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From Innovation to Domination: Exercising IPR as abuse of art. 102 TFEU

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Contents

Summary

This thesis deals with the enforcement of intellectual property rights as an abuse of dominance. In particular after refusal to license a patent, which is essential for a standardized technology. Recently closed investigation on Samsung by the European Commission shows, that legal measures, such as injunction relief, become a subject to antitrust law. In other words, seeking for injunction relief may in some circumstances violate applicable competition law. The analysis will provide a hint, whereas patent holder who is dominating in particular market can or should be immune from EC scrutiny.

The Commission is not willing to apply the exceptional circumstances doctrine. Perhaps it is determined by a possibility of unexpected results in case of a proper application, whereas the injunctions should not be seen as anticompetitive. Moreover, the concern seem to be reasonable, as the German court started to have doubts about the Commission's approach and decided to submit the case for a preliminary ruling in order to assess whether in the context of SEP, the refusal to license and seeking for injunctions are lawful or not. Seemingly the rejecting trend of EC happened to become an incentive to take a deeper view on the complex issue in the mobile sector, where patent wars have become a platform for competition and where the major players are denied protection in favor of their competitors, instead of competition in abstracto.

The approach presented by the EC is a shift in interpreting how the intersection between IPR and dominance work. Nowadays it is a common practice to allege dominance for merely holding the SEP. Any activity with potential adversely affect to the competition is considered abusive, but without detailed analysis in the market power, such conclusions should not be reached. The market share, which considered as an effective tool determining the market power seems to become irrelevant in the context of standardization. It is a new age for antitrust law, where the dynamic environment allows interfering patent disputes. Respectively, the jurisdiction in particular Member States, such as Germany and Netherlands seem not to be in consistency with the mainstream approach presented by the EC. This brings to pessimistic supposition, that he EC favours competitors, rather than promoting competition, obliging undertakings to share their technology with their direct rivals.

Exercising intellectual property rights becomes abusive only in exceptional circumstances. Mere holding of IP rights should not confer dominance per se. There should be careful assessment of market power, only on case-by-case basis. It is also truth, that abstaining from

sharing essential patents creates a barrier to entry and allows imposing excessively high royalties, which in consequence affects the final price of the product. Samsung had de facto refused to licence its patent, which makes it similar to cases of compulsory licensing, where CJEU established, after fulfilling certain criteria, the undertaking might be required to share its IPR or abstain from exercising excluding rights. Those conditions relate to emergence of a new product, objective justification and preservation of secondary market. Samsung seem to fit the criteria for compulsory licensing, however the question remains when the rejection of FRAND terms deems to be not objectively justified. If the rejection finds to be justified, the ruling of the case might be contrary to the decision of the EC and might even affect the policy of the EC.

The doctrine of exceptional circumstances, established in prominent cases by CJEU was undermined by the EC firstly in Microsoft case and now it extends to standard technology context. The situation might change subject to pending preliminary ruling on how refusal to licence and seeking for injunction should be handled. This ruling can confirm the EC policy toward SEP owners, but if it takes into account the exceptional circumstances cases, the judgement might bring many changes to the table.

Abbreviations

CJEU	The Court of Justice of European Union
EC	The European Commission
ETSI	European Telecommunication Standard Institution
EU	European Union
FRAND	Fair, Reasonable and Non- Discriminatory terms
GC	General Court
IPR	Intellectual property right
OJ	Official Journal
OS	Operating System
SEP	Standard Essential Patent
SSO	Standard Setting Organization
R&D	Research and development
TFEU	Treaty on the Functioning of the European Union
TRIPS	The Agreement on Trade Related Aspects of Intellectual Property Rights

1 Introduction

1.1 Background

Samsung holds essential patent for 3G UMTS technology, which is used in mobile devices. As a licensor of standardized patent, he is entitled to obtain a royalties from competitors using this patent in their products. Samsung had committed to license its technology to any willing party on fair, reasonable and non-discriminatory terms. However there was a conflict of interests with the major competitor on the market of smartphones using the 3G technology, since parties could not reach the consensus on the royalty rate for licensing. Therefore license agreement was not concluded. Nonetheless the competitor implemented the 3G technology in its products, regardless of not being a rightful licensee. In 2011, Samsung sought injunctive relief in various Member States of EU against alleged infringements of certain of its patent rights, which it has declared essential to implemented European mobile devices standards. The EC wanted to investigate whether in doing so Samsung has failed to honour its irrevocable commitment given in 1998 to the ETSI to license any SEP on FRAND terms.[1] In December 2012, the EC informed Samsung of its preliminary view that it considered Apple as a willing licensee for Samsung's SEPs and against this background, the seeking of injunctions constitutes a breach of Article 102 TFEU.[2] In order to avoid the fee from the EC, Samsung decided to settle by stating a new commitment in April 2014, that he will license the patent to any willing licensee on FRAND terms which are going to be determined by courts or in arbitrary proceedings and the negotiation period should be no longer than twelve months. Interesting fact is, that after careful reading of the commitment it can be deducted, that it is made subject to the result of preliminary ruling in German case pending on before CJEU. Therefore, in case of optimistic ruling for patent holder in the courts, the commitment might be revoked in the future.

1.2 Purpose

This thesis aims to answer a question if seeking for injunction relief by dominant undertaking is abusive. The reasoning in refusal to licence in exceptional circumstances, which was

[1] Antitrust: *Commission opens proceedings against Samsung* (press release), Brussels, 31 January 2012, available at http://europa.eu/rapid/press-release_IP-12-89_en.htm.

[2] Antitrust: *Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents* (press release), Brussels, 21 December 2012, available at http://europa.eu/rapid/press-release_IP-12-1448_en.htm.

established by CJEU seems to be misunderstood and neglected by the Commission. In order to do so, Samsung case will be analysed from the point of view of IMS Health and Magill tests. Additionally, there will be an attempt to assess whether the commitment to licence on FRAND terms waives right to exercise the excluding rights relating to intellectual property.

1.3 Delimitations

Competition law brings many issues relating to standardization process and patent disputes. The agreements between undertakings and mergers are outside of scope of analysis since it would become too broad spectrum. Next of all, regardless of patent war between major manufacturers, the scope of observations and analysis is focused on art. 102 TFEU and European jurisdiction. Therefore the investigation on Samsung will be viewed with exclusion of expansive and complex American case law. In order to concentrate on the refusal to license and exercising IPR in standardization context there will be no discussion on what are or should be FRAND commitments. In this thesis the essential facility theory will also not be examined, since it is never mentioned by CJEU and lacks of consistency in the literature on competition law. Focusing on European Union dimension and the EC policy the national laws of Member States shall not be brought up, with exception of the rulings of German courts.

1.4 Method

This thesis will apply a traditional legal dogmatic method of analysing the law in the EU legal order. Dominant position will be evaluated basing on the case law from CJEU. In conjunction, Commission guidelines and official communicates will shed a light on the policy of European authorities. Later on, an application of rules established by the Court in refusal to license into standardization context, since there is no judgment on SEP holders, abusing their IPR. Additionally there will be a reference to German cases, which shows different approach from European mainstream and create a breakthrough in the competition law. To support the analysis and observation there are going to be references to European and American literature on refusal to license and exercising excluding rights of intellectual property.

1.5 Outline

This thesis will be organized in the following manner. The first chapter will present general considerations on dominance by briefly explaining the scope of art. 102 TFEU. It is aimed to bring the view on how the dominance was interpreted in the prominent cases, established over decades, and how it evolves in the dynamic environment of competition law. Next of all, chapter I will provide with the definition of abuse and typical forms of abuse, in order to confront them with the conduct of SEP holders. After the relevant definitions, the chapter will contain a description of an intersection between Intellectual Property Rights and dominance.

Third chapter is focused on the development of exceptional circumstances doctrine. This doctrine might bring a new perspective on the traditional point of view on the intersection between IPR and dominance. Further on, the relevant case law will be presented, where essential inputs became decisive factor for compulsory licenses. Elaboration on exceptional circumstances doctrine will go through its flexible application in Microsoft case, which might be seen as controversial due of the Commission extensive competences.

The fourth part deals with the standardization process, with the angle on how the implemented technology confers market power on particular SEP holders. In that chapter, the encouraging features of holding standardized technology can be found, as well as dangers which it may entail. Unlawful conducts including patent hold-ups and unreasonable refusal to license are the major threats.

The last chapter is dedicated to analyze Samsung case in the light of exercising IPRs and compulsory licensing applying the exceptional circumstances doctrine. In order to do so, the refusal to license 3G UMTS patent will be compared with particular cases, where the Court found the refusal abusive and ruled compulsory license. The purpose of such is to show, that Samsung could actually have escaped from the allegations of the European Commission, if successfully proving, that the refusal was objectively justified.

2 Legal framework

2.1 Scope of article 102 TFEU

2.1.1 Dominant position

Concept of dominant position is a combination of economic assessment and legal considerations, designed mainly to protect consumer welfare and ensuring an efficient allocation of resources.[3] In established EU case law it has been recognised that consumer can be indirectly harmed by action that harms the competition structure of the market.[4] Although art. 102 TFEU does not seem to bring a clear and meaningful definition of dominance, the case law provided by CJEU allows to interpret it as a position of certain economic strength. Prominent cases are United Brands[5] and Hoffmann-La Roche[6], where the Court stated, that dominance is “a position of economic strength enjoyed by undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, customers and ultimately consumers.” The Community Courts have never drawn a distinction between independent behaviour and the ability to prevent competition and considered them as equivalent inferring that satisfying one of them implies the other one.[7]

In competition law the efficiency is usually declared as a key factor, especially from an economic point of view. Efficient competition is an economic term, used to describe a situation where nobody can exercise substantial market power in the relevant market.[8] The market power is understood as the ability to profitably raise price (through the restriction of output) above the level that would prevail under competitive conditions. In the view of EC, the market power should be assessed by the power to raise prices by restricting output without incurring a significant loss of sales or revenues.[9] Undertaking which is capable of doing so for a significant period of time does not face sufficiently effective competitive constraints and can

[3] N. Kroes, SPEECH/05/512 of former European Commissioner for competition policy, London 2005.
[4] Case 6/72 *Europemballage and Continental Can v Commission* [1973] ECR 215; Case C-501/06 P *GlaxoSmithKline Services Unlimited v Commission* [2009] ECR I-9291; Case C-8/08 *T-Mobile Netherlands BV and others v Raad van bestuur van de Nederlandse Mededingingsautoriteit* [2009] ECR I-4529.
[5] C-27/76 *United Brands Company and United Brands Continentaal BV v Commission* [1978] ECR 207.
[6] C 85/76 *Hoffmann-La Roche & Co. AG v Commission* [1979] ECR 461.
[7] D. Geradin, P. Hofer, F. Louis, N. Petit, M. Walker, *The Concept of Dominance in EC Competition law, Research Paper on the Modernization of Article 82 EC*, Global Competition Law Centre, July 2005, at p. 3.
[8] Ibid. at p. 4
[9] Commission guidelines on market analysis and the assessment of significant market power under the Community regulatory framework for electronic communications networks and services, *O. J. C 165 , 11/07/2002 P. 0006 – 0031*, par. 73.

