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**Seeking injunctions in SEPs infringement proceedings as an  
abuse of dominant position under Article 102 TFEU**

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# Table of Contents

Table of Contents .....	2
1. Introduction .....	3
1.1. Statement of the problem .....	3
1.2. Research question.....	3
1.3. Aims and objectives .....	4
1.4. Delimitation.....	4
1.5. Research methodology .....	4
1.6. Outline.....	5
2. Setting the context.....	7
2.1. The dynamics of the ICT industry.....	7
2.2. Standardisation and potential anti-competitive effects .....	8
2.3. Patent rights and competition law intervention.....	13
2.4. FRAND commitments.....	15
3. Exercise of SEPs as an abuse of dominant position.....	20
3.1. Dominant position of SEPs owners under Article 102 TFEU.....	20
3.2. Refusal to deal.....	21
3.3. Excessive royalties .....	24
3.4. Competition on the merits .....	27
4. Enforcement of SEPs .....	28
4.1. Patent law remedies – injunctions and damages .....	28
4.2. Enforcement of rights or abusive litigation? .....	31
4.3. The threat of injunctions in disputes over SEPs – the U.S. perspective.....	33
5. Seeking injunctions against SEPs implementers as an abuse of dominant position .....	37
5.1. Approaches adopted by national courts.....	37
5.1.1. Germany.....	37
5.1.2. The Netherlands .....	40
5.2. The Commission’s approach.....	41
5.3. Huawei v ZTE .....	50
5.3.1. Opinion of AG Wathelet .....	52
5.3.2. Judgment of the Court.....	56
6. Conclusion.....	62
7. Bibliography.....	65

# 1. Introduction

## 1.1. Statement of the problem

Standards have a substantial impact in the society nowadays. Their beneficial effects in increasing consumer choice have been recognised especially in markets with strong network connections such as Information and Communications Technologies (“ICT”). Yet, despite those benefits, standards are prone to have harmful effects on competition. This is particularly so within the field where standards are based on patent-protected technology such as ICT. Once a patent-protected technology has been implemented into a standard and the standard has been adopted by a standard setting organization (“SSO”), the owner of the patent essential for the standard (“SEP”) becomes an unavoidable trading partner for the manufactures of the standard-compliant goods.<sup>1</sup> In that regard, the competition authorities turned their attention towards the threat of use of injunctive reliefs by SEP owners, who are dominant undertakings, in order to succeed with anticompetitive demands which manufacturers would not have accepted before the standard was adopted.

Since rules on enforcement of intellectual property rights (“IPR”) are only partly harmonised in the EU,<sup>2</sup> national courts have developed different approaches towards the issue of use of injunctive reliefs in SEPs disputes regarding their potential anti-competitive effect. The European Commission (“Commission”) expressed its view in the enforcement decisions against Motorola Mobility (“*Motorola*”)<sup>3</sup> and Samsung Electronics (“*Samsung*”).<sup>4</sup> The position previously taken by national courts is not entirely in line with the position adopted by the Commission in these particular decisions. The Court of Justice of the European Union (“CJEU”) has only recently been asked to adopt its stance on the matter<sup>5</sup> and to implement uniform approach across the Union. The reference for preliminary ruling in *Huawei v ZTE* shows that there are conflicting legal views which need to be resolved. The current state of affairs creates uncertainty for both SEP owners and SEP implementers as to the lawfulness of their conduct.<sup>6</sup>

## 1.2. Research question

“What are the conditions under which a SEP owner, who has given commitment to license his patents on fair, reasonable and non-discriminatory (“FRAND”) terms, can be found abusing his dominant position under Article 102 of the Treaty on the Functioning of the European

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<sup>1</sup> Petrovčič, U., “*Competition Law and Standard Essential Patents: A Transatlantic Perspective*”, Kluwer Law International, 2014, p. 2 – 3

<sup>2</sup> Directive 2004/48 of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L 157 (“Enforcement Directive”)

<sup>3</sup> Case AT.39985 Motorola Mobility – Enforcement of GPRS standard essential patents, C(2014) 2892 [2014] (“Motorola Mobility”)

<sup>4</sup> Case AT.39939 Samsung Electronics – Enforcement of UMTS standard essential patents, C(2014) 2891 [2014] (“Samsung Electronics”)

<sup>5</sup> CJEU, Request for preliminary ruling, *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*, Case C-170/13, lodged on 5 April 2013. OJ C 215, 27 July 2013 (“*Huawei v ZTE*”)

<sup>6</sup> C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*, Opinion of AG Wathelet, ECLI:EU:C:2014:2391 (“AG Wathelet opinion”), para. 7

Union (“TFEU”) by seeking or threatening to seek an injunctive relief against an unlicensed manufacturer of the standard-compliant goods?”<sup>7</sup>

### **1.3. Aims and objectives**

The aim of this thesis is to discuss the different legal tests and approaches which the national courts, the Commission and the CJEU apply in order to assess whether owners of SEPs, who have committed themselves to grant licenses to their patents on FRAND terms, abused their dominant position under Article 102 TFEU by seeking or threatening to seek injunctive reliefs against unlicensed manufacturers of the standard-compliant goods. The analysis will be done within the broader context of interplay between patent rights and competition law in the European Union and with the view to strike a right balance between the interests at stake.

### **1.4. Delimitation**

The views presented in this work are based on assumptions that the patents are valid and essential and that the owners of SEPs possess significant market power which leads to dominant position for the purposes of Article 102 TFEU. The thesis does not challenge the view that patents provide incentives to innovate.

The thesis does not address the potentially deceptive behaviour of SEP owners during the standardization process itself (*e.g.* *ex ante* standardisation). Its focus is on SEP owners’ behaviour within the licensing practises after a standard has been adopted (*e.g.* *ex post* standardisation). Patent assertion entities, non-practicing entities, or as commonly referred to as patent-trolls, which use patents only in order to generate incomes and which are immune to countersuits and injunctions,<sup>8</sup> are mentioned only briefly when discussing the stance on the use of injunctions in the U.S.

The thesis does not aim to cover all range of remedies available to SEP owners. The focus is on remedies available under patent law. The thesis does not discuss remedies available under other bodies of law, such as contract law and equity.

### **1.5. Research methodology**

This thesis will apply the traditional legal doctrinal research method. In order to offer a critique of the current state of law, it is inevitable to identify the content and to assess the authority of the legal system under scrutiny and the doctrinal research method serves to achieve this objective.<sup>9</sup> Furthermore, the thesis will to a certain extent, where considered appropriate by the author, apply the comparative method.

Valid legal norms of patent law and European competition law will be briefly introduced. Substantial part of the thesis will describe and analyse case law of the CJEU. This will be done together with references to opposing legal writings in order to put the different views into perspective and in order to provide rationale behind the author’s opinions.

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<sup>7</sup> The research question was inspired by the first question referred in the *Huawei v ZTE* case

<sup>8</sup> Lim, D., “Standard Essential Patents, Trolls and Smartphone Wars: Triangulating the End Game”, 119 (1) *Penn State Law Review*, 2014, p. 19. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2495547](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2495547)> accessed 28 April 2015

<sup>9</sup> Hutchinson, T., “Doctrinal Research” in Watkins, D., Burton, M., “*Research methods in law*”, Routledge : 2013. p. 7 – 8

When discussing the use of injunctions within the broader context of enforcement of IPRs, the author considers references to the U.S. doctrine as appropriate in order to enhance the analysis of the European regime. Since the U.S. constitutes a forum where most patent infringement proceedings are being tried,<sup>10</sup> the U.S. legal scholarship is more developed within this area of law. In particular, the underlying issue of patent hold-up has been first introduced there.

The various tests adopted by the CJEU in its case law on IPRs and abuse of dominant position under Article 102 TFEU will be compared with the tests applied by national courts in Germany and the Netherlands in SEP disputes, with the views expressed by the European Commission in its enforcement decisions against *Motorola* and *Samsung*, with the view expressed by Advocate General (“AG”) Wathelet in his opinion in *Huawei v ZTE* and with the CJEU’s judgment in that case. Germany and the Netherlands were selected since both Member States represent the most frequent fora for patent infringement disputes in Europe.<sup>11</sup> Moreover, the reference for preliminary ruling in *Huawei v ZTE* was submitted by a German court and all five questions posed seem to rely on the *Orange-Book-Standard* framework as adopted by the Federal Supreme Court of Germany. As will be seen, the approach taken by the Dutch courts, on the other hand, is more similar to the one articulated by the Commission in *Motorola* and *Samsung*.<sup>12</sup> The content of the judgments of the national courts in Germany and the Netherlands will be accessed through references in legal scholarly articles.

Since the judgment of the CJEU in *Huawei v ZTE* only came out on 16 July 2015, there were not any academic writings relating to this specific judgment available at the time of writing of this thesis. However, in order to keep up with the development within the field of SEPs and abuse of dominant position and to enhance further discussion, the author considered inclusion of the description and analysis of the Court’s approach to be vital. Apart from the judgment itself, the relevant part of the text is based on comments expressed by legal scholars that were available as of August 2015.

## 1.6. Outline

The thesis is divided into 6 main chapters. In order to establish the scope of the thesis and to provide understanding of future analysis, Chapter 2 discusses the context of ICT industry, standardisation and FRAND commitments. The focus is on competition law concerns arising in situations where standards are based on patent-protected technology. Chapter 3 describes the European approach to exercise of IPRs which sets out that IPRs can only be encroached upon on the basis of competition law under exceptional circumstances. Chapter 4 addresses enforcement of IPRs. The focus is on remedies provided for by patent law, namely on the use of injunctive reliefs and their interplay with EU competition law. The chapter considers approaches both in the EU, within its specifics, and in the US where, despite the difference in

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<sup>10</sup> Zografos, A. S., “The SEP Holder’s Guide to the Antitrust Galaxy: FRAND and Injunctions”, 37 (1) *World Competition Law and Economic Review*, 2014. Kluwer Law International, p. 66

<sup>11</sup> Larouche, P., and Zingales, N., “Injunctive Relief in Disputes Related to Standard-Essential Patents: Time for the CJEU to Set Fair and Reasonable Presumptions” (2014) TILEC Discussion Paper No. 2014-048, p. 13 <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2536829](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2536829)> accessed 10 April 2015

<sup>12</sup> Telyas, D., “*The Interface between Competition Law, Patents and Technical Standards*”, Kluwer Law International, 2014, p. 215

case law being framed within patent law and unfair competition context, the doctrine has been far more developed, thus providing explanation of the issues in more detailed way. Chapter 5 represents the core of this thesis. It describes and analyses the competition law approach to seeking injunctions in SEPs infringement proceedings as adopted by the selected national courts in the EU, the Commission, the Advocate General and the CJEU in *Huawei v ZTE*. The particular approaches are further assessed within the critique expressed by legal scholarship. Chapter 6 provides a final comparison of the approaches within the context of interplay between competition law and rights of the patent owners and with the view of striking a fair balance between the interests at issue.

