement, as a “position of economic strength which enables the undertaking to impede effective competition in a relevant market, by allowing it to behave substantially independently of competitors, customers, and consumers” (case 26/67). In the U.S ., the Supreme Court defined the monopoly power in *U.S. v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 391, as the “power to control prices or exclude competition”. In spite of the differences (e.g. the acquisition of a dominant position is not prohibited in Article 102, but may be under U.S. antitrust law), both jurisdictions refuse the presumption that the mere possession of a patent right confers market power. The assessment of that power will be made on a case by case basis. See the Horizontal Guidelenes (HO 2011/C 11/1, 14.1.2011): market power “can only be assessed on a case by case basis” as there is no presumption that holding a SEP means the possession of a dominant position.

²⁷ *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP* 540 U.S. 398, 124 S.Ct. 872, 157 L.Ed.2d 823 (2004).

‘invitation to collude’ (usually unilateral solicitations to enter into unlawful horizontal price-fixing or market allocation agreements)²⁸.

In the United States, infringement actions are brought under the Patent Act in Federal District Courts. Since the U.S. Supreme Court’s decision in *eBay, Inc. v. MercExchange, L.L.C.*, the federal district courts have the discretion to grant injunctions to stop patent infringement as long as the balance of “traditional equitable factors, including a consideration of the public interest, weighs in favor of granting injunctive relief”.

Recently, two U.S. Federal District Courts have applied the *eBay* factors (the plaintiff must demonstrate that it has suffered an irreparable injury; remedies available at law, such as monetary damages, are inadequate to compensate for that injury; considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and the public interest would not be disserved by a permanent injunction) to deny injunctive relief to holders of SEPs (Judge Robart in *Microsoft v. Motorola* and Judge Posner in *Apple v. Motorola*). It means that the patent owner cannot obtain an injunction but rather must settle for damages only. Both cases are on appeal at the United States Court of Appeals for the Federal Circuit. Another U.S. federal district court, however, came to a different conclusion. Judge Crabb in *Apple v. Motorola* concluded that a FRAND commitment to an SSO, like any other contractual arrangement, does not deprive the SEP holder of the right to seek injunctive relief.

An alternative to Federal Court litigation is the filing with the U.S. International Trade Commission (ITC) of a request for an order excluding imports of products that the ITC finds violate U.S. patents. The ITC provides a second forum as long as the patentee can assert a patent infringement claim to stop the importation of infringing products. The ITC is required to issue an exclusion order upon the finding of a Section 337 violation (as long as the public interest does not favour another solution, in which case US Trade Representative overturns ITC order on public interest).

²⁸ In fact, the FCT considered in the *Rambus* case, that the undertaking’s conduct (patent ambush) was a standalone violation of sections 5 (which was, however, later, dismissed by the Court, without clarifying the scope of the provision)

In this context, it is also important to refer that in January 2013 the U.S. Justice Department (DOJ) and U.S. Patent and Trademark Office (PTO) jointly issued a Policy Statement on SEPs Subject to Voluntary FRAND Commitments²⁹ in which the agencies explained that “the remedy of an injunction or exclusion order may be inconsistent with the public interest”, particularly in cases when an SEP owner has made a FRAND commitment to a standard setting body. The PTO-DOJ Statement noted, however, that an exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a FRAND license and is acting outside the scope of the patent holder’s commitment to license on FRAND terms. In this context, the PTO-DOJ Statement identified a non-exhaustive list of relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order or when shaping such a remedy.

Finally, in two separate settlement agreements (which therefore unlikely will be used as precedent) in 2012 and 2013, the U.S. Federal Trade Commission (FTC) required Motorola Mobility and Bosch GmbH not to seek injunctions on SEPs, except under limited circumstances enumerated by the FTC. The FTC also indicated that in appropriate circumstances, it might challenge SEP holders’ efforts to obtain injunctions as “unfair methods of competition” in violation of Section 5 of the FTC Act³⁰.

In Japan, the Japanese Patent Act has provisions concerning compulsory licensing (e.g. Article 93), which are rarely used. In the case of standard essential patent, it has been argued, however, that “the most likely scenario” is the grant of compulsory (non-exclusive) license for public interest³¹, by the JPO Commissioner or the Minister of Economy, Trade and Industry.

Concerning the Japanese Civil Code, it is pointed out that Article 1 provides that “No abuse of rights is permitted”. Courts “rarely restricted the patentee from exercising a

²⁹ See <http://www.justice.gov/atr/public/guidelines/290994.pdf>.

³⁰ See <http://www.ftc.gov/os/caselist/1210081/121126boschanalysis.pdf>; and <http://www.ftc.gov/os/caselist/1210120/130103googlemotorolastmtofcomm.pdf>.)