thus generally be regarded as dominant. Above mentioned increases include the various ways in which the parameters of competition can be influenced to the advantage of the dominant undertakings and to the detriment of consumer i.e. prices, output but also innovation. Decisions made by a particular undertaking must be largely insensitive to the actions of competitors, customers and, ultimately, consumers. The EC may consider that effective competitive constraints are absent even if some actual or potential competition remains.[10]

The relevant market refers to particular product. For any good or service there should be a substitute and normally the assessment relates to the possible substitutes for product taking into account its function, its suitability for satisfying user needs, and its price.[11] The Commission and CJEU pay much attention on demand and supply side of products. The concept of relevant market implies effective competition between the products that form part of it and this presupposes that there is a sufficient degree of interchangeability between all the products forming part of the same market insofar as specific use of such products is concerned.[12] It might happen that the possibility is limited to such extent, that the competition diminishes. Such a situation took place in Michelin's case where CJEU found that there is no real source of competition if product in the market 'is to a limited extent interchangeable with other products'[13] Dominance in a particular market can be achieved by introducing highly advanced technological product, which by its nature or by law has no substitute. It creates its own market.[14] In case of IPR the substitutability is the most important factor. Such a situation, where substitutes cannot be found or produced is present in standardized technology implementation. Since a particular product has become standard or de facto standard, anyone who is interested in production will have to obtain a license.

2.2 Abuse of dominant position

The purpose of art. 102 TFEU is to regulate undertakings that are dominant, in particular to prevent them from using market power to impair the effective competition. The list of practices in the Treaty is not exhaustive and provides only mere examples of how the abuse

[10] Communication from the Commission — Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, *O.J. C 45, 24/02/2009, p. 7–20,* par. 10-11.

[11] S. Anderman, *EC Competition Law and Intellectual Property Rights – The Regulation of Innovation,* Oxford University Press, 1998, p. 151.

[12] C 85/76 *Hoffmann-La Roche & Co. AG v Commission* [1979] ECR 461 at para. 38.

[13] C 322/81 *Michelin v Commission* [1983] ECR 3461 at para.37.

[14] G. Tritton, *Intellectual Property in Europe*, London Sweet&Maxwell, 2008, 3rd edition, at p. 991.

may be like. According to Craig and De Burca there are three issues which had to be considered when talking about abuse.[15] Namely: who is art. 102 TFEU designed to protect; what kind of behaviour are abusive; and which market should be assessed.

As for the first issue, prevention of harm to consumers is the ultimate goal of art. 102 TFEU, although it may require protection of competitive process. Since protection of consumers may clash with interest of competitors this issue will always bring controversy due lack of clarification of rules. Joliet proposed to restrict art. 102 TFEU only to exploitative behaviour harmful to consumers, with real link between the harm and market power of dominant undertaking.[16] However, the Commission seems to be more flexible and use art. 102 TFEU for further reaching extent.

The second issue relates to behaviour. Such behaviour must be different from a normal competitive strategy. It means that art. 102 TFEU prohibits unfair pricing and limits on productive capacity.[17] It is established in case law that dominant position entails a special responsibility, which "does not allow to impair genuine undistorted competition on the common market".[18] In consequence, dominant undertaking is deprived of right to adopt a conduct, which would not be abusive and unobjectionable if taken by non-dominant undertaking.[19] Even though undertakings are allowed to protect their own interests when attacked by competitors they cannot do that in a manner which strengthens their dominant position, since it will be considered as an abuse.[20] The problem with application of art. 102 TFEU has to be judged in light of the specific circumstances of each case where competition might be weakened. This is a subject to exceptional circumstances.

The last issue identified by Craig and De Burca is the leveraging of market. The abuse of dominance on one market will be fought back if such dominance created effects on a different market, even without dominance on the latter one.[21] The example of such is when undertaking gains control over intellectual property, which is essential for other undertakings, and refuses to supply it, preventing everyone from both competing and emerging on a separate market.

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[15] See P. Craig, G. De Burca, *EU Law – text, cases and materials*, Oxford University Press, 2011 5th edition, at p. 1024 – 1025.

[16] R. Joliet, *Monopolization and Abuse of a Dominant Position A Comparative Study of the American and European Approaches to the Control of Economic Power*, published at Law Faculty at the University of Michigan, 1970.

[17] P. Craig, G. De Burca, (n 18) at p. 1025.

[18] C 322/81 *Michelin v. Commission* [1983] ECR 3461 at para. 57; T-203/01 *Michelin v Commission* [2003] ECR II-4071 at para. 55; T-321/*05 AstraZeneca AB and AstraZeneca plc v Commission* ECR II-2805, at para. 355, 358,

[19] T-51/89 *Tetra Pak v Commission* [1990] ECR II-309, at para. 23.

[20] *United Brands* (n 6), at para. 189; *Michelin v Commission* (n 21) at para 54-55; T-155/06 *Tomra Systems ASA and Others v Commission* ECR II-4361, at para. 207.

[21] See P. Craig, G. De Burca, (n 18), at p. 1026.

2.3 IPR and dominant position

In this chapter the dominant position will be confronted with IPR in order to find the answer for a question - if ownership of IPR can justify finding a dominance.

Whether a particular product becomes desired in the market the connection between IPR and market share will depend on ability of competitors to produce substitute goods of same quality or value. The IPR protecting a particular product becomes a “barrier to entry” to other suppliers producing goods of the same value or quality.[22] It happens that patents play a significant role when analysing if an undertaking achieved a dominant position in a relevant market. When a particular technology becomes a standard, then a licence for the patents is necessary for an undertaking to operate in the relevant market. Those patents thus become a barrier to entry.[23]

In most cases the dominance is determined by market power of a particular undertaking. Market shares are undoubtedly a useful preliminary tool in assessing market power, but they are not enough. Market shares alone, cannot be sufficient for a finding of dominance. They are a poor tool for measuring i.e. the constraints posed by potential competition, for adequately ascertaining the conditions of competition in innovative markets.[24] Hence, in the context of IPR the market shares do not demonstrate adequately the market power. In the age of new technologies patents create the market power. On the other hand they cannot be directly interpreted as equivalent of market power, but considered along with “exceptional circumstances”, whereas market share, buyer power and entry or expansion barriers are important, albeit not only factors required when assessing dominant position.[25] There is much uncertainty as to the relationship between market shares and the “other factors”. Such lack of a clear analytical framework is detrimental to the rigour of the analysis conducted to assess dominance. Commission is leading the way to define a consistent analytical framework for the assessment of dominance, equivalent to asserting that a company has market power over its customers, which is part of the legal definition of dominance. At most, the consideration that a company may be an “unavoidable trading partner” will assist the Commission in identifying the relevant parameters – outside market shares – that are relevant for a finding of dominance in the particular industry under the factors that make customers dependent upon

[22] G. Tritton, *Intellectual property in Europe, London Sweet &Maxwell*, 2008, 3rd edition, at p. 992.
[23] Ibid. at p. 993
[24] D. Geradin, (n 7), at p. 10
[25] C 62/86, *AKZO v. Commission*, [1991] ECR I-3359

the allegedly dominant player.[26] The concept of unavoidable trading partner was presented by CJEU in Hoffman La Roche. It stated, that undertaking which has a very large market share and holds it for some time, by means of the volume of production and the scale of the supply, being able to meet rapidly the demand from those who would like to break away from the undertaking which has the largest market share – is by virtue of that share in a position of strength which makes it an unavoidable trading partner and which, already because of this secures for it, at the very least during relatively long periods, that freedom of action which is the special feature of a dominant position[27]. Under the Hoffmann-La Roche and AKZO terminology, it was established that barriers to entry/expansion are present on each and every market, since it would only be in ”exceptional circumstances” that a company enjoying high market shares may not be in a position to exert market power[28].

The CJEU reassured long time ago, that ownership of IPR does not amount to dominance. In case of Deutsche Grammophon it was stated that possession of IPR did not automatically amount to a position of dominance.[29] Manufacturer who held copyrights was not dominant merely by exercising his exclusive rights to distribute the protected article. Article 102 TFEU requires power to impede the maintenance of effective competition over a considerable part of the relevant market – in particular to the existence of any producers making similar products and to their position on the market.[30] Hence, IPR cannot be associated with dominance, as automatic result of exclusive rights, which gives negative right for protection of exploitation of innovative product. As Heimler wrote, it is like with a physical property - the right to exclude others from the free use of intellectual property does not imply market power.[31] However, the actual possibilities of commercial exploitation depend upon the extent of demand and competition in the market for the protected product or process.[32] The other approach is to consider IPR as a parallel feature coinciding with dominance. In case of Telemarketing the CJEU stated that restriction on relevant market created by national law, should not preclude the application of art 102 TFEU.[33] The infringement is when a firm reserves itself a right to prevent carrying out activity by another undertaking on separate market.

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[26] D. Geradin, (n 7), at p. 14
[27] C 85/76 *Hoffmann-La Roche & Co. AG v Commission* [1979] ECR 461 at para. 41
[28] D. Geradin, (n 7), at p. 10.
[29] S. Anderman, (n 11), p. 169.
[30] C 78/70 *Deutsche Grammophon GmbH v Metro-SB-Grossmarkte GmbH & Co KG* [1971] ECR 487 16.
[31] A. Heimler, *Competition Law Enforcement and Intellectual Property Rights* (March 4, 2008). Available at SSRN: http://ssrn.com/abstract=1105326
[32] S. Anderman, (n 11), p. 169.
[33] C II/84 *Telemarketing* [1985] ECR 3261.at. Para 16.

Technological advantage can be also a factor reinforcing the dominant position. In Hilti[34] the competition authorities found, that advantageous research and development is such factor. Based on that, the exclusive patent licence is viewed as a barrier to entry since it prevents access to the technology by potential competitors. Similarly in Tetra Pak I[35], technological superiority achieved by capital investment and in Michelin,[36] where the lead established by investment and research on innovative product was stressed. The situation becomes even more serious in this context if an undertaking is the only one in the market possessing such technology, not allowing competitors to enter relevant market. Such might happen if product market is defined in sufficiently narrow terms to create a single product market. Then IPR could extinguish the competition and confirm dominant position.[37] This happened in Hugin[38] case where spare parts were considered as a separate market. The dominance arose from the fact that only cash registered maintained by Hugin could not find substitutes for suppliers. Therefore, holding IPR prevented from competing in the maintenance market.