## 2. Setting the context

### 2.1. The dynamics of the ICT industry

Historically, there has been very little litigation in the mobile telephony industry. The traditional players were both holders and implementers of SEPs, thus having an interest in setting royalty rates that were actually reasonable for both sides. Cross-licensing has acted as a safeguard against imposition of onerous licensing terms. However, following the entry of new manufacturers such as Apple, Google and Microsoft, at the turn of the 21<sup>st</sup> century, the dynamics of the market have changed. Since neither of the new players were telecommunications undertakings, they did not have access to patents essential to the global standards, and therefore could not enter into cross-licensing agreements as the old manufacturers have traditionally done.<sup>13</sup> Moreover, the smartphone revolution disrupted the technology market equilibrium and has caused an evolution in SEPs licensing practices.<sup>14</sup>

Soon, the older players' position in the market began to decline and some of them even had to exit the manufacturing business and sell off their patent portfolios which were mostly acquired by their new rivals. The acquisition by Apple, Microsoft and other members of the Rockstar consortium of Nortel's 6 000 patents, many of which covered core wireless network technologies such as LTE and 3G, for 4.5 billion US dollars was described as "*the largest intellectual property portfolio ever sold*".<sup>15</sup> However, this was surpassed only a year later with Google's acquisition of Motorola Mobility Inc. and its 17 000 patents worth 12.5 billion US dollars.<sup>16</sup>

The risk of disputes between SEP holders and SEP implementers has increased following the growth of economic importance of standards in the ICT sector.<sup>17</sup> The developments have substantially contributed to shifts in bargaining powers between the traditional and new players and have spurred litigations worldwide, unfolding issues of contract, patent and competition law.<sup>18</sup> Only Samsung and Apple, one of the industry's biggest players had filed suits against each other in 10 countries around the world.<sup>19</sup> It is not, however, only patent implementers raising the issue of abuse of a dominant position as counterclaim in patent infringement suits, as competitors, they also lodge complaints with competition agencies.<sup>20</sup> The older players, owners of SEPs, obviously advocate stronger

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<sup>13</sup> Harkrider, J. D., "Seeing the Forest through the SEPs", 27 (3) *Antitrust*, Summer 2013, p. 23 – 25  
<[http://awards.concurrences.com/IMG/pdf/seeing\\_the\\_forest\\_through\\_seps-harkrider.pdf](http://awards.concurrences.com/IMG/pdf/seeing_the_forest_through_seps-harkrider.pdf)> accessed 15 April 2015

<sup>14</sup> Lim, *op. cit.*, p. 9 – 15

<sup>15</sup> Brickley, P., "Nortel \$4.5-Billion Patent Sale to Apple, Microsoft, Others Approved", Wall Street Journal, 11 July 2011. <<http://www.wsj.com/articles/SB10001424052702303812104576440161959082234>> accessed 27 March 2015

<sup>16</sup> Lim, *op. cit.*, p. 16

<sup>17</sup> Telyas, *op. cit.*, p. 12

<sup>18</sup> Jones, A., "Standard-essential Patents: FRAND Commitments, Injunctions and the Smartphone Wars", 10(1) *European Competition Journal*, 2014, p. 9

<sup>19</sup> Mueller, F., "List of 50+ Apple-Samsung lawsuits in 10 countries", Foss Patents, 28 April 2012, <[www.fosspatents.com/2012/04/list-of-50-apple-samsung-lawsuits-in-10.html](http://www.fosspatents.com/2012/04/list-of-50-apple-samsung-lawsuits-in-10.html)> accessed 5 April 2015

<sup>20</sup> Petit, N., "Injunctions for FRAND-pledged SEPs: The Quest for an Appropriate Test of Abuse under Article 102 TFEU" (2013), p. 1 <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2371192](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2371192)> accessed 10 April 2015

protection being given to SEPs, while the new entrants argue for more intervention on the basis of competition law, with less protection being given to SEPs.<sup>21</sup>

## 2.2. Standardisation and potential anti-competitive effects

Besides telecommunications, smartphones integrate number of other functions, such as computing, video and photographic, which are all potentially covered by numerous relevant patents that are generally held by various market players, with an estimated number of 250 000 patents in a single smartphone. In order for the various functions and networks to communicate, standardisation is required.<sup>22</sup> Indeed, standards in the ICT industry have facilitated development and adoption of new generations of mobile technologies<sup>23</sup> and according to some, “*without standardisation, there would not be a modern economy.*”<sup>24</sup>

The general public profits from voluntary adoption of standards in number of ways. Interoperability of devices leads to efficient allocation of resources.<sup>25</sup> The more users adopt the technology, the greater is the decrease in costs of the technology manufacturers, enabling them to create economies of scale.<sup>26</sup> Interoperability also gives consumers wider choice, allowing them to use products from different manufacturers, thus contributing to greater network effects. It follows that the more manufactures adopt innovations in the ICT industry, the more effective the innovations become. Standardisation is used precisely for that purpose, as a tool to facilitate widespread adoption of inventions.<sup>27</sup> Adoption of standards is also in the interest of manufacturers since it enables them to expand their business globally.<sup>28</sup> Moreover, by reducing differentiation between products, standardisation serves as a means of supporting price competition. Standards also play an important role in promoting trade among states and in particular, in the EU context, they are a useful tool in helping to achieve the creation of a single market.<sup>29</sup> The Commission has thus encouraged standardisation in order to achieve overall greater competitiveness in Europe.<sup>30</sup>

The Commission’s document “Strategic visions for European standards” provides that standards are “*documents that define technical or quality requirements with which current or*

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<sup>21</sup> Petrovčič, *op. cit.*, p. 36

<sup>22</sup> Lim, *op. cit.*, p. 20

<sup>23</sup> As described by Harkrider: “Many of the most significant accomplishments in the telecommunications field are attributable to the work of major SSOs, such as the European Telecommunications Standards Institute, which promulgated the GSM, 3G, and 4G standards.” See Harkrider, *op. cit.*, p. 23

<sup>24</sup> Surowiecki, J. “Turn of the Century”, *Wired*, January 2002

<<http://archive.wired.com/wired/archive/10.01/standards.html>> accessed 11 April 2015

<sup>25</sup> Policy statement on remedies for standards-essential patents subject to voluntary F/RAND commitments, United States Department of Justice and United States Patent & Trademark Office, January 8, 2013. p. 3. <[http://www.uspto.gov/about/offices/ogc/Final\\_DOJ-PTO\\_Policy\\_Statement\\_on\\_FRAND\\_SEPs\\_1-8-13.pdf](http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf)> accessed 7 April 2015

<sup>26</sup> Reducing cost of production per unit

<sup>27</sup> Kesan, J., P., Hayes, C., M., “FRANDs Forever: Standards, Patent Transfers, and Licensing Commitments”, 89 *Indiana Law Journal*, 2014, p. 237

<sup>28</sup> Lundqvist, B., “Competition Law as the Limit to Standard-Setting”, (August 16, 2014). Forthcoming, Drexler, J., Di Porto, F., (ed) ‘Competition Law as Regulation’, Edward Elgar, 2015. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2551026](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2551026)> accessed 5 August 2015 (“Lundqvist 2014”)

<sup>29</sup> Petrovčič, *op. cit.*, p. 26

<sup>30</sup> Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, Towards an increased contribution from standardisation to innovation in Europe, COM(2008) 133 final

*future products, production processes, services or methods may comply.*<sup>31</sup> Standards incorporate number of technologies which are usually protected by patents. Patents which are essential to a standard, meaning that the standard cannot be implemented without obtaining a license on the patent-protected technology, are commonly referred to as standard essential patents.<sup>32</sup> Article 15.6 of the European Telecommunications Standards Institute's ("ETSI") IPR Policy provides that IPRs are considered essential where it is not possible on technical grounds to manufacture a standard-compliant product without infringing the IPR. However, SSOs, including ETSI, do not check whether a patent that has been declared as essential is actually essential or valid.<sup>33</sup>

Two distinct functions of standards can be identified. Standards either serve as guarantees of a quality or safety of a product or as instruments that enable network interoperability. It is the latter which is of importance within the field of the ICT industry. Even though standards can arise from the market, or may be adopted by public authorities, for instance for health and safety reasons, standards in the ICT field are generally developed within the private sphere of SSOs. These are organisations that serve as a platform for interested stakeholders to meet, discuss and adopt future standards.<sup>34</sup> Since most of the SSOs members are both SEP holders and SEP implementers,<sup>35</sup> SSOs tend to remain neutral should a dispute arise between their members.<sup>36</sup>

Although standards adopted within SSOs are not legally binding,<sup>37</sup> ICT as a network dependent industry *de facto* requires manufacturers to comply with the industry standards.<sup>38</sup> In fact, markets driven by network effects tend to tip towards one technological solution even without an agreement on *de jure* standard reached within a SSO.<sup>39</sup> The reason for that is that such markets are actually facilitated, if not created, by adoption of interoperability standards.<sup>40</sup> In any event, the rationale for supporting *de jure* adoptions of standards even in network dependent industries is that those standards are usually based on technologies developed by several undertakings and represent a solution chosen by all stakeholders. In Lundqvist's words, this kind of situation represents at the same time "*collective innovation*" and "*collective competition*."<sup>41</sup>

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<sup>31</sup> European Commission, "A Strategic Vision for European Standards: Moving Forward to Enhance and Accelerate the Sustainable Growth of the European Economy by 2020", Brussels, 1. 6. 2011, COM (2011) 311, at 1.1.

<sup>32</sup> Rato, M., English, M., "IP and Antitrust: Recent Developments in EU Law" in Alves Guimarães, D., Noormohamed, R., et al. (eds), "*Communications and Competition Law: Key Issues in the Telecoms, Media and Technology Sectors*," 25 International Bar Association Series, Kluwer Law International, 2015, p. 194

<sup>33</sup> AG Wathelet opinion, para. 24

<sup>34</sup> Petrovčič, *op. cit.*, p. 20 – 21

<sup>35</sup> Harkrider, *op. cit.*, p. 24

<sup>36</sup> Lim, *op. cit.*, p. 10

<sup>37</sup> There are exceptions though. In France for instance, SSOs have a status of public bodies, and the standards that they adopt are considered as administrative acts, thus requiring mandatory compliance from all market players. See Petrovčič, *op. cit.*, p. 21 – 22

<sup>38</sup> Petrovčič, *op. cit.*, p. 24 et seq.