³¹ Kotaro Kimura, IIP Bulletin 2012 Vol. 21. No compulsory license has been granted until now; even when a standard is found necessary for the public interest, the product using the SEP may not be found necessary for the public interest.

right to seek an injunction by applying this provision on an abuse of rights”³². Article 1 can only apply as long as the exercise of the patent right is contrary to the purpose of the Patent Act (contribute to the development of industrial society) and is unacceptable in society in light of the circumstances of the case.

On January 23, 2014 the Japanese IP High Court announced that the Japanese Apple/Samsung FRAND case will be the matter of a Grand Panel and asked, for the first time, for public comments on the question whether there should “be any restriction on the right to seek an injunction and damages based on a standard essential patent (SEP) in respect of which a FRAND declaration is made” (receiving 58 Amicus Briefs responding to the question).

In this case Samsung had sought a preliminary injunction against the importation and sale of certain models of Apple devices that allegedly infringed a standard-essential patent, subject to a FRAND obligation. In response, Apple filed an action seeking a declaration that its devices did not infringe a SEP, and that Samsung did not have a right to claim damages. The Tokyo District Court in February 2013 held that Samsung could not seek damages from Apple for the infringement of a SEP, due to Samsung’s ‘abuse of right’. The court rejected Samsung’s argument that Apple was not willing to license as its offer reserved the right to contest validity and held: “There are no express provisions regarding the duties of parties at the stage of preparation for contract execution . . . it is reasonable to understand that, in certain cases, parties that have entered into contract negotiations owe a duty to each other under the principle of good faith to provide the other party with important information and to negotiate in good faith.”³³.

On May 16, 2014, the Grand Panel of the Intellectual Property High Court ruled that Samsung did not have a right to seek an injunction against Apple Japan concerning the SEP with FRAND commitments and modified the Tokyo District Court regarding damages. It held that the enforcement of a FRAND pledged patent right -with a claim of damages- did not constitute an abuse of right if the amount of damages claimed is

³² IIP Bulletin 2013 Vol. 22, p. 6.

³³ *Apple Japan Limited Liability Company (Plaintiff) v. Samsung Electronics Co., Ltd. (Defendant)*, Tokyo District Court/Judgment of Feb. 28, 2013/Case No. 2011 (wa) No. 38969; Case to seek declaration of nonexistence of liability, 38 AIPPI J. 174 (2013).

within the scope of the license fee based on the FRAND condition. In other words, it is an abuse of monopoly, if SEP holder seeks to obtain more damages than could have been obtained on FRAND terms, unless there are special reasons such as the alleged infringer not having any intent to take a FRAND licence. The Intellectual Property High Court found, in that case, that damages couldn't be claimed beyond \$100 000.

6. Conclusion

These different approaches namely from the EU and the US to SEPs reflect not only the different influence provided by different economic schools (although nowadays the EU recognizes certain lessons from the Chicago school, it will always be shaped to a certain level by the economic wisdom of neo-Austrian and the ordoliberal school). In addition, two different antitrust enforcement models also have direct results in the outcome. In fact, while in the EU, public enforcement is still the rule, and in that context European and national competition authorities have autonomy to impose fines and antitrust remedies, in the U.S. private enforcement is still encouraged, namely by the existence of treble damages.

Nevertheless, there is a general presumption against injunctions in SEPs encumbered with FRAND commitments, in the U.S., Japan and EU, although the laws applied may be different: patent and competition laws (U.S.), civil law - abuse of right (Japan), or competition law (European Union).

On the other hand, in the European context the national approaches to SEPs holder seeking injunctions against infringers are also quite different (e.g. the Orange Book Standard is not followed by every Member State as some of the Hague District Court decisions may illustrate). Therefore, the Huawei case may have a significant impact, allowing the harmonization of national judicial solutions regarding the seeking of injunctions in the SEPs context. Furthermore, it can improve clarity and certainty for the companies involved (and for the industry in general) in standardisation across Europe.

It is likely that the Court of Justice will follow the AG proposal and the guidance established in European Commission decisions, creating a new test of abuse in the

SEPs context: the willing licensee. In spite of some uncertainties concerning the specificity of the licensing agreement offered by the defendant, or the time frame in which that agreement must be negotiated, we think that the new test, with the advantage of exploring a concept already used in the jurisprudence of several national courts, will clarify the role that competition rules should play in cases of abuses by SEPs owners (which should not be limited to filling gaps of patent law). SEPs should be used not block the use of a technical standard as a whole, excluding competition. SEPs, with or without FRAND commitments, are not a “license to kill”.