Competition law and IPR are confronted by apparent antinomy of the respective goals. Both aim to foster innovation and provide products of highest quality in order to satisfy consumer demand, but on the other hand, the purpose of IPR is to preserve the access to the product in order to enable the creator or owner to enjoy exclusive rights. Turner proposed a view that IPR create monopolies, but competition law seeks to prevent them[39]. However according to Ghidini, IPRs do not per se confer monopolies in economic sense, since they typically allow the entrance of new or substitute products onto the market[40]. Nevertheless, in some circumstances the market power created by IPR turns into a tool which allows to foreclose third party competition and which may result with hidden monopolization. Such as it happened in IMS Health[41] case and RTE[42].

It is argued that in some cases, not simply competition is hampered but also the dynamic process of innovation is at stake. Therefore, antitrust remedies should 'march in' to preserve the ultimate goals of both branches of law.[43] Anderman adds, that if technological supremacy is viewed as helping to establish dominance, it could be argued that EC competition law

[34] C 53/92P *Hilti v Commission* [1994] ECR I-1439
[35] T-51/89 *Tetra Pak v Commission* [1990] ECR II-309
[36] C 322/81 *Michelin v Commission* [1983] ECR 3461
[37] S. Anderman, (n 11), p. 173.
[38] C 22/78 *Hugin Kassaregister AB and Hugin Cash Registers Ltd v Commission* [1979] ECR 1869.
[39] See J. Turner, *Intellectual Property and EU Competition Law*, Oxford University Press, 2nd edn, 2010.
[40] G. Ghidini, E. Arezzo, *On the Intersection of IPRs and Competition Law With Regard to Information Technology Markets*, European Competition Law Annual, 2005, at p. 3.
[41] Case C-418/01 IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG[2004] ECR I-5039
[42] Joined cases C-241 & 242/91P, *RTE (Magill TV Guides)* [1995] ECR I-743
[43] G. Ghidini, (n 40), at p. 2

appears to be levying a penalty for R&D investment and high quality of product.[44] In fact, it was part of reasoning made by French government in Michelin case.[45]

In hi-tech industry, the presence of strong network effects creates a probability of customers change over to a different product minimal if not actually impossible. Intellectual protection over the standardized technology gives the IP owner an advantage to control the degree of competition throughout the level of interoperability it is willing to grant to its competitors.[46] If IPR is combined with de facto monopoly, the mere ownership of IPR is sufficient to justify finding the dominance. This gives a presumption that finding dominance can solely be based on existence of IPR. On the other hand, this relationship might be also explained in the context of the special definition of dominance, which is combined with doctrine of exceptional circumstances.

[44] S. Anderman, (n 11), p. 172.
[45] Ibid.
[46] G. Ghidini (n 40)

3 Evolution of exceptional circumstances doctrine

3.1 Single product market and IPR

The new approach for establishing dominant position merely by IPR came with cases of Volvo v. Veng[47] and CICRA & Maxicar v. Renault.[48] In first case, the Court considered whether refusal to supply goods covered by IPR might constitute abuse. It was said, that refusal itself is not abuse. Court referred to the autonomous concept of "specific subject matter", known before from Deuthsche Grammophon case. However, the dominant undertaking exercising its exclusive rights in a way that it becomes arbitrary refusal, price fixing on unfair level or when it decides not to produce any more spare parts for a particular model which is still in circulation is abusive, provided that such conduct is liable to affect trade between Member States.[49] It was more probable for the refusal to license decision to be treated as legitimate, while in fact it would have been anti-competitive.[50] The model that the Court followed emphasised the economic right of the innovator to receive remuneration.[51] Such a reading effectively suggested that IPR logic prevailed over competition concerns.[52]. The Court laid down the grounds for the 'exceptional circumstances test', which is a new approach for determining that IPR holder is subjected to a compulsory licensing.[53]

CJEU decided, that in a situation, where relevant market is reduced to a product covered by IPR, the preclusion of substitutes ensured finding of dominance itself. This means that actually a mere holding of IPR can lead to dominance, since the possible enforcement of holder's right makes it impossible for the customer to obtain a substitute product.[54] Friden concluded, that "the crucial point is a definition of the relevant market."[55] If relates to the supply or services, protected by IPR, then the right can in practice confer on its holder a

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[47] C 238/87 Volvo v Veng [1988] ECR 6211

[48] C 53/87 Maxicar v Renault [1988] ECR 6039 [1988] ECR 6039

[49] Volvo (n 47) at para. 8-9.

[50] M. Angelov*, The "exceptional circumstances" test: Implications for FRAND commitments from the essential facilities doctrine under Article 102 TFEU*, ECJ Volume 10, Number 1, April 2014, at p. 9.

[51] L Battaglia, P Larouche and M Negrinotti, "*Does Europe have an Innovation Policy? The Case of EU Economic Law"*, Discussion Paper N 8481 (Centre for Economic Policy Research, 2011, at p. 4.

[52] H First, *"Controlling the Intellectual Property Grab: Protect Innovation, Not Innovators"* (2007) 38 Rutgers Law Journal365, 398.

[53] M. Angelov, (n 50) at p. 9.

[54] S. Anderman, (n 11), p. 173.

[55] G. Friden, *Recent Developments in EEC Intellectual Property Law: The distinction between Existence and Exercise Revisited*, 1989 CML rev. 193 at p. 209.

dominance. Lack of substitutes for products or services logically implies dominance, in his opinion.[56] Hence, single product market becomes a platform for dominance or even monopoly because of essential input or infrastructure.

3.2 Exceptional circumstances

The problematic relationship between Intellectual Property regulations and competition rules is exemplified by the CJEU's jurisprudence concerning refusals to license.[57] That particular case law is part of the "refusal to supply" jurisdiction, that is notoriously "difficult and controversial topic in the competition law".[58] CJEU has established the 'exceptional circumstances' test which is explaining how competition law can be used for compulsory licensing of IPR. The 'exceptional circumstances' test is defined generally as a "test to balance the conflicting claims of the statutory monopoly granted under IP law with competition law concerns about the exclusionary effects of the IP monopoly right".[59] The prominent cases are Magill[60], Bronner[61], IMS Health[62] and controversial Microsoft[63] case. As such, those cases represent a specific application of the rule of reason analysis applied in refusal to deal cases

3.2.1 Magill test

In Magill, the CJEU had shown application of exceptional circumstances doctrine stating that claim for IPR strengthens factual monopoly into legal monopoly creating situation where no competition from third party is permitted to exist on the relevant market. In other words, the CJEU found that under exceptional circumstances the use of IPR might be abusive.[64] Hence, the ruling established criteria that can be used to force the undertaking to involuntarily licence out its IPR. Magill was the first case where compulsory licensing was ruled for the sake of

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[56] Ibid.
[57] M. Angelov, (n 50), at p. 8.
[58] R. Whish and D Bailey, *Competition Law*, Oxford University Press, 7th edition, 2012, at p.697; see also M. Motta, *Competition Policy: Theory and Practice*, Cambridge University Press, 2004, at p. 66 - 68; S. Bishop and M. Walker, *The Economics of EC Competition Law*, Sweet&Maxwell, 3rd edition, 2010, at para. 6.119, 6.135.
[59] J. S. Venit, 'Article 82 EC: Exceptional Circumstances: The IP/Antitrust Interface after IMS Health', in C. D. Ehlermann, I. Atanasiu (ed), *European Competition Law Annual: The Interaction between Competition Law and Intellectual Property Law*, Hart Publishing, 2005, at p. 11.
[60] Joined cases C-241 & 242/91P, RTE (Magill TV Guides) [1995] ECR I-743
[61] Case C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & CoKG*[1998] ECR 1-7791
[62] IMS Health (n 41).
[63] Case T-201/04 Microsoft Corp v Commission[2007] ECR II-3601 (General Court)
[64] Joined cases C-241 & 242/91P, RTE (Magill TV Guides) [1995] ECR I-743at para. 49-50.

competition law, basing on so-called sufficiently exceptional situation of Magill.[65] Those exceptional circumstances consisted of three major facts. First, 'there was no actual or potential substitute for a weekly television guide', for which there was a 'specific, constant and regular consumer demand'.[66] Secondly, the appellants were clearly trying to reserve a secondary market by excluding all (potential) competition.[67] The TV broadcaster reserved possibility to introduce the new product solely by himself[68]. Lastly, the appellants could not provide an objective justification for the refusal to supply.[69]

Angelov called those exceptional circumstances a new balance, which at first sight looked as tipping the scales in favour of static efficiency considerations.[70] The question that arises in Magill is why CJEU changed again its attitude known from Volvo case, relaxing its approach and interfering in refusal to licence. As Monti argues, there is a presumption that a refusal to license IP rights benefits the economy.[71] As a result, forcing IP holders to license out their inventions could potentially undermine the economic rationale for IP rights and ultimately harm consumer welfare.[72] Reasoning in Magill case was based on that the new third party who was offering a new, distinct product from the initial one protected by an IP right, then the risk of a drop in future investments in innovation would be reduced, since the position of the initial IP holder will not be challenged. Since the position of IPR holder is not be challenged by new product in secondary market, the IPR owner can be forced to license out, for the sake of entering new product on the market. Such an approach present in Magill case evolved in the further cases, concerning the exceptional circumstances.

3.2.2 IMS Health test

Volvo and Magill cases created a framework for the application of principles that CJEU used in IP related cases. The concept of exceptional circumstances forcing the dominant undertaking to licence its IPR is present in German case IMS Health[73], which contains of four separate judgements – three interim orders (where two were issued by GC and one by CJEU)

65 Ibid.
66 Ibid. At para. 52
67 Ibid. At para. 56.
68 Joined cases C-241 & 242/91P, RTE (Magill TV Guides) [1995] ECR I-743 at para. 54-55.
69 Ibid. At para 55.
70 M. Angelov (n 50), at p. 10.
71 G. Monti, *EC Competition Law*, Cambridge University Press, 2007, at p. 228.
72 Ibid.
73 C-418/01 *IMS Health* [2004] ECR I-5069

and one judgement of CJEU. Out of those four, the most important are the final order of GC.[74] The Commission had a view that dominant undertaking can leverage its market power in at least one component of a product to dominate the whole market.[75]

IMS Health had copyrights on regional pharmaceutical sales reports which had become de facto industry standard, since before it was sent to pharmacies and doctors free of charge. In practise, only this system was accepted by the industry.[76] The German court granted IMS Health interim injunctions against its competitors who tried to use their format called '1860 brick structure'. The issue of refusal to license in the light of art. 102 TFEU was a subject to preliminary ruling. CJEU stated, that exclusive use of IPR is an abuse if conditions established in Magill and Bronner are met. The CJEU referred in its judgement also to the Volvo case and reiterating Bronner case summarized Magill. In order to apply the reasoning to IMS Health the circumstances of abusive refusal must fulfil a four-stage test:

1. The product or service protected by copyright is indispensable for carrying on a particular business,
2. The refusal prevents the emergence of a new product for which there is potential consumer demand,
3. The refusal is not justified by objective considerations, and
4. The refusal is such as to reserve to the owner of the IPR the relevant market in Member State concerned by eliminating competition.[77]

The CJEU decided that those conditions must be cumulative.[78] Some authors write that the test contains of three conditions,[79] however for the purpose of more detailed approach this four stage presented by Killick will be used.[80] The emergence of a new product was already established in Magill case[81], so in IMS case, the CJEU elaborated on the issue, stating that undertaking requesting for licence must not intend to limit itself essentially to duplicate goods or services already offered on the secondary market by the owner of IPR. Instead, the product

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[74] T-184/01 R

[75] European Commission Decision No. 2001/165/EC, COMP D3/38.044, OJ L 59, 28.02.2002, pp. 18-49.