<sup>39</sup> Lundqvist 2014, *op. cit.*, p. 2 – 3

<sup>40</sup> *Ibid.*, p. 7

<sup>41</sup> *Ibid.*, p. 10

The Commission has recognised that the rules of SSOs play an important role in ensuring pro-competitive effects of the standardisation process. To encourage adoption of procedural safeguards in order to avoid practices which could harm competition, the Commission adopted Guidelines on the Applicability of Article 81 EC Treaty to Horizontal Cooperation Agreements (2001), which were revised in 2011. The 2001 Guidelines provided that agreements which conform to specific requirements of being adopted through unrestricted and transparent procedure do not fall under the prohibition contained in Article 101 TFEU. Such requirements were aimed to ensure that the procedure of adoption of a standard would be open to all interested undertakings. With the view of preventing market foreclosures, the 2001 Guidelines also contained a requirement that open access to the adopted standard will be given to all third parties. This objective was later clarified in the 2011 Guidelines which provide that an open access to the standard should be safeguarded through irrevocable commitment of the participants to the standardisation process to make their technologies available under FRAND terms. Compliance with the suggestions contained in the Guidelines serves as a “safe harbour” for the SSOs. Non-compliance, on the other hand, does not mean that the agreements restrict competition. It only means that the effects of the agreements on competition will be evaluated on a case by case basis.<sup>42</sup>

The Commission has also been supportive of SSOs allowing the participants in the standardisation process to make an ex ante declaration of licensing terms. The 2011 Guidelines provide that IPR owners are allowed to reveal the maximum level of royalties that they would charge for the implementation of their SEPs.<sup>43</sup> This policy although implemented by various SSOs including ETSI, which produces globally applicable standards within the field of ICT,<sup>44</sup> has however, met with resistance. In practise, it is difficult to make an ex ante declaration of licensing conditions since these are dependent on factors which are usually unknown at the time when adoption of standards are discussed. Licensing terms are rather dependent on business strategies of the parties.<sup>45</sup>

Despite having substantial benefits, concerns have been expressed about the potential anti-competitive effects of standardisation on the competition process and consumer welfare especially where standards incorporate technologies protected by patents.<sup>46</sup> The bigger the market success of a standard, the greater anti-competitive concern can be identified.<sup>47</sup> It has to be pointed up that success of a standard is in the interest of both SEP owners and SEP implementers since it enables to enlarge customer base for both.<sup>48</sup> In any event, anti-competitive concerns are greater where compliance with the standard is a *de facto*

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<sup>42</sup> Petrovčič, *op. cit.*, p. 163 – 165

<sup>43</sup> 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 of 14 January 2011 [2011] OJ C11/01, para. 299

<sup>44</sup> European Telecommunications Standards Institute <<http://www.etsi.org/about>> accessed 18 April 2015

<sup>45</sup> Petrovčič, *op. cit.*, p. 173 – 175

<sup>46</sup> de la Mano, M., Nazzini, R. and Zenger H., “Article 102 – Specific Abusive Practices in Relation to IPR Rights”, in Faull, J., & Nikpay, A., *The EU Law of Competition*, 3rd edn, Oxford University Press, 2014, p. 499

<sup>47</sup> Petrovčič, *op. cit.*, p. 24

<sup>48</sup> Lim, *op. cit.*, p. 10 – 11

requirement for market participation such as in the ICT industry, where interoperability of a product is fundamental,<sup>49</sup> and where costs for switching technology are high.<sup>50</sup>

The debate is mainly centred on unilateral conduct of SEP owners. After a patent-protected technology has been implemented into a standard, it is not possible, on technical grounds, to comply with the standard without infringing the patent. The use of the patent thus becomes essential for all manufacturers of the standard-compliant goods, creating a bottleneck in a way that the holder of the standard controls access to the market. The concern from competition law perspective lies within the ownership of SEPs which may increase the SEP owner's bargaining power and lead to a potential opportunistic behaviour with various negative effects.<sup>51</sup> The fear is that the owner of the SEP might take an advantage of the position that he has acquired by incorporation of his patent-protected technology into a standard and may refuse to license his patents or demand onerous licensing terms, thus holding-up the progress of the innovative technology.<sup>52</sup>

A patent hold-up<sup>53</sup> occurs where the SEP implementer has already made substantial investments in order to comply with the standard<sup>54</sup> and subsequently is faced with excessive demands from the SEP owner.<sup>55</sup> Patent hold-up may increase costs of technology for consumers and cause significant inefficiencies within the standardisation process. It is especially of threat where product components are covered by numerous patents such as in the smartphone industry.<sup>56</sup> Petrovčič identifies three types of strategic licensing practices which lead to creation of the hold-up situation. By refusing to license, the SEP holder may potentially exclude others from participating on the relevant product market. Ability to extract excessive licensing fees represents exploitative effect of the SEP holder's behaviour.<sup>57</sup> Moreover, the SEPs holder's behaviour may also have negative effects on his competitors' ability to compete in a secondary market.<sup>58</sup> With these considerations in mind, a balanced approach must be set in order to ensure effective protection of patented technology, which would at the same time secure proper functioning of the competition process with the ultimate goal of protecting the consumers.<sup>59</sup>

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<sup>49</sup> Petrovčič, *op. cit.*, p. 24 – 25

<sup>50</sup> Jones, *op. cit.*, p. 4

<sup>51</sup> de la Mano, "Article 102 – Specific Abusive Practices in Relation to IPR Rights", *op. cit.*, p. 499

<sup>52</sup> Petrovčič, *op. cit.*, p. 3 – 4

<sup>53</sup> The first type of a hold-up, which is commonly referred to as a patent ambush, in a situation where the patent owner might ignore rules of SSOs and intentionally not disclose that he possesses patents essential for adoption of a standard and later claim their relevance, is not dealt with in this thesis since it focuses on post standardisation behaviour.

<sup>54</sup> The investment is represented by sunk costs incurred in order to enable the implementer to use the patented technology. See Shapiro, "Injunctions, Hold-up and Patent Royalties", 12 (2) *American Law and Economics Review* 2010, ("Shapiro 2010"), p. 284

<sup>55</sup> Gabathuler, D., Martinez Rivero, E., "Communications (Telecoms and Internet) – Other Developments" in Faull, J., & Nikpay, A., *The EU Law of Competition*, 3rd edn, Oxford University Press, 2014, p. 1706

<sup>56</sup> Kesan, *op. cit.*, p. 238

<sup>57</sup> Petrovčič, *op. cit.*, p. 30

<sup>58</sup> These cases have been rarely addressed in practise to date. The reason for that is probably that the past cases usually concerned SEP owners not active in the downstream market. See Petrovčič, *op. cit.*, p. 127 et seq. where she discusses practises that could harm the rival's ability to compete under the margin squeeze doctrine.

<sup>59</sup> Kesan, *op. cit.*, p. 238

The hold-up theory in patent law was first applied in legal scholarship by Carl Shapiro in 2001,<sup>60</sup> and later advocated by several other authors, even though there is no empirical evidence supporting this view. As has been noted, “*if hold-up were prevalent in the industry, one would expect to see the profits of SEP holders significantly outstrip those of SEP implementers. Yet, the opposite is true.*”<sup>61</sup> This is illustrated by Apple gaining 80% of its profits in smartphones despite having only few network protocol SEPs, and the traditional holders of SEPs such as Nortel going bankrupt and several others such as Nokia and Motorola Mobility suffering from substantial drops in profit.<sup>62</sup> Furthermore, the fear of the potential threat of refusal to license a SEP seems to go against the rationale of standardisation where the widespread adoption of the technology is in the interest of both SEP owners and SEP implementers. For all these reasons, the hold-up theory has been criticised by numerous scholars, creating a significant point of departure in both legal and economic literature.<sup>63</sup>

Nonetheless, the risk of hold-up remains to be a valid concern for policy makers. So does, however, the opposite phenomenon, which is referred to as hold-out or reverse hold-up. Reverse hold-up represents a situation where licensees refuse to pay for the implementation of SEPs, delay negotiations or propose rates below the value of the patent-protected technology and without there being any risk of facing injunctions or damages, the SEP owner would have to accept. In this kind of situation, the SEP owner would be held up by the prospective licensee.<sup>64</sup> It is clear that complete elimination of injunctions as even potential remedies would enhance the risk of reverse hold-up and would lead to underinvestment in innovation since SEP owners would face the risk of not being able to recoup their past investments. The risk of reverse hold-up is all the more imminent considering the current system. While the SEP holder has an obligation pursuant to the FRAND commitment to negotiate reasonable and non-discriminatory licensing terms, there is no such obligation imposed on SEP implementers and the only way for SEP holders to receive appropriate compensation or to force the implementers to take a license for the SEP is to pursue infringement proceedings.<sup>65</sup> The SEP implementers are “*always better off holding out instead of negotiating a FRAND license,*” since infringement proceedings may last up to several years of litigation and the worst penalty the implementers could face would be to “*pay some fraction of the FRAND royalty*” for the infringement.<sup>66</sup> In accordance with these valid considerations, SSOs, including ETSI, do not prohibit SEP owners from seeking injunctions as potential remedies.<sup>67</sup>

Recent empirical study about litigation in the ICT industry, which was conducted in the U.S., shows that it is not SEPs that are the forefront of the smartphone wars. The litigation

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<sup>60</sup> Shapiro, C., “Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting” in Jaffe, A., Lerner, J., “*Innovation Policy and the Economy*”, Volume I, MIT Press, 2001, 119 – 150 (“Shapiro 2001”)

<sup>61</sup> Harkrider, *op. cit.*, p. 26

<sup>62</sup> *Ibid.*

<sup>63</sup> Petrovčič, *op. cit.*, p. 33

<sup>64</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 290

<sup>65</sup> Harkrider, *op. cit.*, p. 24 – 26

<sup>66</sup> *Ibid.*, p. 24

<sup>67</sup> See *Apple Inc. v. Motorola Inc.*, No. 11-cv-00178 (W.D. Wis. Oct. 29, 2012) (Opinion and Order) (“*There is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards-setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief*”)

battles between the industry's major players are rather concerned with patents not related to standards. The study shows that less than one third of the patents involved in the smartphone war litigation are related to standards and that no injunction was actually granted for a SEP.<sup>68</sup> However, as Lim notes, between 65 and 90% of all patent cases get settled outside of courtrooms. Therefore, *“the data from the study may grossly underestimate the severity of the problem as defendants negotiate their settlements under the threat of patent hold-ups.”*<sup>69</sup>