[76] C-418/01 *IMS Health* [2004] ECR I-5069 at para. 6.

[77] C-418/01 *IMS Health* [2004] ECR I-5069 at para. 52

[78] C-418/01 *IMS Health* [2004] ECR I-5069, at para. 38.

[79] See J. Drexl, *Research Handbook on Intellectual Property and Competition Law,* Edward Elgar Publishing Limited, 2008;

[80] See J. Killick White & Case LLP, *IMS and Microsoft Judged in Cold Light of IMS*, 2004, p. 3, available at: http://asiaitalk.whitecase.com/files/Publication/52195d09-658c-45e7-a0d9-6b9d480e2fbc/Presentation/PublicationAttachment/d49ad7c5-3a2a-4324-aa65-74df0ecc39fc/00688ny_killick_article_byline_02.pdf

[81] Joined cases C-241 & 242/91P, RTE (Magill TV Guides) [1995] ECR I-743 at para. 52

must be new in the meaning that it is not offered by the owner of the IPR and for which there is certain consumer demand.[82] Hence, the product does not need to be innovative but simply different from the one offered by IPR holder. The competitor of IMS argued, that the product which they intend to introduce to the market is of a different quality and nature comparing to IMS. Basically because of more advanced features.

As to indispensability, it has to be examined whether alternative solutions exist, even though they might be more expensive than or technologically not as advanced as the concerned product or service. At least, it has to be proven, that the use of these alternative solutions would lead to an unprofitable production of goods or services whereas the usage of the existing good or service would allow a viable supply.[83] The test is not fulfilled, if there are "alternative solutions, even if they are less advantageous". Nor it would be fulfilled, unless there are obstacles making it "impossible or at least unreasonably difficult" for others to create alternatives.[84] The Court also clarifies that when assessing indispensability: it must be established, at the very least, that the creation of those products or services is not economically viable for production on a scale comparable to that of the undertaking that controls the existing product or service.[85]

In order to find if there is exclusion of competitors, the CJEU referring to Bronner case[86] invited national court to assess whether the upstream and downstream markets are related in such manner, that upstream product is indispensable for the supply of the downstream product.[87] The second market does not have to be actual, it might be potential or hypothetical. As Ghidini concluded, it seems that the finding of an abuse is strictly dependent on the fact that the incumbent, by its behaviour, prevents access to the market to a new product/service, different from the one that it produces, but whose development requires the use of the protected standard. Thus, it seems, the unlawful restrictions on competition are limited to those behaviours that impede, by means of the refusal to license, the development of derivative (related) products/markets.[88] A refusal constitutes an abuse if it prevents the development of a secondary market. If this is the case, the conduct of the dominant

[82] C-418/01 *IMS Health* [2004] ECR I-5069, at para. 49.
[83] Ibid. at para 28.
[84] See J. Killick (n 79) at p. 3.
[85] C-418/01 *IMS Health* [2004] ECR I-5069, at para. 28.
[86] C-7/97 *Bronner* [1998] ECR I-7791 at para. 34.
[87] Ibid. at para. 46-47.
[88] G. Ghidini, '*The Bride and the Groom. On the intersection between Intellectual Property and Antitrust law'*, in G. Caggiano, G. Muscolo (ed), *Competition Law and Intellectual Property, International Competition Law series*, Vol. 50, Kluwer Law, 2012, at p. 36

undertaking will have effects contrary to the purpose of the IPR to further innovations, and will represent a restriction of dynamic competition.[89]

The demand for an upstream product that was not marketed independently by IMS Health, existed only because of competitor's desire to use the copyrighted 'brick structure' to produce and market their regional data service. This situation differs from Volvo, where Volvo supplied body panels to its authorized dealers, and Magill where the three broadcast networks did publish their own individual TV guides.[90] According to Venit, in IMS case the CJEU eliminated the leveraging requirement, requiring only two different products where one of which is an indispensable input for the other, as opposed to two different markets.[91] The significance of this approach and its arguable departure from Magill derives from the fact that the CJEU appears to have applied a 'leveraging analysis' to a case in which there was no independent supply and demand for the upstream copyrighted 'brick structure' The replacement of a two market test makes the infringer's dependence on the input covered by the IPR the key factor in a manner reminiscent of Magill in which dominance has been assumed to exist because of customer dependence rather than market position. Left unchecked, such approach substantially increases scope for the compulsory licensing, since every infringer needs to prove that he requires access to the IPR in order to compete.[92]

The criterion of objective justification was not elaborated in this judgment. Its status depends on the reward and incentive to innovation that underlies the granting a monopoly under IP law. The EU Courts have not to date elaborated on the meaning of this condition in the IP. To some extent, the CJEU would accept that the refusal of the IPR owner to grant licenses can be objectively justified by the preservation of the incentive to innovate through the securing of its monopoly reward, this condition would also be consistent with IP law.[93]

IMS Health case is example of abusive use of IPR over the standard it created. Although not officially, but actually after successful implementation of 'brick structure' in German pharmaceutical industry, they have created de facto standard for sales reports. Therefore, IMS tried to exclude competitors from using the standard by exercising IPR. The exceptional circumstances pointed out in IMS case are that firstly the dominant company has made industry customers depended on its 'brick structure' and subsequently claimed it IPR refusing competitors to use the system so no products could be created basing on it. As Killick

[89] J. Drexl, *Research Handbook on Intellectual Property and Competition Law,* Edward Elgar Publishing Limited, 2008, at p. 510.

[90] J. S. Venit, (n 58) at p. 17.

[91] Ibid.

[92] Ibid.

[93] Ibid. at p. 12.

observes the alternative theory would have been that the appropriation of open standards constituted an exceptional circumstance under Magill.[94] However, the Commission never expanded on this point and it did not base the compulsory licence on this line of reasoning. Standardisation is mentioned as an afterthought when the Commission justifies why the decision would not have an adverse effect on intellectual property protection in general.[95] Further on, Killick added that IMS could be the case, where the standard was initially open without protective IPRs, where subsequently those rights were invoked by one of the companies that developed the standard in circumstances deemed to be abusive. Therefore, it is important that Article 102TEFU could be applicable if an individual company seeks to rely on an intellectual property right to close the standard and exclude all competitors. [96] IMS Health case could have become a milestone for interpreting and ruling on cases where dominant undertakings are trying to exclude competitors by exercising IPR. In exceptional circumstances, after application of the test, such a conduct would be classified accurately as abusive or not.

3.2.3 Microsoft and incentive balance test

Although there is some inconsistency of CJEU's judgments in both Magill and IMS Health cases, the Commission continued to take an expansive view of those situations in which the refusal to license may infringe article 102 TFEU.[97]Most notably, in its recent Microsoft decision[98], the Commission has taken the position that Magill identified three distinct types of exceptional circumstances thereby suggesting that the Magill test consists of three distinct abuses rather than a single cumulative set of conditions as established by the CJEU in the IMS Health judgment. The Commission, which appears to give an equal weight to the cases not involving IPRs, has further argued in Microsoft that the extraordinary circumstances identified in Magill were not exhaustive and that there must be other situations, where particular facts could also render a refusal to license an abusive behaviour.[99] In this case, the Commission claimed, that refusal to supply information on interoperability is abusive.

The Commission had found that Microsoft infringed art. 102 TFEU in the market for client PC operating systems because it refused to license interface information of its working group server operating systems to its competitor Sun Microsystems. Without this interface

[94] See J. Killick (n 79), p. 6
[95] Ibid.
[96] Ibid.
[97] J. S. Venit, (n 58), at p.18
[98] COMP/C-3/37.792 Commission v. Microsoft, 24.03.2004
[99] J. S. Venit, (n 58), at p. 20.

information, the operating systems of the competitors could not communicate with the Microsoft systems. The abusive conduct was to impede competition in the relevant market and to create barriers to entry for new competitors. The main argument of Commission was that the refusal to disclose the interface information causes a risk of eliminating competition, which in consequence has negative effects on technical development and consumer welfare.[100] The point of the incentive balance test was to outweigh the effect of refusal to license with effect of compulsory licensing on innovative products. Commission decided that negative impact of refusal should be diminished by positive effect on innovative climate in relevant market.[101]

When comparing to Magill, it must be said that Microsoft's competitors were in a different situation, when Sun, one of main competitors, was sending a letter in 1998 with its objections and requests.[102] They had a 60 percent share of the work group server operating system market at that time and a 27 percent share at the time of the decision. Vendors that relied on the Linux open source operating system had entered the market after Sun's letter and had a 5-15 percent share of the work group server operating system market in 2003.[103] Microsoft's dominant position on the client PC operating systems market exhibits, as the Commission stated, 'extraordinary features', since notably, its market shares on that market are more than 90% and since Windows represents the 'quasi-standard 'for those operating systems.[104] It is an example of how (quasi) standard was acquired involuntarily due the market share, rather than standard setting process. Since Microsoft's product was recognized and popular, it became de facto standard. On the appeal, the Court had to decide whether refusal to supply with IP would eliminate competition in the work group server market. Therefore, criteria established in Magill and IMS Health must have been fulfilled cumulatively.

The concept of aforementioned new product was analysed in different manner. Since Microsoft was pleading that competitors are aiming to copy their product (instead of introducing a new one), the Court decided that not only a new product qualifies for abuse in the context of refusal to supply, but limitation of technical development must also be taken into consideration. At the same time rejecting Microsoft argument and stating, that refusal leads to limit production and development.[105] As Magill and IMS highlighted the new product as consumer demand in Microsoft case the GC interpreted consumer interest as a foreground

[100] COMP/C-3/37.792 Commission v. Microsoft, 24.03.2004, at para. 692-708.
[101] Ibid. at para. 783.
[102] *Microsoft Corp v Commission* (n 99) at para. 3.
[103] Ibid. at para. 33.
[104] Ibid. at para 387.
[105] Ibid. at para. 647-648.

of technical development which art. 102 TFEU is a guardian. Lacking of interoperability, consumers relied only on Windows software and thus, competitors could not offer their own innovative products. On the margin, while reasoning the consumer welfare harm the GC referred directly to the market shares, stating that Microsoft impaired the effective competitive structure on the work group server operating systems by acquiring a significant market share on that market.[106] Therefore, for this criterion there was replacement of the new product test with limitation of technical development. The Court extended its view on new product by inclusion of circumstances, which are similar to prevention of new product.[107]

As to elimination of competition, it was pointed out that potential elimination of the competition is sufficient to declare abuse of art. 102 TFEU. The existence of competitors in some niches is irrelevant and seems not to be sufficient to maintain effective competition. The Court stated that the relevant market is characterized by significant network effects. Hence, the Commission's intervention was right and protected the competition before it could be eliminated.[108]

According to Ahlborn and Evans the Magill/IMS test is a weak, but lawful rule for refusal to supply by dominant firms. The Microsoft test reduces the presumption that a dominant firm can freely choose its own trading partners.[109] GC decided that refusal must be assessed on elastic set of exceptional circumstances, regardless of IMS Health conditions.[110] What is the most controversial part of the Microsoft case is that the indispensability condition, which was a base for previous case law in compulsory licensing cases was replaced with the elimination test based on prediction of competition authority about future market which adopts the elastic 'effective competition' concept, which relates clearly to economic approach.[111] Court decided that it is necessary that the competitor's operating systems provide a comparable interoperability to Windows architecture like its own products, since Microsoft created a de facto standard.[112] The concept of interoperability proposed by EC included was claimed by Microsoft to be too wide and went above that only non-Windows operated machines to interact with software and architecture.[113] The Court decided that in this case competitors should have access to all protocols necessary to design software allowing seamless integration

[106] Ibid at para. 664.
[107] Ibid. at para. 655-665.
[108] Ibid. at para. 561.
[109] Ch. Ahlborn, D. S. Evans, *The Microsoft Judgment and its Implications for Competition Policy towards Dominant Firms in Europe*, Antitrust Law Journal, Vol. 75, No. 3, American Bar Association, 2009, at p. 11.
[110] Microsoft judgment, at para. 316, 319, 321-332, and 336.
[111] Ibid. at para. 369-436.
[112] Ibid. at para. 374.
[113] *Microsoft v. Commission*, (n 99), at para. 324

of PCs, servers and networks and eventually enabling machines operated on other operating systems to work equally with dominant Windows.[114]

The notion of exceptional circumstances known from IMS Health was read flexible and the criteria of indispensability was fulfilled, since a significant competitive importance for undertaking active in the market for supply of workgroup server was demonstrated.[115]

The conditions established in Magill and IMS were loosened to such extent, that the concept of new products was abandoned and the notion of risk of eliminating competition was introduced. Furthermore, this case might be seen as a new opportunity for competitors to acquire rival's IPR through distinguished art. 102 TFEU, since competition authorities lowered the requirements for compulsory licensing. Alhborn and Evans criticized, that this ruling takes a step back from the CJEU approach. The CJEU established the new product test for refusal to license intellectual property on top of the already stringent indispensability and elimination of competition tests for physical property. This test requires evidence that the conduct would not just eliminate competition, and whatever benefits that may come from that, but also eliminate a new product that consumers would not be able to get otherwise. The GC replaced this with its limits on technical development test. Such conclusion seems to be disturbing, because it can be de facto applied for any refusal to license case nowadays.[116]

The condition of objective justification was also interpreted in the manner which is questionable. The Commission went against objective justification of protecting the incentive to innovation and pointed out that negative impact of order to supply on incentive to invention must be outweighed by positive impact on the level of innovation in whole industry and Microsoft justification cannot offset the exceptional circumstances.[117] Since this approach was upheld by GC, it opens the gate for future litigations since IPR holders cannot rely anymore on objective justification on refusal to supply or license solely on the ground of protection of incentive to innovate.[118] Moreover, there was a shift in burden of proof. Hence, the Court relied on the fact that applicant did not provide any evidence that its drive to invest and innovate had been adversely affected by the disclosure of protocols. In addition it stated that competitors would have been unlikely to gain any economic advantage from merely

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[114] Ibid. at para. 229-230. See also Larouche, *The European Microsoft case at the Crossroads of Competition Policy and Innovation: Comment to Ahlborn and Evans*, Antitrust L J 75(3), 2008

[115] Ibid at para. 381.

[116] Ch. Ahlborn, D. S. Evans, *The Microsoft Judgment and its Implications for Competition Policy towards Dominant Firms in Europe*, Antitrust Law Journal, Vol. 75, No. 3, American Bar Association, 2009, at p. 19.

[117] Microsoft decision, at para. 783.

[118] *Microsoft v Commision* (n 99) at para. 708.

duplicating the software.[119] This seems to be in contradiction with what was established in IMS where the undertaking should not itself essentially duplicate the product after obtaining IPR. There is a lack of genuine product and competition law seems to move forward protecting the competitors rather than consumers interest. Such lenient interpretation of the IMS Health test may not be able to strike a fair balance between the concurring needs of genuine competition, especially in markets on which a leader had already emerged, and the demands of maintaining the incentive to invest and innovate.[120]

This judgment therefore emphasized a need to allow competitors to pursue a 'follow on' innovation on neighboring market of workgroup server OS, to prevent Microsoft from consolidating its leadership on this secondary market and acting as a 'gatekeeper' of any further innovation.[121]

The Microsoft case is an exclamation point on jurisprudence. It has increased the Commission's bargaining power and will give firms an increased incentive to agree to commitments with the EC, rather than pursuing an appeal.[122]

It is an example of extending EC's competencies in protecting competition. Vesterdorf said that this judgment undermines the concept of indispensability and elimination of competition established in former case law.[123] The Commission weakened patent law and the rights of patent holders to act freely with IPR. In the opinion of some authors wide margin of appreciation was given, perhaps even beyond the ruling of the EC.[124]

As Andreangeli concluded, Microsoft has decisive impact on shaping the currents policies adopted by EC in assessment of refusal to license under art. 102 TFEU marking emergence of more interventionist attitude.[125] However, such proactive stance may not be entirely justified to deal with the issues arising from the functioning of knowledge-based markets, such as IT industry market segments and could imperil many of the incentives that are critical for investment and innovation in these areas.

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[119] Ibid. at para. 691-692

[120] Scotchmer , '*Protecting Early Innovators: Should Second Generation Products Be Patentable?'*, RAND Journal of Economics 2 7 (2), 1996 , at p. 330.

[121] A. Andreangeli, *European Union: Spotlight on the IT industry: The Microsoft case – protecting rivalry on innovative markets… but at what price for their future?*, in B. J. Rodger (ed), Landmark cases in competition law, Around the World in Fourteen Stories, International Competition Law Series, vol. 53, Kluwer Law International, 2013, at p. 13.

[122] *Microsoft v Commission* (n 99) at p. 28.

[123] D. Lawsky, "*EU Microsoft judge fears decision may hurt investment*," Reuters, March 12, 2008

[124] Ibid.

[125] A. Andreangeli, (n 123) p. 15.

4 Standard and market power

4.1 Standardization

IMS Health and Microsoft cases concerned involuntarily becoming standards, due the market shares and recognition on the relevant market. However, they should not be deemed as a factual standard. As for definition, standard is a set of technical specifications that either provide or intends to provide a common design for a product or a process. They may be a market development (single firm de facto standards and cooperative standards) or be promoted by public policy.[126] The difference between a de facto standard and 'true' standard is that the latter is a form of voluntarily commitment to share technology in exchange of technology implementation widely in the particular industry as the only valid one.

The objective of the standard is to ensure the interoperability/compatibility of different technologies or products.[127] Those technical specifications might be protected by patent law. As presented in the paper of Rudi Bekkers there is fascinating and complex relation between standard and IPRs. Whereas standards aim at ensure equal access for all stakeholders, the IPRs grant temporary, exclusionary rights.[128] The right includes two main features: the right to prevent other parties from applying or using the subject matter of the patent and the right to license the intellectual property for use.[129]

4.2 How competition law works in standardization

As the case law of CJEU shows, IPRs should not presumably create a market power by themselves. In brief conclusion, the SEP should not either. Nonetheless, there is a concern, that patents, incorporated into a standard, might lead to a significant market power and be abused as soon as commercialized.[130] Therefore, in order to assess whether SEP is becoming a

[126] G. Bruzzone, M. Boccaccio, 'Standards under EU Competition Law: The Open Issues, Competition Law and Intellectual Property', in G. Caggiano (ed.), G. Muscolo,
M. Tavassi, *Competition Law and Intellectual Property,* Kluwer Law International, 2012, at p. 84.
[127] Ibid. at p. 87.
[128] R. Bekkers, R. Bongard, A. Nuvolari, *ESSENTIAL PATENTS IN INDUSTRY STANDARDS: THE CASE OF UMTS* (paper presented at Summer Conference 2009, Copenhagen, June 2009), at p. 3.
[129] See *WIPO Intellectual Property Handbook: Policy, Law and Use - Fields of Intellectual Property Protection*, at p. 36.
[130] See M. Lemley, "*Ten Things to Do About Patent Holdup of Standards (and One Not to)",* 2006; See also J. Farrell, J. Hayes, C. Shapiro and T.Sullivan, *"Standard Setting, Patents, and Hold-Up*," 74 Antitrust L.J. 603, 2007.

tool for abuse of market power the factors such as: potential competition constraints, substitutes of protected product, technical development and consumer welfare must be taken into consideration before applying art. 102 TFEU. In network industries it may be difficult for competitors to displace the prevailing standard, in particular in the presence of significant user switching costs. In principle, in such industries an undertaking holding a proprietary essential technology may enjoy significant and lasting market power, akin to dominance.[131]

According to Jones, standard setting may facilitate competition among producers by reducing wasteful spending on technology and lowering costs for consumers. Undertakings involved in standard setting benefit both through the production of goods that implement the standard and from licensing patented technology which contributes, and is essential, to the SEP to other implementers.[132]

By pushing essential IP holders to commit to license on FRAND terms before the standard is adopted, the members of the SSO are trying to deter essential IP holders from exercising any otherwise legally permissible exclusionary power after adoption.[133] SSO do not provide definition of FRAND. Instead particular licensing terms are usually left to confidential bilateral negotiations between the members. Although competition authorities step in when dispute arises, like in the Samsung or Rambus case[134] Companies holding potential SEP are asked to disclose their IPRs before standard is finalized. Once those are disclosed, SSO asks for commitment to license related patents on FRAND terms to any willing party.[135]

The trouble comes when standard setting process creates barrier to entry and enables one undertaking holding SEP to gain market power by controlling its standard and exclude competitors,[136] i.e. by setting artificially high royalty fees and threating with patent injunctions. Marinello emphasized the incomplete character of FRAND commitments, which allows abusing a privilege position by conditionally committing to share the technology depending on the standard to be adopted and implemented, allowing patent holders to get higher royalties.[137] As Jones accurately pointed out, there might be two dangerous situations

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[131] G. Bruzzone, (n 124), at p. 90

[132] A. Jones, *Standard-Essential Patents: FRAND Commitments, Injunctions And The Smartphone Wars*, European Competition Journal, April 2014, at p. 2.