### 2.3. Patent rights and competition law intervention

Patent right represents a negative statutory right, allowing a patent owner to exclude others from commercially exploiting the patent without the owner's consent for a specified period of time, normally 20 years from the date of filing for patent application.<sup>70</sup> It covers the right to exclude others from using the protected technology and the right to set the terms and conditions of commercial use, as well as the right to oppose infringements.<sup>71</sup> The inventor is given legal monopoly to recoup his investments either by reserving the use of patent-protected technology for himself or by licensing the patent to others or by the combination of the two.<sup>72</sup> Discrimination is, to a certain extent, inherent in the right, since the patent owner can basically dictate conditions for licensing and freely determine the licensees. The rationale for granting exclusive patent rights is to promote innovation by offering statutory protection for technological inventions and *“by allowing for the exclusion of unlicensed ‘free riders’.”*<sup>73</sup> Without the protection, technological inventions could be replicated at low costs by other market participants, leaving the inventors without possibility to recoup their past investments, which, in the long run, would be detrimental to innovation and consumer welfare. Even though it does not come without costs in a way that the patent owner might be able to charge monopoly price for a certain period of time or that the patent may act as a barrier to entry the market, it is generally believed that those are outweighed by the benefits and that patent rights serve as a useful tool to stimulate innovation.<sup>74</sup>

Innovation in modern industries such as the ICT is to a large extent based on earlier inventions. Shapiro refers to this phenomenon of one invention being built upon an earlier invention which in turn was built upon even earlier inventions and which might actually rely on technologies that are still protected by patents, as *“standing on top of a huge pyramid.”*<sup>75</sup> Shapiro recognises that the current patent system creates a *“web overlapping intellectual property rights that a company must hack its way through in order to commercialize new*

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<sup>68</sup> Gupta, K., Snyder, M., “Smart Phone Litigation and Standard Essential Patents”, Hoover Institution Working Group on Intellectual Property, Innovation, and Prosperity, Stanford University, May, 2014, p. 1 – 4

<sup>69</sup> Lim, *op. cit.*, p. 7

<sup>70</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (WTO), 1 January 1995. OJ L 336, 23.12.1994, p. 214 (“TRIPs Agreement”), articles 28 and 33

<sup>71</sup> Motorola Mobility, para. 29

<sup>72</sup> Kesan, *op. cit.*, p. 235

<sup>73</sup> Telyas, *op. cit.*, p. 205

<sup>74</sup> Petrovič, *op. cit.*, p. 40 – 42

<sup>75</sup> Referring to Newton, who described science as *“standing on the shoulder of giants”* see Shapiro 2001, *op. cit.*, p. 120

*technology.*<sup>76</sup> Thus, it appears that in industries with cumulative inventions, IPRs can in fact hold back further innovation.<sup>77</sup>

It has been recognized that patent law and competition law seek the same objective, to maximise “*allocative, productive and dynamic efficiency*,”<sup>78</sup> or in other words, to promote innovation and enhance consumer welfare. Competition law aims to facilitate both static and dynamic competition, by stimulating competitors to offer their best products and thus keeping the market competitive. Patent law promotes dynamic competition, encouraging competition by substitution.<sup>79</sup> The patent law system is efficient both in short term and in long term. In short term, even though products are supplied at higher price, consumers get better choice. In long term, it is the whole society who benefits since after the expiration of the patent, the industry is able to produce more and at lower costs.<sup>80</sup> In the words of the former DG Comp Commissioner Almunia, “*the protection of intellectual property is a cornerstone of innovation and growth. But so is competition.*”<sup>81</sup>

However, since the bodies of law use different tools for achieving the objective, a conflict can arise, and even a legitimately obtained patent right, in particular an exercise of the patent right to be precise, may trigger competition law concerns.<sup>82</sup> Concerns have been raised regarding “*the expansion of the domains of patentability, and the gradual loosening of standards for granting patents*” in a way that could lead to exploitation of the patent system and the use of patents for strategic purposes, blocking competitors and deterring innovation.<sup>83</sup> Of competition law concern is especially use of patents by undertakings that are dominant on the market.<sup>84</sup>

Lim argues that despite playing a complementary role, competition law is more suited for handling the anti-competitive conduct before a standard is set, whereas patent law is better used for resolving the disputes afterwards.<sup>85</sup> He explains that it is not a role of competition law to control SSOs policies or to solve contractual disputes between the parties on what constitutes FRAND terms and what not. The view of less intervention on competition law grounds represents the approach in the U.S., where the Antitrust Division of the Justice Department advocates IP policy approach which would encourage the parties at dispute to settle rather than for them to have recourse to injunctions.<sup>86</sup>

In the EU, intervention on competition law grounds has two goals – economic and political.<sup>87</sup> The aim of achieving economic efficiency is based on the ordoliberal school of

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<sup>76</sup> Shapiro 2001, *op. cit.*, p. 120

<sup>77</sup> Kesan, *op. cit.*, p. 236

<sup>78</sup> de la Mano, “Article 102 – Specific Abusive Practices in Relation to IPR Rights”, *op. cit.*, p. 490

<sup>79</sup> Petrovčič, *op. cit.*, p. 43

<sup>80</sup> de la Mano, “Article 102 – Specific Abusive Practices in Relation to IPR Rights”, *op. cit.*, p. 490

<sup>81</sup> Antitrust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents. Press Release Database, European Commission. Brussels, 6 May 2013. <[http://europa.eu/rapid/press-release\\_IP-13-406\\_en.htm](http://europa.eu/rapid/press-release_IP-13-406_en.htm)> accessed 2 May 2015

<sup>82</sup> Petrovčič, *op. cit.*, p. 43 – 44

<sup>83</sup> de la Mano, “Article 102 – Specific Abusive Practices in Relation to IPR Rights”, *op. cit.*, p. 490

<sup>84</sup> Petrovčič, *op. cit.*, p. 43 – 45

<sup>85</sup> Lim, *op. cit.*, p. 72 et seq.

<sup>86</sup> *Ibid.*, p. 72 and 81

<sup>87</sup> Petrovčič, *op. cit.*, p. 60

thought which is centred on the premise that competition fosters economic progress.<sup>88</sup> The EU approach is further based on the premise that competitive market promotes innovation.<sup>89</sup> This belief is based on the economics of Arrow who holds that an undertaking in a competitive environment has a higher motivation to reduce the price of its product than a monopolist.<sup>90</sup>

Nonetheless, Article 102 TFEU also relates to the broader political goal of establishing common market in Europe, the rationale being that private undertakings should not be able to re-build barriers that were taken down between Member States.<sup>91</sup> In that connection, it has to be emphasized that even though in theory it might be preferable to address problems raised by SEPs through contract law or patent law, these policies may not be best suited for use within the specific European legal environment.<sup>92</sup> The main arguments for invoking EU competition law for addressing the concerns raised by SEPs relates to the fact that the patent law system differs in the Member States, as there is no single EU regulator, and the lack of harmonisation provides only for limited number of remedies.<sup>93</sup> Thus, in broader perspective, the rationale behind competition law intervention in the EU is to cure the failures identified above.

Overall, one more reason for addressing the opportunistic conduct of SEP owners through competition law can be identified. Competition law protects the interest of consumers, whereas patent law and contract law only protect the interests of individual licensees.<sup>94</sup>

## 2.4. FRAND commitments

Since a SEP owner would normally have, as any other owner of a patent, statutory right to exclude others from using his patent, thus making the standard inaccessible, the participants in the standardisation process, who hold SEPs,<sup>95</sup> are generally required to declare that they are willing to license their patents on FRAND terms.<sup>96</sup> In the Commission's words, FRAND terms should, in an ideal scenario, represent the final result of licensing negotiations.<sup>97</sup> The commitment to license on FRAND terms is given prior to the adoption of the standard.<sup>98</sup> FRAND is a commitment of a patent owner not to exercise full scope of his rights. The incentive for the patent owner is that the commitment is given in exchange for adoption of his

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<sup>88</sup> Lovdahl Gormsen, L. "Article 82 EC: Where Are We Coming From and Where Are We Going To?", 2 (2) *The Competition Law Review*, 2006, p. 9

<sup>89</sup> Petrovčič, *op. cit.*, p. 65

<sup>90</sup> Arrow, K., "Economic Welfare and the Allocation of Resources for Invention," NBER Chapters, in: *The Rate and Direction of Inventive Activity: Economic and Social Factors*, National Bureau of Economic Research, Inc., 1962 <<http://www.nber.org/chapters/c2144.pdf>> accessed 16 April 2015

<sup>91</sup> Petrovčič, *op. cit.*, p. 60

<sup>92</sup> Cotter, T. F., "Comparative Law and Economics of Standard-Essential Patents and FRAND royalties", 22 *Texas Law Journal*, 2014, p. 314 – 315

<sup>93</sup> de la Mano, "Article 102 – Specific Abusive Practices in Relation to IPR Rights", *op. cit.*, p. 511 – 512

<sup>94</sup> Telyas, *op. cit.*, p. 193

<sup>95</sup> It has to be pointed up that SSOs do not generally make any investigation into whether a patent declared as an SEP is truly essential. The patents are declared as essential by their owners. See for example Camesasca, P., Langus, G., Neven, D., and Treacy, P., "Injunctions for Standard Essential Patents: Justice Is Not Blind", 9(2) *Journal of Competition Law & Economics*, 2013, p. 292

<sup>96</sup> Petrovčič, *op. cit.*, p. 28

<sup>97</sup> Motorola Mobility, para. 291

<sup>98</sup> 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 2011/C 11/1, 14 January 2011, para. 285

patent-protected technology into a standard which is supposed to broaden his licensing opportunities.<sup>99</sup> In the context of the ICT industry, SEP holders are required to issue an irrevocable commitment in writing to grant licenses to all third parties on FRAND terms pursuant to Article 6.1 of the ETSI IPR policy, a document which was adopted in accordance with the Commission's 2011 Horizontal Guidelines.<sup>100</sup>