[133] See A. Layne-Farrar, A. Jorge Padilla and R. Schmalensee, *Pricing Patents for Licensing in Standard Setting Organizations.: Making Sense of FRAND Commitments,* Antitrust Law Journal, 74, 2007.

[134] See FTC's Rambus and Negotiated Data investigations. Rambus, Inc., No. 9302, at 4-5, 2006, available at http://www.ftc.gov/os/adjpro/d9302/060802commissionopinion.pdf.

[135] A. Layne-Farrar, A. Jorge Padilla, *Assessing the link between Standard Setting and Market Power,* 2010, available at: http://ssrn.com/abstract=1567026, at p. 6

[136] Ibid. at p. 3.

[137] M. Marinello, *Fair, Reasonable And Non-Discriminatory (Frand) Terms: A Challenge For Competition Authorities,* Journal of Competition Law & Economics, 7(3), 2011, at p. 525.

implicated by holding SEP. Undertaking enjoys uses market power gained through standard to hold up implementers which are at the same time competitors in downstream market by:

1. Refusal to license, or
2. offers with unreasonable royalties.

4.2.1Assesment of market power

The adoption and implementation of the standard may result in creation of de facto monopoly and affect the effective competition between rival technologies for inclusion in that specific iteration of the standard.[138] As it was stated in case of Qualcomm, the standard-setting process may confer substantial market power on a large number of SEP holders in related technology markets. As soon as standard has been set, it becomes impossible for implementers to switch from SEPs to competing technologies.[139] On the other hand, the market power weakens as soon as alternative products show on the market. The element of substitutability is a crucial in assessing the market power. Even in the absence of economically significant substitutes on the upstream technology market, if customers on the downstream market can easily switch to substitute products that do not incorporate the technology, competitive pressures on the product market may be sufficient to prevent the licensor of the proprietary technology from holding significant market power. [140]

One way of analysing relation between standard and market power is patent value. In particular, the American literature has established that the citations of a patent received by later patents is highly correlated with the patent's commercial value,[141] which in turn could influence the market power of patent holder. If subsequently cited by several later patents, it is taken as an influential or important, either commercially or in terms of research potential. Thus, future citations for a patent provide a tangible, objective and readily available indication of a patent's value or importance.[142] In other words, the importance of patent is determinant for assessment of such power, since it entails possibility to rise prices and limit the output leading to foreclosure of competitors from relevant market.[143]

[138] Ibid. at p. 89
[139] Broadcom Corp v Qualcomm Inc, 501 F 3d 297 3rd Cir, 2007, at para. 314.
[140] G. Bruzzone, M. Boccaccio, 'Standards under EU Competition Law: The Open Issues, Competition Law and Intellectual Property', in G. Caggiano (ed.), G. Muscolo,
M. Tavassi, *Competition Law and Intellectual Property*, Kluwer Law International, 2012, at p. 90
[141] D. Johnson and D. Popp, *Forced Out of the Closet: The Impact of the American Inventors Protection Act on the Timing of Patent Disclosure*, Rand Journal ofEconomics34(1), 2003, at p. 96-112.
[142] A. Layne-Farrar, A. Jorge Padilla(n 133) at p. 3
[143] Ibid.

Undertakings compete over technology to the extent, where the standard is established and one technology is chosen. From that moment competition ceases. As the components of standard are complementary, they all become ‘essential’ for implementing the standard. In such situation even minor undertakings can ‘hold up’ licenses for excessive royalties by threating not to license.[144] Once technology has been incorporated into a standard, it is frequently not possible for implementers to work around the patents, consequently SEPs confer enormous hold-up power.[145]

It has already been seen that numerous patented technologies may be “essential” to a standard. Owners of such are likely to acquire market power after the standard is adopted, if it subsequently becomes impossible for implementers to invent or design around the patent. In such, the standard becomes a barrier to entry, as it is commercially indispensable to comply with it.[146] This however stays in contradiction to what was established by CJEU and codified in the Commission’s Horizontal Cooperation Guidelines, according to which, “there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power. The question of market power can only be assessed on a case by case basis.”[147]

[144] Ibid.

[145] P Chappatte, *FRAND Commitments—the Case for Antitrust Intervention*, 2009, European Competition Journal, at p.319, 325.

[146] See A. Jones, (n 130), at p. 17.

[147] Commission’s guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements Text with EEA relevance, OJ C11/1, 2011, at para. 269.

5 Analysis of Samsung case

5.1 UMTS as essential input

UMTS is a third generation standard for mobile telecommunications, therefore called 3G. This standard supports multimedia phones that can accommodate web-based applications and offer audio and video facilities.[148] It defines how mobile phone chipsets work within mobile phone handsets, how those handsets communicate with base station towers, how the calls are then routed through cellular and/or landline networks, and how the call is finally received. Thus, semiconductor designers and fabricators, handset manufacturers, mobile network operators, and firms focused on R&D related to mobile communications are among the many members of ETSI working on the 3G standard.[149] In fact one smartphone device may contain more than 250,000 SEPs.[150] In the mobile telephony sector, manufacturers of 3G or 4G mobile devices are generally locked in and unable to design around standards as they must be able to certify that their product is standard compliant in order to operate on UMTS and LTE networks. In these markets, therefore, SEP holders may frequently be found dominant. It is also important to consider whether the exercise of market power is constrained by buyer power. According to Chappatte, whenever standards become global, the costs arising from switching the technology are generally prohibitive.[151] It is not disputed in the doctrine that inclusion of technology in standard, enhanced by network effect and interoperability locks implementers, so it further consequence SEP owner might be able to demand excessive high royalties.[152] Holding a particular patent which is essential for the standard becomes automatically the ‘essential input’, necessary to carry on undertaking in the market of mobile phones which use this technology.

[148] R. Bekkers, R. Bongard, A. Nuvolari, *ESSENTIAL PATENTS IN INDUSTRY STANDARDS: THE CASE OF UMTS* (paper presented at Summer Conference 2009, Copenhagen, June 2009), at p. 6.
[149] A. Layne-Farrar (n 133) at p. 5
[150] See J. Kattan, *FRAND Wars and Section 2*, 27(3) Antitrust, 2013at p. 30.
[151] P. Chappatte, *FRAND Commitments – the Case for Antitrust Intervention*, European Competition Journal, 2009, at p. 319 and 325.
[152] J. Farrell, J. Hayes, C. Shapiro, T. Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 Antitrust Law Journal, 2007, at p. 603.

5.2 Why Samsung was under the scope of Commission?

The investigation opened by EC against Samsung[153] shows, that IPR turned into a leverage to control the market by patent injunctions in Member States is abuse of art. 102 TFEU. Such claims seem to be in contradiction with competition on the merits. The European Commission has opened a formal investigation to assess whether Samsung Electronics has abusively, and in contravention of a commitment it gave to the ETSI, used certain of its standard essential patent rights to distort competition in European mobile device markets, in breach of EU antitrust rules.[154] It must be clarified however, if such allegations should be justified and practised in EU or if it is only a method used by major companies to inflict opponents on the relevant market in high technology industries, where IPRs are the core of the competition.

According to Commission's Guidelines, owners of patents are required to commit to license these patents on FRAND terms.[155] This commitment serves to ensure effective access to the standardised technology. When the third generation 3G mobile and wireless telecommunications system standards were adopted in Europe, many patent holders, including Samsung, gave such commitments to ETSI.[156] The Guidelines promote a standard-setting system that is open and transparent and thereby increases the transparency of licensing costs for IPR used in standards.[157]

5.2.1 Application of 'exceptional circumstances test'

There is no established case law by CJEU on the issue of seeking for injunction by SEP holder as an abuse of dominant position.[158] However, the doctrine of exceptional circumstances, where exercise of IPR was concluded abusive, provides an idea to reconsider, if Samsung should have been under Commission scrutiny.[159] Refusal to licence and seeking injunction share the same concern, namely distorting the downstream market.[160] Firstly, it

[153] COMP/C-3/39.939 Samsung - Enforcement of UMTS standard essential patents.
[154] Antitrust: Commission opens proceedings against Samsung (press release), Brussels, 31 January 2012, available at http://europa.eu/rapid/press-release_IP-12-89_en.htm.
[155] Communication from the Commission - Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ C11, 14.1.2011.
[156] Ibid.
[157] Competition: Commission adopts revised competition rules on horizontal co-operation agreements (press release), Brussels, 14 December 2010, available at http://europa.eu/rapid/press-release_IP-10-1702_en.htm?locale=en
[158] See A. Jones, (n 130), at p. 17.
[159] See also P. Camesasca, G. Langus, D. Neven, P. Treacy, *Injunctions For Standard-Essential Patents: Justice Is Not Blind,* Journal of Competition Law & Economics, 9(2), Oxford University Press, 2013.
[160] See A. Jones, (n 130), at p. 19.

must be borne in mind that neither holding of IPR nor exercising constitutes an abuse of dominant position per se. The situation changes upon exceptional circumstances. Abuse arises from refusing to licence if: separate upstream and downstream markets are identified; the IPRs involved are indispensable to compete; the refusal is likely to eliminate all effective competition on the secondary market (even if not imminent); the party seeking the license wishes to offer a new product, not duplicating that offered by the dominant firm, for which there is a consumer demand, or that the refusal to license will prevent the development of the secondary market to the detriment of consumers. Everything through damaging innovation or the improvement or variety of products downstream without objective justification for the refusal.[161] In such circumstances, the notion of the public interest and effective competition will prevail on the balance with exclusivity of rights by compulsory licensing to its competitors – as it was reasoned in Microsoft case.[162] In EU competition policy, the seeking of an injunction may thus be according to EC envisioned as an implied 'refusal to supply' or to be more accurate, as a 'constructive' refusal to supply, since refusals to license IPRs are categorized as 'refusals to supply.[163] In the sense that there is no 'actual' refusal, but refusal to grant a licence on FRAND terms.[164]

Since the infringement of art. 102 TFEU is found on the basis of exercising the IPRs which are necessary for competitors to carry on producing and selling mobile phones it should be analysed, whether the situation does match the conditions established in the case law on compulsory licensing.

As to indispensability is must be said that Samsung holds SEP, without which it is not possible for a device to work with another ones using the UMTS network. Undoubtedly, this condition is already met. It affects compatibility or interoperability that is used as synonyms for that purpose. In aforementioned case law it was described, that the competitors tried to obtain IPR in order to enter the market with a new product for which there was consumer demand. However, in mobile technology market there seem not to be any alternatives for manufacturers after implementation of the particular standard, hence, competitors are simply locked into the standard.[165] Moreover, the situation is quite exceptional, since the great amount of patents which relate to same product are spread among different manufacturers and IPR holders such as for example Samsung, Nokia, Motorola, but also Ericsson or Qualcomm.

[161] Ibid. At p. 20.
[162] T-201/04 Microsoft, at para. 691.
[163] *Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings*, OJ C45, 2009 at para. 78.
[164] Ibid.
[165] Ibid. at p. 333.

It is a common practice though that those companies share their patents between themselves in order to obtain full portfolio.[166] As standard lead to dominance, there is a risk that it might turn into a barrier to entry since mobile devices, which operate on UMTS network.[167]

Samsung is both owner of IPR and a manufacturer of a product which implements the standardized patent. Unquestionably, the company is active on the downstream market, selling mobiles and having a significant market share, enabling it to act independent to certain extent from its competitors. If he was merely a SEP holder without any activity in the secondary market, there would be no abuse even if refusing to share its patent.[168]

Taking into consideration the problematic issue of eliminating the competitors, even potentially it must be said that injunction is action launched against the infringer, who is a potential licensee in case of patent dispute. Jones concluded, that this action relates to negotiation and bargaining process as to determine FRAND terms.[169] Refusal to licence becomes abusive, though there is a willing party. Since the offer made by Samsung was denied by Apple and negotiations were dropped, it is not so easy to assess whether Apple is willing or not to pay royalties to the patent owner for using their technology. It is mistakenly considered in literature that FRAND commitment waive the right of SEP owner of protecting the IPRs.[170] There is no such statement in the text of commitment and, as some authors highlighted, it should not be considered as a "waiver of seeking injunctive relief.[171] Such was confirmed in the Dutch court. The District Court denied Samsung's claims on the basis that Samsung made only one offer of 2.4 per cent of royalty so Apple refusing it, did not act as unwilling licensee. It was highlighted that patent owner who had committed to grant FRAND licence is entitled to exercise his rights in certain circumstances. However in this case it looked more as a bad faith. The same court decided that granting the injunctions would put Apple under the pressure to agree to non-FRAND conditions simply, because it rejected an option for 2.4 per cent of royalty and Samsung did not made any other offer than that.[172] Therefore, seemingly the Dutch Court has shown its own view on the following condition in this analysis, which is the objective justification. It appears that it is not enough justifiable if

[166] See A. Jones, (n 130), at p. 9

[167] COMP/M.6381, *Google/Motorola Mobility*, 13 February 2012, at para.54.

[168] N. Petit, *Injunctions For FRAND-Pledged Seps: The Quest For An Appropriate Test Of Abuse Under Article 102 TFEU*, 2013, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2371192, at p. 7.

[169] See A. Jones, (n 130), at p. 21

[170] Ibid. at p. 23; see also M. Marinello, *Fair, Reasonable And Non-Discriminatory (Frand) Terms: A Challenge For Competition Authorities*, Journal of Competition Law & Economics, 7(3), 2011, at p. 525.

[171] J. Ratliff, DL. Rubinfeld, *The Use and Threat of Injunctions in the RAND Context*, Journal of Competition Law & Economics 9(1), 2013, at p. 9.

[172] See also J. Kattan, *FRAND Wars and Section 2*, Antitrust 27(3), 2013, at p. 19.

Apple refuses the conditions of license and carries on with the undertaking, infringing de facto patent of Samsung.

The issue of a new product was elaborated as not duplicating the one which is produced by the owner of essential IPR, however in this case the situation should not be compared in this manner, since the manufacturers cross license with each other in order to obtain a full portfolio of patents. Mobile phone using the 3G standard is not a duplication, since different brands offer different models which although communicate with each other are manufactured in different way and contain various particular patents. Apple does not come with any new, revolutionary product of which there is a consumer demand, but also does not duplicate mobile devices from Samsung actually. Therefore, it might be viewed from the perspective of special responsibility of SEP owner not to impede the competition in a way, which abstains from competition on the merits. On the other dimension of exceptional circumstances, which include objective justification and special responsibility, if Samsung could prove that seeking for injunctions protects the research and development and it is not aimed for a hold – up there could be a consistency with competition on the merits, without exposure to infringement of 102 TFEU. The concept of objective justification should be seen from perspective of Post Danmark case, where the CJEU decided, that dominant undertaking might avoid art. 102 TFEU by showing that their conduct is objectively necessary to counterbalance the objective economic justification in terms of efficiency that also benefits the consumers.[173] Seeking injunction may be aimed against implementer refusing to bound himself with licence (so-called unwilling licensee), unless he can prove that the license is not fair and reasonable. However, as Contreras wrote, the unwillingness cannot be assumed simply from the fact of infringing the standard.[174] Injunctions are justified if FRAND terms were designated by independent court and implementer still refuses to pay royalties.

The refusal to license combined with seeking for injunctions clearly indicates a will to eliminate competition, which obviously harms the consumer welfare by preventing development of secondary market. However, if in the first place the refusal was not included in exceptional circumstances it would implicate that seeking for injunction is not anti-competitive. The strongest argument against the injunction and core defence against the SEP

[173] C 209/10 *Post Danmark A/S v Konkurrencerådet,* March 2012, at para 41.

[174] JL. Contreras, *Fixing FRAND: A Pseudo-Pool Approach to Standards-Based Patent Licensing,* Antitrust Law Journal 79(1), at p. 59-62.

holder, who refuses to licence, is the 'willingness of a party' adopted in 'Orange book'[175] case.

5.2.2 Orange book case

The Federal Supreme Court held, that defence to a claim for injunctive relief based on patent infringement may be available on the basis of the 'dolo agit' principle.[176] According to this principle, no one can sue for a benefit that he would have to return immediately upon receipt. In this judgment, the German court decided that refusing to grant a license on FRAND terms to the defendant constitutes abuse of a dominant position. This claim was based on both German and EU competition law. If defendant's claim for a compulsory license were to be successful, then the plaintiff would never receive the benefit of an injunction, and thus according to the dolo agit principle he cannot claim an injunction.[177] However, the court had elaborated that abuse of dominant position with a contractual bad faith is present if two conditions are met. Firstly, the party wishing to obtain a license must be a willing licensee. It means that he had made an unconditional offer to conclude a license agreement that the patent proprietor cannot unreasonably reject and the proposed licensee must stay bound by this offer. Secondly, the proposed licensee has to comply with the obligations on which the use of the licensed subject matter depends, and according to the license agreement still to be concluded, if he already uses the subject matter of the patent before his offer is accepted. This means in particular that the proposed licensee has to pay the royalties resulting from the contract or ensure their payment.[178] The requirement impute obligation upon licensee to behave in a way that demonstrates its genuine willingness to take a license on FRAND terms. Therefore, if implementer fails to make an offer complying with the requirement it should not be considered as SEP holder fault and injunction should be granted.[179]

According to the Commission, the Orange Book case should not apply to Samsung since the German Federal Court of Justice's ruling did not specifically relate to SEP. The Motorola decision[180] however concludes, that if the ruling was to be interpreted as meaning that a

[175] Case KZR 39/06, Federal Supreme Court (Bundesgerichtshof) , 6 May 2009 – Orange Book Standard.
[176] See A. Laakkonen, *Defences to patent infringement in a standards context,* Paper presented at Fordham IP conference, 2011, at p. 2.
[177] Ibid.
[178] See also *Translation of Orange Book case, available at www.ipeg.eu/blog/wp-content/uploads/EN-TranslationBGH-Orange-Book-Standard-eng.pdf*
[179] See P. Camesasca, G. Langus, D. Neven, P. Treacy, *Injunctions For Standard-Essential Patents: Justice Is Not Blind,* Journal of Competition Law & Economics, 9(2), Oxford University Press, 2013, at p.296
[180] Case COMP/M.6381 *Google/Motorola Mobility* 13 February 2012

willing licensee is not entitled to challenge the validity, infringement and essentiality of the SEPs in question, it would be anti-competitive.[181]

5.3 Patent protection as an abuse of dominant position

There is a clash between the right of access to new technology and the exercise of the excluding powers of patents. The relationship between them shows, that enjoying exclusive rights and preventing third parties from infringing patent in exceptional circumstances might be in contradiction with competition law. According to Tritton, where an undertaking is dominant in a particular market but any IPR that the undertaking owns is not a barrier to entry to that market, it will be very rare that the exercise of the rights of IPR will be objectionable. However, in contrast, where IPR are actually creating such barrier, the purported exercise of such rights of dominant's IPR may be subject to considerable scrutiny under art. 102 TFEU.[182] Such exercise is detrimental to the interest of consumer, as it prevents the technological development, creation of new products, elimination of competition or imposing high prices on royalties which in the consequence affects the final product price. Exercising IPR that limits the production in unjustified way is an abuse, even though it is a nature of patent to limit the production and protect the technical development being available for competitors.[183]

Samsung has sued Apple in particular European courts for infringing a number of its (FRAND encumbered) patents, relating to technology essential to the 3G standard. Since the competitor had access to the technology, Samsung decided to claim for injunctions, with the alleged purpose of preventing Apple from using essential patent, indicating a goal for the foreclosure from the relevant market. European courts have similarly rejected injunction applications by Samsung, and also IPCom v Nokia[184] the High Court of England & Wales, declined to grant an injunction sought by IPCom against Nokia in relation to a patent essential to the 3G standard which would exclude Nokia from selling its products in the UK. [185] Given

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[181] *Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics,* Memo /14/322, Brussels, 29 April 2014, available at http://europa.eu/rapid/press-release_MEMO-14-322_en.htm.