FRAND commitment aims to ensure that an effective access to the standard will be given.<sup>101</sup> It does not, however, mean that the SEP owner is required to give unconditional access to the technology incorporated in the standard. The SEP owner is obliged to license only as long as the negotiated licensing terms are fair, reasonable and non-discriminatory.<sup>102</sup>

It is important to note that the value of standards only grows with implementation. FRAND commitment seeks to strike a balance between the interests of SEP owners by ensuring an appropriate remuneration for making their technological inventions available to others, and the interests of SEP implementers by securing the competitive conditions that existed on the market before the technology was adopted into the standard.<sup>103</sup> The ultimate objective is that SEP owners, SEP implementers and end consumers all benefit from the success of the standard.<sup>104</sup> It is a preventive measure which serves to ensure that the market is not locked-in<sup>105</sup> and that SEP owners will not be able to exploit the market power, which they have gained pursuant to adoption of the technology into a standard, by imposing excessive and discriminatory licensing terms in pursuit of maximising their profit.<sup>106</sup> In a broader context, it prevents SEP holders from acting in a way which would be detrimental to the competition process and to consumer welfare.<sup>107</sup>

Since the meaning of what constitutes fair, reasonable and non-discriminatory is not clearly defined, legal certainty remains an issue. Therefore, some argue that the vagueness of the term FRAND increases the risk of disputes between SEPs holders and those who seek to license the SEPs since both parties may have a different view of what constitutes FRAND terms.<sup>108</sup> Others, however, claim that it is exactly the vagueness that makes FRAND a powerful tool, incentivising SEP implementers to negotiate the best possible terms for their licensing agreement.<sup>109</sup> Had the criteria been defined, it would unduly restrict business freedom of interested parties in the negotiation process. The Commission has noted that

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<sup>99</sup> Lemley, M. A., & Shapiro, C., "A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents", 28 *Berkley Technology Law Journal*, 2013, ("Lemley, Shapiro 2013"), p. 1140

<sup>100</sup> 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 2011/C 11/1, 14 January 2011, para. 285

<sup>101</sup> Zografos, *op. cit.*, p. 52

<sup>102</sup> Petit, *op. cit.*, p. 32

<sup>103</sup> Zografos, *op. cit.*, p. 52 – 53

<sup>104</sup> Ratliff, J., and Rubinfeld, D., L., "The Use and Threat of Injunctions in the RAND Context", 9 (1) *Journal of Competition Law & Economics*, 2013, p. 5

<sup>105</sup> In other words, it aims to reduce the risk of ex ante hold-up. Camesasca, P., Langus, G., Neven, D., and Treacy, P., "Injunctions for Standard Essential Patents: Justice Is Not Blind", 9(2) *Journal of Competition Law & Economics*, 2013, p. 289

<sup>106</sup> Jones, *op. cit.*, p. 6

<sup>107</sup> Telyas, *op. cit.*, p. 112 et seq.

<sup>108</sup> Ratliff, *op. cit.*, p. 5 – 6

<sup>109</sup> de la Mano, "Article 102 – Specific Abusive Practices in Relation to IPR Rights", *op. cit.*, p. 506

FRAND terms are intentionally open and flexible, stating that “reasonableness” and “fairness” are subjective factors which are dependent on specific circumstances of each individual case.<sup>110</sup> The ETSI Guide on IPR<sup>111</sup> states in that regard that it is for the SEP owner and the SEP implementer to negotiate terms of use of the patent and that for that purpose, the parties should engage in “*an impartial and honest negotiation process.*”<sup>112</sup> The ETSI IPR Policy does not provide for rules to resolve disputes in the event that the parties are not able to reach an agreement on FRAND terms, however, the Guide states that the parties should try to resolve any dispute on bilateral and amicable basis.<sup>113</sup>

SSOs have abstained from defying the precise meaning of FRAND terms yet for another reason. Allowing an SSO, an organisation comprising of competitors within the relevant industry, to discuss pricing strategies would raise anti-competitive concerns under Article 101 TFEU.<sup>114</sup>

Even though the rationale of FRAND terms is to minimise risk of anti-competitive effects *ex ante*, they do not prevent that issues related to Article 102 TFEU and abuse of dominant position will not arise.<sup>115</sup> In the Commission’s own words, “*a FRAND commitment cannot be considered a guarantee that a SEP holder will not abuse its market power.*”<sup>116</sup>

Telyas argues that the term FRAND is not new in the competition law context. In his view, the concept has been enshrined in Article 102 (a) and (c) TFEU which condemns unfair and discriminatory trading practices. The CJEU already held in *United Brands*<sup>117</sup> that charging excessive<sup>118</sup> and discriminatory prices constitutes an abuse of dominant position within the meaning of Article 102 TFEU.<sup>119</sup> Even though the case had nothing to do with IPRs and standards, the Commission has in its Horizontal Guidelines argued for constructing the FRAND concept in the light of the excessive prices line of case law, stating that licensing fees charged within the standard-setting context should be considered unfair or unreasonable as long as they do not bear any reasonable relation to the economic value of the IPR.<sup>120</sup> However, framing the concept of unfair and unreasonable royalty rates exclusively within the excessive prices line of case law may not be the most appropriate solution considering that licensing strategies might not only have exploitative, but also exclusionary effects on competitors.<sup>121</sup> Lemley and Shapiro advocate the view that reasonable royalties should be

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<sup>110</sup> Communication from the Commission, Intellectual Property Rights and Standardisation, COM(92) 445 Final, 27 October 1992, point 4.3.3.

<sup>111</sup> ETSI Guide on Intellectual Property Rights of 19 September 2013 (“ETSI Guide on IPR”), article 4.1. <<http://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf>> accessed 20 May 2015. Unlike the ETSI IPR Policy, which is binding on ETSI members, the Guide is purely explanatory

<sup>112</sup> ETSI Guide on IPR, article 4.4

<sup>113</sup> *Ibid.*, article 4.3

<sup>114</sup> Kesan, *op. cit.*, p. 239

<sup>115</sup> Telyas, *op. cit.*, p. 115

<sup>116</sup> Case No COMP/M.6381 – Google/Motorola Mobility, Commission Decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, C(2012) 1068 [2012], (“Google/Motorola”), para. 113

<sup>117</sup> Case 27/76 *United Brands Company and United Brands Continental BV v Commission of the European Communities*, judgment of 14 February 1978, ECLI:EU:C:1978:22 (“*United Brands*”)

<sup>118</sup> Excessive price bears no reasonable relation to the economic value of the product supplied

<sup>119</sup> Telyas, *op. cit.*, p. 112 - 113

<sup>120</sup> Para. 289 of the 2011 Horizontal Guidelines and reference to *United Brands*, para. 250

<sup>121</sup> Petrovčič, *op. cit.*, p. 181

based on value of the patent-protected technological invention before it was incorporated into a standard. In other words, they consider as reasonable the royalties that could have been obtained by the SEP owner in an open competition with other technologies.<sup>122</sup>

FRAND does not and cannot represent a commitment to reach an agreement with a specific end result, since the SEP owner commits to a SSO, not to particular licensees who might not even be known at the time the commitment is given.<sup>123</sup> FRAND only sets up a relationship between the SEP owner and the SSO.<sup>124</sup> The commitment does not usually create a direct contractual relationship between the SEP owner and potential implementers, even if they were members of the same SSO.<sup>125</sup> The key issue whether the FRAND commitment constitutes a binding contract and whether a potential licensee can rely on the SEP owner's promise to license as a beneficiary depends largely on the language of the SSO IPRs' policies, although in the end, it is for the applicable national law to decide.<sup>126</sup> For instance, district courts in the U.S. have held in two cases that FRAND commitment creates a legally binding contractual obligation and that third parties can rely on that obligation as beneficiaries.<sup>127</sup> FRAND commitment is thus not seen as a mere promise to negotiate in a good faith, but rather as a commitment to grant licences and if breached, it should be remedied by a specific performance of contract.<sup>128</sup> The view, however, differs between countries. Courts in Germany, for example, have held that FRAND commitment does not result in creation of a right to obtain a license, it merely serves as an invitation for offers.<sup>129</sup> The German view is that FRAND is only a commitment to negotiate with potential licensees in a good faith.<sup>130</sup>

At the time of writing of this thesis, there are still issues raised by the FRAND commitments remaining to be solved. For instance, it is not entirely clear what is the value of FRAND terms when they are not enforceable, as SSOs lack enforcement mechanism to sanction disobedient SEP owners or implementers,<sup>131</sup> or whether these terms should be “understood purely through the lens of contract law.”<sup>132</sup> Furthermore, it is still highly disputed whether FRAND commitment should determine what kind of remedies can SEPs owners obtain in patent infringement proceedings.<sup>133</sup> Questions have been raised for instance whether the availability of injunctive reliefs is compatible with FRAND commitment and competition law on abuse of dominant position.<sup>134</sup> It is also not entirely clear whether FRAND licenses should be assessed under different, possibly less strict conditions, to constitute an abuse of dominant position under Article 102 TFEU than in cases where the

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<sup>122</sup> Lemley, Shapiro 2013, *op. cit.*, p. 1140

<sup>123</sup> Larouche, *op. cit.*, p. 6

<sup>124</sup> Kesan, *op. cit.*, p. 257

<sup>125</sup> Telyas, *op. cit.*, p. 191

<sup>126</sup> Cotter, *op. cit.*, p. 315 – 316

<sup>127</sup> Microsoft Corp. v. Motorola, Inc., 854 F. Supp. 2d 993, 997 (W.D. Wash. 2012), and Apple, Inc. v. Motorola Mobility, Inc., 886 F. Supp. 2d 1061, 1081-82 (W.D. Wis. 2012). However, as stems from the latter judgment, contract law differs within the 50 federal states of the U.S.

<sup>128</sup> Lim, *op. cit.*, p. 33 – 35

<sup>129</sup> Mueller, F., “The German approach to FRAND: let's err on the side of injunctions”, Foss Patents, 23 May 2012, <<http://www.fosspatents.com/2012/05/german-approach-to-frand-lets-err-on.html>> accessed 5 April 2015

<sup>130</sup> In that regard see Charter 5.1.1.

<sup>131</sup> Petit, *op. cit.*, p. 42

<sup>132</sup> Kesan, *op. cit.*, p. 313

<sup>133</sup> *Ibid.*, p. 234

<sup>134</sup> Zografos, *op. cit.*, p. 53

license was given on non-FRAND pledged terms.<sup>135</sup> All these issues are tied back to the broader question to what extent does FRAND commitment limit the exclusive right of SEP owners to choose whether to license their inventions and if so on what terms. In even broader sense, it asks how should the different legal systems – patent law, contract law and competition law – interact to achieve a balanced approach.<sup>136</sup>

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<sup>135</sup> Telyas, *op. cit.*, p. 112

<sup>136</sup> Jones, *op. cit.*, p. 7 – 8

### 3. Exercise of SEPs as an abuse of dominant position

There is a concern from competition law perspective that SEP owners may potentially use the market power that they have gained upon inclusion of their patent-protected technology into a standard in order to distort competition by refusing to license SEP implementers or by imposing on them onerous licensing terms under the threat of an injunction. Although the issue of SEP owners' possibility to obtain injunctions in SEPs infringement proceedings has not been dealt with before the CJEU previously, it raises concerns similar to cases where the CJEU has considered circumstances under which the exercise of IPRs can violate Article 102 TFEU.<sup>137</sup>

#### 3.1. Dominant position of SEPs owners under Article 102 TFEU

Dominant position is defined as “*a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers.*”<sup>138</sup> The holding of dominant position in a market entails a “*special responsibility not to impair, by using methods other than those which come within the scope of competition on the merits,*<sup>139</sup> *genuine undistorted competition in the common market.*”<sup>140</sup> It follows that in specific circumstances, a right of the dominant undertaking to adopt certain measures, which would be found not abusive if taken by a non-dominant undertaking, may be encroached upon.<sup>141</sup> Dominant position in itself is, however, not prohibited.

Assessment of the patent owner's conduct entails evaluation of his market power. While it is true that a patent confers on his owner a monopoly power over the invention, admittedly containing a right to exclude others from using part of the invention covered by the patent,<sup>142</sup> this does not equate to market power within the meaning of competition law as it does not necessarily allow the patent owner to behave to an appreciable extent independently of its competitors or consumers. Within the context of SEPs, the Commission has explicitly stated that “*even if the establishment of a standard can create or increase market power of IPR holders [...], there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power.*”<sup>143</sup>

The position of competition law authorities and courts is, however, not consistent. In the *Google/Motorola* merger case, the Commission held that each SEP constitutes a separate relevant technology market on its own, since “*there is by definition no alternative or*

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<sup>137</sup> Jones, *op. cit.*, p. 17

<sup>138</sup> *United Brands*, para. 65

<sup>139</sup> Originally referred to as “normal competition” in Case 85/76 *Hoffmann-La Roche & Co. AG v Commission of the European Communities*, judgment of 13 February 1979, ECLI:EU:C:1979:36, para. 91

<sup>140</sup> T-321/05 *AstraZeneca AB and AstraZeneca plc v European Commission*, judgment of 1 July 2010, ECLI:EU:T:2010:266, para. 671

<sup>141</sup> Case 322/81 *NV Nederlandsche Banden-Industrie Michelin v Commission of the European Communities*, judgment of 9 November 1983, ECLI:EU:C:1983:313, para. 57. T-111/96 *ITT Promedia v Commission of the European Communities*, judgment of 17 July 1998, ECLI:EU:T:1998:183, para. 139.

<sup>142</sup> de la Mano, “Article 102 – Specific Abusive Practices in Relation to IPR Rights”, *op. cit.*, p. 490

<sup>143</sup> 2011 Horizontal Guidelines, para. 269

*substitute.*”<sup>144</sup> This finding leads to an inevitable conclusion that each SEP owner is dominant in the market of its technology, thus creating a presumption of dominance. This position has been criticized by legal scholars on the basis that there is no economic justification for introducing such presumption.<sup>145</sup> The market power of the SEP owners largely depends on the interest in the patented technology, respectively on the success of the standard, and on the availability of alternative standards or non-standardised substitutes. It is true that in the context of network industry such as ICT, SEPs usually represent their own relevant market as there are no alternative standards available, and the finding of dominant position is thus justified.<sup>146</sup> Nonetheless, market power must be evaluated on a case by case basis,<sup>147</sup> and a SEP owner should be considered dominant only where he does not face considerable constraints.<sup>148</sup>

In any event, even an existence of strong market power does not in itself constitute a violation of competition law, and anti-competitive conduct on the part of the dominant undertaking must be established.<sup>149</sup> The following lines address anti-competitive concerns triggered by licensing practices.

### **3.2. Refusal to deal**

A patent right confers an exclusive right to exclude others from commercial exploitation of the patented technology. It gives the patent owner the right to choose trading partners and trading terms.<sup>150</sup> In other words, patent rights constitute means which undertakings may use when engaging in competition on the merits.<sup>151</sup> The CJEU has recognized that the right to prevent third parties from exploiting IPRs constitutes the core of such rights and that the obligation to grant license would thus deprive the patent owner “*of the substance of his exclusive right.*”<sup>152</sup> Therefore, a mere refusal to license cannot constitute an anti-competitive conduct and cannot amount to an abuse of dominant position. However, refusal to license patent-protected technology can foreclose the market to competitors, thus, in specific circumstances, it can raise competition law concerns,<sup>153</sup> specifically under Article 102 (b) TFEU which prohibits abuses of dominant position by means of conduct “*limiting production, markets or technical development to the prejudice of consumers.*”

The CJEU has held that refusal to license an IPR can amount to an abuse of dominant position where four cumulative conditions are fulfilled: the refusal (1) is likely to eliminate all competition on the secondary market on the part of the person seeking the license, (2) the access to the input is indispensable to carrying on the person’s business on the secondary market, in that there be no actual or potential substitutes, (3) prevents an emergence of new

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<sup>144</sup> Google/Motorola Mobility, para. 54

<sup>145</sup> Petrovčič, *op. cit.*, p. 69 – 70

<sup>146</sup> *Ibid.*, p. 75 – 76

<sup>147</sup> *Ibid.*, p. 72

<sup>148</sup> *Ibid.*, p. 77

<sup>149</sup> 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, [2009] O.J. C 45/02, at 1

<sup>150</sup> Telyas, *op. cit.*, p. 188

<sup>151</sup> *Ibid.*, p. 199

<sup>152</sup> C-238/87 *AB Volvo v Erik Veng (UK) Ltd.*, judgment of 5 October 1988, ECLI:EU:C:1988:477, para. 8

<sup>153</sup> Petrovčič, *op. cit.*, p. 50 – 51

products for which there is a potential consumer demand, and (4) is incapable of being objectively justified.<sup>154</sup> The theory of harm behind the refusal to license doctrine is based on the theory of transfer of power. The idea is that an undertaking which is dominant on the upstream market should not be allowed to use its position in a secondary market by refusing to license to its competitors. It presupposes anti-competitive conduct on the part of vertically-integrated undertakings.<sup>155</sup>

The so-called exceptional circumstances test was adopted in *Magill*,<sup>156</sup> and elaborated on in *IMS Health*<sup>157</sup> and *Microsoft*<sup>158</sup> which represent the latest cases on refusal to license.<sup>159</sup> In the *IMS Health* case, which concerned a *de facto* industry standard,<sup>160</sup> the Court clarified the condition of indispensability, recalling the *Oscar Bronner*<sup>161</sup> judgment, and stated that it is only fulfilled where there are “no alternative solutions, even if they are less advantageous, and [where] there are technical, legal or economic obstacles capable of making it impossible or at least unreasonably difficult” for other undertakings to create alternative products.<sup>162</sup> In that connection the Court held that it would be necessary for the referring court to determine whether users of the brick structure were unable to use alternative substitutes.<sup>163</sup> Nevertheless, the case was quite controversial considering that there was no secondary market for the product developed by IMS Health.<sup>164</sup> The Court has held that “it is sufficient that a potential or even a hypothetical secondary market can be identified.”<sup>165</sup> In that way it substantially relaxed the conditions of the exceptional circumstances test as adopted in *Magill*.<sup>166</sup> The criterion of emergence of a new product was even further diminished in *Microsoft*, where the General Court held that the exceptional circumstances have not been exhaustively set out in *Magill* and *IMS Health* and that a refusal to license may constitute an abuse of dominant position not only where it prevents a new product from emergence, but in accordance with Article 102 (b) TFEU also where it might limit technical development to the prejudice of consumers.<sup>167</sup> Petit, however, argues that this elimination of the new product requirement was “implicitly disavowed” in the 2012 *Microsoft*<sup>168</sup> judgment.<sup>169</sup> It is questionable to what extent does the situation where an IPR owner builds a secondary market which it subsequently tries

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<sup>154</sup> C-241/91 P & C-242/91 *RTE and ITP v European Commission*, judgment of 6 April 1995, ECLI:EU:C:1995:98 (“*Magill*”), paras. 52 – 56

<sup>155</sup> Petit, *op. cit.*, p. 7

<sup>156</sup> C-241/91 P & C-242/91 *RTE and ITP v European Commission*, judgment of 6 April 1995, ECLI:EU:C:1995:98 (“*Magill*”)

<sup>157</sup> C-418/01 *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG.*, judgment of 29 April 2004, ECLI:EU:C:2004:257 (“*IMS Health*”)

<sup>158</sup> T-201/04 *Microsoft Corporation v European Commission*, judgment of 17 September 2007, ECLI:EU:T:2007:289 (“*Microsoft 2007*”)

<sup>159</sup> Telyas, *op. cit.*, p. 179

<sup>160</sup> IMS Health developed a format to present the data on the sale of pharmaceuticals, “brick structure”

<sup>161</sup> C-7/97 *Oscar Bronner GmbH & Co.KG v. Mediaprint Zeitungs und Zeitschriftenverlag GmbH & Co.KG.*, judgment of 26 November 1998, ECLI:EU:C:1998:569

<sup>162</sup> *IMS Health*, para. 28

<sup>163</sup> *Ibid.*, paras. 29 – 30

<sup>164</sup> *Ibid.*, para. 43

<sup>165</sup> *Ibid.*, para. 44

<sup>166</sup> Telyas, *op. cit.*, p. 180 – 181

<sup>167</sup> *Microsoft 2007*, para. 647

<sup>168</sup> T-167/08 *Microsoft Corporation v European Commission*, judgment of 27 June 2012, ECLI:EU:T:2012:323 (“*Microsoft 2012*”)

<sup>169</sup> Petit, *op. cit.*, p. 30

to reserve for itself by refusing to license play a role in the assessment of the abuse. Even though the General Court did not refer to this issue in the judgment itself, the Commission in its previous investigation pointed to the fact that Microsoft, by refusing to license, tried to disrupt previous established levels of supply, an issue which was of importance in the early case law of *United Brands*<sup>170</sup> or *Commercial Solvents*.<sup>171</sup>