[182] G. Tritton, *Intellectual property in Europe*, London Sweet&Maxwell, 2008, 3rd edition, at p. 993

[183] Ibid. at p. 992

[184] IPCom v Nokia [2012] EWHC 1446 (Ch)

[185] BB Greenfield, H Scheider and JJ Mueller, *"Beyond the Water's Edge: A Survey of Recent Non-US Decisions"* , 2013, 27(3) Antitrust at p. 50, 52.

that Nokia had declared itself willing to take and to be entitled to a licence in relation to valid patents on FRAND terms and IPCom acknowledged that it had made a FRAND declaration, the judge failed to see why an injunction should be granted.[186] The opposite approach was presented in German lower courts, where injunctions were usually granted to SEP holders, such as in Motorola v Microsoft judgement[187] or Motorola v Apple[188], where it also ordered Apple to cease offering mobile devices using the General Packet

Radio Service standard, which incorporated the claimant's SEPs, even though Apple had made numerous licence offers to the claimant to pay a royalty on FRAND terms.[189] The possibility of obtaining injunctions in Germany gave a leverage to SEP holders to successfully secure EU-wide licences to their SEP portfolios on 'advantageous' terms. Faced with the prospect of having products unavoidably and permanently barred from a major market such as Germany, many smartphone manufacturers have agreed to pay significant royalties demanded by SEP holders on a broader territorial basis. For example, Motorola has been able to demand a 2.25 per cent royalty, and Samsung a 2.4 per cent royalty, of final products implementing the standard, despite the fact that there are vast numbers of other patents which read on 3G/UMTS and related standards.[190]

5.3.1 Huawei v ZTE case

The question if exercising IPRs should be available to SEP holders, who acquired dominance through the IPR is a subject in a preliminary ruling of the recent Huawei v ZTE case[191]. In the request for preliminary ruling, the German court made questions referring to the refusal to license. Firstly, whether a SEP holder, who has made a FRAND commitment abuses a dominant position bringing an injunction claim in court against a patent infringer, who was willing to negotiate such a licence. Secondly, in the circumstances, when implementer, who has presented an acceptable, unconditional offer to the SEP holder to enter into a licensing agreement, which the patentee cannot refuse, unfairly impeding the patent infringer or discriminating against it, and the patent infringer takes steps to act in accordance with such an

[186] See A. Jones (n 133), at p. 10
[187] Case 2 O 240/11 *General Instrument Corp v Microsoft Deutschland GmbH,* Regional Court of Mannheim, 2nd Civil Division, 2 May 2012.
[188] Case 7 O 122/11 *Motorola Mobility Inc v Apple Sales International,* Regional Court of Mannheim, 7th Civil Division, 9 December 2011.
[189] See also A. Jones, (n 130), at p. 12
[190] Ibid. at p. 13
[191] Request for a preliminary ruling from the Landgericht Düsseldorf (Germany) lodged on 5 April 2013, Case C-170/13 Huawei Technologies Co Ltd v ZTE Corp, ZTE Deutschland GmbH; Huawei v ZTE, District Court Düsseldorf, Germany, 21 March 2013, Case No 4b O 104/12.

offer with respect to past infringements in anticipation of any licence to be granted prior to use. In other words, the CJEU is being asked, whether the Orange-Book-Standard is sufficient to prevent abusive conduct by SEP holders or whether art. 102 TFEU applies more stringently to constrain the ordinary rights of IPR owners, where the IP at issue is a FRAND encumbered SEP. The background of these preliminary questions is that German lower court favour SEP owners and were exposed for accusation of non-sincere cooperation with EU law. In particular, considering the rulings in other member states were injunctions were mostly denied. According to Petit, this case goes against the background of Orange Book case and it is a reflection for what the EC has expressed in statement of objections sent to Samsung and Motorola. [192] In the Motorola decision however, the EC left it open whether art. 102 TFEU further restricts the possibility of the holder of SEPs in seeking and enforcing injunctions.[193] The preliminary ruling will be probably a milestone, since cases involving SEP and injunctions relief were not a subject to CJEU yet and usually the parties under the pressure of competition authorities were dropping the lawsuits, not appealing and, as Samsung did in 3G case – made commitments in order to avoid sanctions from the Commission.

5.3.2 Comments on Samsung's commitment

On 29th of April 2014 the EC accepted legally binding commitment made by Samsung, according to which the injunction relief is going to be dropped against licensees who sign up to specific licensing framework. Samsung decided to be bound by FRAND terms, which are set by an independent court, or by arbitrator chosen by the parties. The EC calls this commitment a 'safe harbour' for those who seek to obtain the licence on UMTS.[194] The aforementioned framework provides for a negotiation period of maximum 12 months and a third party determination of FRAND terms. The International Chamber of Commerce in Paris submitted a concern relating to the commitment finding issues which make it non-effective and inconsistent. They pointed out length of adjudication process composed of two rounds of arbitrary proceedings, which creates undue delay in assessing if terms are FRAND or not.[195] Lack of clarity on the law will create a situation where infringers will have the incentive not

[192] N. Petit, *Injunctions For FRAND-Pledged SEPs: The Quest For An Appropriate Test Of Abuse Under Article 102 TFEU*, 2013, at p. 3.
[193] COMP/M.6381 Google/Motorola Mobility[2012] OJ C75, at para. 158.
[194] *Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions*, Brussels, 29 April 2014, available at http://europa.eu/rapid/press-release_IP-14-490_en.htm?locale=en
[195] *ICC comments on commitments offered to the European Commission by Samsung Electronics on the use of standard essential patents (SEP)*, Document No. 225/708 CI/zse, 18 November 2013.

to negotiate a license and engage in "reverse hold up". Next of all, they have found the most crucial and dangerous clause present in the commitment, which puts a shadow on the whole investigation and result of the commitment. Namely in paragraph 13 of the commitment Samsung reserves his right to de facto revoking its commitment and reopen the proceedings subjectively to Huawei v ZTE preliminary ruling when it is available.[196] Since it is the first case, which is going to be analysed by CJEU in the context of SEP and possible injunctions Samsung seems to rely upon the CJEU view and it is ready to start over with claims if the preliminary view will differ from the opinion of Commission or national courts.

There is a considerable concern that the Commission is using the commitments procedure too frequently to close antitrust cases, meaning it does not have to develop legal analysis in a way, which will prove its case or help to clarify the law.[197] This is what also happened in Samsung case. The EC did not analysed market position of Samsung, assuming holding the dominant position because of the ownership of the SEP. Therefore, the reference to the CJEU in Huawei should shed light on the principles developed in these circumstances.

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[196] *Final commitments by Samsung, published on the website*: Available at thttp://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1502_5.pdf

[197] See also P. Marsden, *The Emperor's Clothes Laid Bare: Commitments Creating the Appearance of Law, While Denying Access to Law*, CPI Antitrust Chronicle, 2013.

6 Conclusions

The modern technology seems to change the view on dominance in the light of 102 TFEU. The definition of economic strength, preventing competition and acting independently extends its applicability to the holders of SEP, who allegedly acquired market power simply by gaining possibility to exclude competitors from using their IPRs. This leads de facto to elimination of competition that stands against EU antitrust rules. When talking about products in the relevant market the major feature is substitutability. Substitutability was extended to interoperability and indispensability for the sake of IPR, which are necessary to carry on the undertaking. This is the dynamic function of antitrust to meet the circumstances on the market of modern technologies by using an analogy to intangible products. Market shares, which were so far the strong and reliable tool used to assess the market power seem to be diminished or significantly undermined, since patent owner does not need to be the biggest player in downstream market, but it is sufficient to tag him as dominant for holding the IPR, which everyone else requires to manufacture their products.

Article 102 TFEU imposes special responsibility on SEP owners, which in consequence leads to compulsory licensing. Holding IPR, according to CJEU should not presume dominance. However in order to prevent undertakings from creating barriers to entry the doctrine of exceptional circumstances was established and it is a breakthrough. This doctrine includes a test in which refusal to licence can be viewed as abuse of dominance. In prominent cases starting from Magill, through IMS Health and Microsoft the competition authorities emphasized that refusal to license is abusive as it prevents the emergence of a new product, of which there is consumer demand; in a way, which is not objectively justified and preserves the IPR owner the product market, eliminating competition. The doctrine was misunderstood and neglected by the EC. Nowadays the EC is eager to force undertakings to share the technology for the sake of antitrust law.

Through the analysis of Samsung refusal to licence and seeking for injunction reliefs it was found that the reasoning behind exceptional circumstances might not apply in Samsung case, or at least it is questionable. Although the patent is essential and preserves entering into secondary market, there is a question if it was objectively unjustified solely on the grounds that Apple refused 2.4% of royalty. In the situation where FRAND terms are not determined concrete, it is unreasonable to blame SEP owner for abuse if he stands for the offer, rejecting the counteroffer. The EC did not perform a detailed investigation and analysis on Samsung market position, nor the counteroffers to determine if it was or not FRAND. The alleged dominance is based on holding some of many patents required for devices using 3G to function and abuse relates to exercise of IPR, which goes against from what was established by CJEU before. So far, the EC was successful with convincing companies to abstain from those practices and make commitments to licence their patent. However, there might be a big shift in this approach. Companies could rely on Orange Book Case standard, which provided with defence for infringers of patent who were denied access to essential technology, while they have been willing to pay royalties. Recently though, the German court has sent the request for preliminary ruling, asking if Orange book standard should be applied. This leads to assumption that the current situation is going too far to support and defend infringing competitors rather than owner of IPR and competition. If the preliminary ruling will differ from what is practised now by the EC, most companies holding the SEP will change their policy against competitors who are forcing them to go as low as possible with terms claiming FRAND terms. In such situation Samsung will be able to revoke the commitment, since it preserved such right in the commitment, accepted by the EC.

The probable core of the problem in standardization nowadays is that the policy of SSO do not provide clear answer on how FRAND terms should be assessed and by whom. It was left for the consideration of contractual parties. The competitors cannot reach a compromise and as the SEP owner claimed for injunction relief against those who use patent without paying the royalties might successfully defended themselves by Orange Book standard and the EC seems to support that adding the background of social benefit coming from widening the market where IPR do not create entry barrier.

The incentives to innovation created by IPRs produce new competitors on existing markets and indeed create new products, which open up entirely new markets. Secondly, it is presumed that the licensing of IPRs is in general pro-competitive as well as pro-innovative in its effects. IP licensing also adds new products to markets that either add new competitors to existing markets or form new markets.[198] Too heavy burden on the exercise of IPRs could discourage investment in IPRs in the EU. In this more enlightened time of modern technologies, the competition law accepts that exercise of IPR contributes to innovation, but also it is emerging trend, that such conduct, even when lawful under Intellectual Property Law, becomes unlawful from the competition law. In such cases, EC competition law does not confer immunity upon the exercise of an IPR simply because it is consistent with the rules

[198] S. Anderman, *The Interface Between Intellectual Property Rights and Competition Policy*, Cambridge Press University, 2007, p. 3

of IP legislation.[199] Instead, it tends to reserve a right to intervene in particular cases. Is this a good solution? In this paper it is shown that dominant player does not need to be held responsible for distortion of the competition by protecting his IPRs. Standardization entails a fair deal between owner and willing party and should be based on mutual trust and good faith. Whenever one of those seems to be missing it would be a good ground to invoke objective justification for refusal to licence. The interference by EC is a temporary solution to overcome the imbalance in the technology market. Laudable attitude might however bring more damage, then good. If dominant companies cannot rely anymore on their patents, the future of standardization will be threatened. Perhaps companies will become not interested in competing, where the European Commission brings 'equity law' in force, rather than following the positive law.

[199] Ibid.

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