The exceptional circumstances line of case law relies on “essential facilities doctrine” as adopted in *Commercial Solvents* and further developed in *Oscar Bronner*. Even though the CJEU has never used the wording, it held that an undertaking dominant in the market may be required to grant access to an input essential for providing services in a secondary or downstream market. As seen from the foregoing, the same approach was adopted within the context of IPRs, where access on competition law grounds is required where the IPR in question constitutes an essential input. Even though neither of the case discussed concerned patent rights, it has been recognized that competition law does not differentiate between different intellectual property rights.<sup>172</sup> Thus, there is nothing preventing the approach adopted within the context of copyright-protected information from being applied to patent-protected technology. While it is true that a remedy of compulsory licensing is available under the patent law system, the purpose of that remedy is different from the intervention on the competition law basis. Compulsory licenses can generally be granted only where there are issues of morality and public health, whereas competition law aims to prevent anti-competitive conduct and distortion of competition.<sup>173</sup>

In the same way as a refusal to license an “ordinary” patent, a refusal to license a SEP can in exceptional circumstances amount to an abuse of dominant position under Article 102 (b) TFEU since such refusal allows a SEP owner to exclude SEP implementers from the market of standard compliant goods. In the context of ICT industry and network protocol SEPs, it allows the SEP owner to exclude the implementers from the entire product market. That is the case where owners of network protocol SEPs also compete on the market for mobile telephone devices and by refusing to license their network protocol SEPs to other mobile telephone manufacturers, they are able to foreclose the entire downstream market.<sup>174</sup> In the context of SEPs it is always possible to distinguish two separate markets since the technology market which comprises of SEPs is separate from a product market where the patent-protected technology is actually being used.<sup>175</sup> Regarding the *IMS Health* controversy about the non-existing secondary market, such issue would thus not arise within the context of SEPs.

Petrovčič illustrates the fulfilment of exceptional circumstances under the *Magill/IMS Health* test within the context of SEPs in regard to the GSM standard at the time when it

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<sup>170</sup> Telyas, *op. cit.*, p. 182

<sup>171</sup> Joined Cases 6/73 & 7/73 *Istituto Chemioterapico Italiano S.p.A. and Commercial Solvents Corporation v Commission of the European Communities*, judgment of 6 March 1974, ECLI:EU:C:1974:18

<sup>172</sup> See *Microsoft 2007*, paras. 288 – 289

<sup>173</sup> Petrovčič, *op. cit.*, p. 54 – 55

<sup>174</sup> *Ibid.*, p. 104

<sup>175</sup> Telyas, *op. cit.*, p. 183. See in that regard Commission Notice — Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, OJ C 89, 28. 3. 2014, p. 3 – 50, para. 20 et seq., where the Commission stipulated that it differentiates between an input market for the technology and output market for the products incorporating the technology.

represented a *de facto* standard for the participation in the EU market for mobile devices. The refusal to license the GSM standard would be likely to eliminate all competition on the downstream market as the mobile devices would not interoperate with other devices which were based on the GSM standard and which were predominant on the European market. The access would be indispensable to carrying on the business in the downstream market given that the GSM standard was a *de facto* requirement for participation in the EU market for mobile devices.<sup>176</sup> Even though in light of *Oscar Bronner* case law, indispensability might not be fulfilled where there are other competing standards or non-standardised technologies available to the prospective licensees, although less attractive, as Petrovčič notes, it is highly unlikely that an owner of an SEP would be found dominant without the SEP being considered as indispensable. Indeed, the Commission and the CJEU often infer indispensability of an input from the undertaking's dominant position.<sup>177</sup> The refusal would also be liable to prevent release of new mobile devices. In regard to the fulfilment of the requirement of indispensability, Petit refers to the Commission's Guidance Paper on Enforcement Priorities which acknowledges that where "*requesting undertaking [...] had made relationship-specific investments in order to use the subsequently refused input,*" the input at issue may more likely be regarded as indispensable.<sup>178</sup> This is because in the standardisation context, "*ex post design decisions are specifically based on the essential technologies selected ex ante.*"<sup>179</sup> Nonetheless, the requirement of indispensability would not be hard to fulfil under the *Microsoft* test anyway as even an emergence of mobile devices which would contain only a minor difference to the devices already available on the market would be captured by the test, respectively by the notion of technical development.<sup>180</sup>

Considering that the exceptional circumstances doctrine was developed in cases where IPR owners never expressed their intention to grant licences to others, liability under competition law is even more likely to arise within the context of SEPs voluntarily committed by their owners to be licensed under FRAND terms.<sup>181</sup>

### 3.3. Excessive royalties

Article 102 TFEU explicitly prohibits dominant undertakings from imposing unfair pricing or trading conditions. It has been clarified by the case law that the term "unfair" encompasses "excessive"<sup>182</sup>. In that regard, the CJEU has stated that IPR owners are not free to demand the highest possible remuneration, but only remuneration that is appropriate.<sup>183</sup> In the context of SEPs, the appropriateness of remuneration can perhaps be equated with the term FRAND.

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<sup>176</sup> Petrovčič, *op. cit.*, p. 105

<sup>177</sup> *Ibid.*, p. 107

<sup>178</sup> Guidance on Commission's Enforcement Priorities in Applying Article 82 of the EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings, OJ C 45, pp. 7 – 20 (2009), para. 84

<sup>179</sup> Petit, *op. cit.*, p. 8

<sup>180</sup> Petrovčič, *op. cit.*, p. 105

<sup>181</sup> *Ibid.*, p. 105 – 106

<sup>182</sup> Excessive prices are "prices which have no reasonable relation to the economic value of products supplied" see *United Brands*, para. 250

<sup>183</sup> Although in relation to copyright, see Joined cases C-403/08 and C-429/08 *Football Association Premier League Ltd. and Others v QC Leisure and Others and Karen Murphy v Media Protection Services Ltd.*, judgment of 4 October 2011, ECLI:EU:C:2011:631, para. 108

Under these observations, demanding excessive royalties for the use of SEPs could amount to an abuse of dominant position.<sup>184</sup>

Even though Article 102 TFEU provides basis for competition law intervention towards excessive prices, it is hardly ever applied in practise in regard to exploitative abuses. Such approach is based on the assumption that high prices generally attract new entrants to the market which in the end leads to reduction of prices between the competitors to competitive level. Thus, the intervention is unnecessary since the market disposes of the ability to self-correct.<sup>185</sup> The competition authorities only intervene in markets where there is a presence of a significant barrier to entry, such as in cases of natural and legal monopolies, which is also a case of IPRs.<sup>186</sup> The Commission has stressed that although its enforcement priorities are set on practises that aim to exclude competitors from the market, it will take action even in regard to exploitative practices where the protection of consumers and functioning of the market could not be ensured adequately by other means.<sup>187</sup> It has been suggested that such is the case of SEPs where the network effects and the standardisation context prevent self-correct mechanisms from being developed in the market, thus justifying competition law intervention against exploitative practices of the SEPs' owners.<sup>188</sup>

Nevertheless, competition law intervention against exploitative practices still represents a contentious issue. To start with, it appears as highly problematic to draw a clear line between high royalties which are legitimate and high royalties which are exploitative.<sup>189</sup> In that regard it is highly disputable whether determination of fair royalties should be a task for competition authorities or courts or whether it should rather be left to public regulators.<sup>190</sup> In case of the former, there is a risk of competition authorities being too occupied with determining the level of fair licensing fees between competitors which could potentially undermine their primary role of overseeing protection of competition, as such, on the market.<sup>191</sup>

On the other hand, the situation where no uniform legal approach has been adopted for assessment of whether royalties are exploitative or not contributes to legal uncertainty of SEP owners about the royalty fees that they charge. In such a case, the space that evaluation of exploitative practices leaves for erroneous decisions<sup>192</sup> which are liable to discourage the SEP owners' engagement in the standardisation process in the future is considerable.<sup>193</sup> Some economists even argue that higher prices actually encourage innovation, meaning that they can increase the efficiency of high-tech industries, and that enforcement on competition law grounds would not, in any event, improve the conditions on such markets, but would rather

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<sup>184</sup> Petrovčič, *op. cit.*, p. 59

<sup>185</sup> Telyas, *op. cit.*, p. 118

<sup>186</sup> de la Mano, M., Nazzini, R. and Zenger H., "Article 102 – Exploitative Abuses", in Faull, J., & Nikpay, A., *The EU Law of Competition*, 3rd edn, Oxford University Press, 2014

<sup>187</sup> Guidance on Commission's Enforcement Priorities in Applying Article 82 of the EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings, OJ C 45, pp. 7 – 20 (2009). Para. 7

<sup>188</sup> Petrovčič, *op. cit.*, p. 113

<sup>189</sup> *Ibid.*

<sup>190</sup> Cotter, *op. cit.*, p. 353

<sup>191</sup> Petrovčič, *op. cit.*, p. 115 – 116

<sup>192</sup> "due to important informational asymmetries" See Petit, *op. cit.*, p. 39 et seq.

<sup>193</sup> Petrovčič, *op. cit.*, p. 113 – 114

have the opposite effect.<sup>194</sup> Given the divergent views in economic and legal theory, Petrovčič argues that competition authorities should only intervene in case where there is a clear evidence showing that the imposition of excessive royalties had an actual negative impact on consumers, the product market and the standardisation process.<sup>195</sup> In other words, a demonstration of anti-competitive effects of the conduct should be required. Even though a direct harm inflicted upon consumers by passing on to them higher prices of the standard compliant goods can generally be established, there is in principle a little evidence of any harm on the product market or the effectiveness of the standardisation process.<sup>196</sup>

The Commission's statement on *Qualcomm*<sup>197</sup> illustrates its approach towards exploitative practices within the standardisation context. The Commission has conducted investigation into Qualcomm's alleged exploitative conduct of charging royalties that were not FRAND despite Qualcomm's commitment prior to the adoption of the WCDMA standard. Even though the proceedings were eventually closed upon withdrawal of the competitors' complaints, the Commission has expressed a view that a finding of exploitative abuse of dominant position may depend on whether the licensing terms were imposed in breach of the FRAND commitment.<sup>198</sup> However, despite the statement and two other investigations,<sup>199</sup> not a single SEP owner has been condemned by the Commission for the imposition of excessive royalties to date.<sup>200</sup>

Nevertheless, the situation is different in regard to excessive prices which have exclusionary effect. Practices where licensing offers are not genuine and where SEP owners are only willing to license on prohibitive terms are also referred to as constructive refusals to deal.<sup>201</sup> In the standardisation context, it is typically the constructive refusal to supply that can arise rather than outright refusal since "*the typical SEP owner is probably not seeking exclusion, but rather licensing fees.*"<sup>202</sup> Such conclusion would all the more conform to the premise that SEP owners have, after all, an interest in broad interpretation of standards, since

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<sup>194</sup> Petit, *op. cit.*, p. 39

<sup>195</sup> Similarly, Cotter argues that competition authorities should only intervene in "*the most extreme cases.*" See Cotter, *op. cit.*, p. 353

<sup>196</sup> Petrovčič, *op. cit.*, p. 115. See also Jones, *op. cit.*, p. 21, footnote 85

<sup>197</sup> Antitrust: Commission initiates formal proceedings against Qualcomm, Press Release Database, European Commission. MEMO/07/389 (2007) ("*Qualcomm*") <[http://europa.eu/rapid/press-release\\_MEMO-07-389\\_en.htm](http://europa.eu/rapid/press-release_MEMO-07-389_en.htm)> accessed 10 May 2015

<sup>198</sup> *Ibid.*

<sup>199</sup> Rambus and IPCom. The former was closed with a commitment imposing a royalty cap and the latter ended with assurance of FRAND commitment. See Antitrust: Commission Accepts Commitments from Rambus Lowering Memory Chip Royalty Rates, Press Release Database, European Commission. MEMO/09/544 (2009) <[http://europa.eu/rapid/press-release\\_MEMO-09-544\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-09-544_en.htm?locale=en)> accessed 10 May 2015; Antitrust: Commission Welcomes IPCOM's Public FRAND declaration, Press Release Database, European Commission. MEMO/09/549 (2009) <[http://europa.eu/rapid/press-release\\_MEMO-09-549\\_en.htm](http://europa.eu/rapid/press-release_MEMO-09-549_en.htm)> accessed 10 May 2015

<sup>200</sup> Petrovčič, *op. cit.*, p. 112

<sup>201</sup> Peepkorn, L., Verouden V., "Horizontal Cooperation Agreements – Standardisation Agreements" in Faull, J., & Nikpay, A., *The EU Law of Competition*, 3rd edn, Oxford University Press, 2014, p. 1006. The Commission's Guidance Paper on Enforcement Priorities characterises constructive refusal to supply as a refusal which is not actual, but which takes form of "*imposition of unreasonable conditions in return for the supply,*" for instance. See 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, OJ C 45 of 24 February 2009, para. 78

<sup>202</sup> Cotter, *op. cit.*, p. 333

the broader it is, the more they can generate in terms of royalties. The assessment of the anti-competitive conduct of excessive prices which may have exclusionary effect is generally done under the doctrine of refusal to deal since the key feature is not the price itself, but rather its effect on foreclosing the market to competitors.<sup>203</sup>

### 3.4. Competition on the merits

Since the conduct of seeking injunctions in SEPs infringement proceedings might not precisely fit into either of the abuses doctrines identified above, Jones and Zografos<sup>204</sup> argue that the CJEU may decide to assess the *Huawei v ZTE* case under the competition on the merits doctrine as applied in *AstraZeneca*. In that case, the CJEU had to deal with misuse of a patent system under Article 102 TFEU, an issue which had not been considered by the EU courts before.<sup>205</sup> The CJEU has recalled that Article 102 TFEU prohibits dominant undertakings from eliminating their competitors from the market by having recourse to “*methods other than those which come within the scope of competition on the merits.*”<sup>206</sup> Even though such conduct is not in itself sufficient to constitute a violation of Article 102 TFEU and anti-competitive effects must be demonstrated, the legal standard is not very high since it is enough to demonstrate potential anti-competitive effects for the conduct to fall under the prohibition contained in Article 102 TFEU.<sup>207</sup> The dominant undertaking can, however, provide objective justification for its conduct.<sup>208</sup>

Had the Court decided to assess the SEP owner’s conduct of seeking injunctions under the *AstraZeneca* approach, Jones holds that the conduct which under the specific circumstances of the case is liable to result in hold-up and which is contrary to the objective of the voluntary FRAND commitment given by the SEP owner should not be seen as falling under the scope of competition on the merits, unless the SEP owner can justify it by demonstrating that he has been behaving in that way in order to secure protection of his investment, for instance by demonstrating that the implementer was not a willing licensee.<sup>209</sup>

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<sup>203</sup> Petrovčič, *op. cit.*, p. 62 – 63

<sup>204</sup> Zografos, *op. cit.*, p. 64

<sup>205</sup> Jones, *op. cit.*, p. 21

<sup>206</sup> C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, ECLI:EU:C:2012:770 , para. 75

<sup>207</sup> Same as for in instance in the margin squeeze cases. See C-52/09 *Konkurrensverket v TeliaSonera Sverige AB*, judgment of 17 February 2011, ECLI:EU:C:2011:83, para. 64

<sup>208</sup> C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, ECLI:EU:C:2012:770 , para. 134

<sup>209</sup> Jones, *op. cit.*, p. 23 – 25

## 4. Enforcement of SEPs

### 4.1. Patent law remedies – injunctions and damages

The powerful effect of patents in business negotiations directly follows from the patent law system and the remedies that the system offers for those who prove validity and infringement of their patents.<sup>210</sup> In other words, remedies play an important role in licensing negotiations since they set the framework for manoeuvre for both parties.<sup>211</sup> Both international treaties and EU legislation aim to ensure that effective remedies, for patent law infringements it is traditionally damages and injunctions,<sup>212</sup> are provided.<sup>213</sup> The right to obtain an effective remedy for an infringement of rights is among others enshrined in Article 6 of the European Convention on Human Rights (“ECHR”) and Article 47 of the Charter of the Fundamental Rights of the EU (“Charter”).<sup>214</sup>

Even though patent rights remain to be territorially limited, remedies for infringement of IPRs have been partially harmonised in the EU by the Enforcement Directive.<sup>215</sup> Setting a minimum standard, the Directive, in accordance with Article 8(2) of the TRIPs Agreement,<sup>216</sup> requires Member States to provide IPR owners with certain measures in order to attain effective enforcement of their rights.<sup>217</sup> Thus, same remedies are available in each jurisdiction. What differs is the procedure for obtaining them.<sup>218</sup> The inconsistent approach between Member States leads to forum shopping and raises questions of legitimacy of the enforcement system. This is particularly problematic in relation to the doctrinal disputes over the actual existence of patent hold-ups. Following these considerations, it appears that the current enforcement system is prone to abuse.<sup>219</sup>

Article 11 of the Enforcement Directive provides that Member States have to ensure that judicial authorities may issue an injunction against an infringer of an IPR with the aim of prohibiting the continuation of the infringement.

Article 12 of the Enforcement Directive allows Member States to provide in appropriate cases for monetary compensation instead of injunctions if the infringer has acted unintentionally and without negligence and if injunction would cause disproportionate harm and monetary compensation would be adequate. The provision thus allows Member States to adopt rules similar to the U.S. *eBay* rule.<sup>220</sup> In the 2006 *eBay* decision,<sup>221</sup> the Supreme Court of the United States held that in order to obtain a permanent injunction, four criteria must be

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<sup>210</sup> Shapiro 2010, *op. cit.*, p. 281

<sup>211</sup> Ratliff, *op. cit.*, p. 6

<sup>212</sup> Shapiro 2010, *op. cit.*, p. 281

<sup>213</sup> Telyas, *op. cit.*, p. 199

<sup>214</sup> The Charter of the Fundamental Rights of the European Union [2012] OJ C 326/391

<sup>215</sup> Directive 2004/48 of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L 157 (“Enforcement Directive”)

<sup>216</sup> Article 8(2) provides general recognition that appropriate measures may be needed to prevent the abuse of IPRs by rights holders.

<sup>217</sup> Larouche, *op. cit.*, p. 8

<sup>218</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 291

<sup>219</sup> Larouche, *op. cit.*, p. 8

<sup>220</sup> Cotter, *op. cit.*, p. 322 – 323

<sup>221</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)

fulfilled. The plaintiff must demonstrate that (1) he has suffered an irreparable injury, (2) other available remedies such as monetary compensation are not adequate to compensate the injury suffered, (3) a remedy in equity is warranted considering the balance of hardships between the plaintiff and the defendant and (4) issuing a permanent injunction would not be against the public interest.<sup>222</sup> Even though *eBay* is claimed to be based on established principles of equity, it substantially alters the playing field to the benefit of the defendant by placing the burden of proof strictly on the plaintiff, instead of providing for traditional equitable balancing.<sup>223</sup> The European approach as contained in Article 12 of the Enforcement Directive appears to offer for a more balanced solution in avoiding patent hold-up since it rather focuses on the proportionality and adequacy of remedies.<sup>224</sup> However, the Directive “*merely authorises [the] Member States to implement such a rule*”<sup>225</sup> in their national legal systems, it does not have the force of law in itself and cannot be thus relied on in individual legal proceedings.

When interpreting the provisions of the Enforcement Directive, account has to be taken of Article 3 (2) which provides that “[...] *remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.*” The requirement of proportionality has been interpreted by the CJEU in *Scarlet Extended*<sup>226</sup> and *SABAM*<sup>227</sup> as requiring the balance between IPR protection and fundamental rights of the defendant, in the particular case the freedom to conduct business pursuant to Article 16 of the Charter.<sup>228</sup> The case admittedly did not concern competition law, but the possibility to grant injunctions against internet service providers who were required to adopt technical measures aimed at preventing copyright infringement. The Court held that even though IPRs are protected under Article 17(2) of the Charter neither the provision itself, nor the case law suggests that the protection is absolute.<sup>229</sup> It follows from the judgment that injunctions can only be granted as long as they respect that fair balance is struck between the rights of the IPR owner and the defendant. As a general principle of EU law, the principle of proportionality should thus be adhered to when establishing the circumstances under which the assertion of rights can amount to an abuse.<sup>230</sup> Furthermore, in accordance with recital 12 of the Enforcement Directive, the measures provided for safeguarding the effective protection of IPRs should not be used in a way that could restrict competition “*unduly in a manner contrary to [Articles 101 and 102 of] the Treaty.*”<sup>231</sup>

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<sup>222</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), Opinion of the Court (Justice Thomas), at II <<https://supreme.justia.com/cases/federal/us/547/388/opinion.html>> accessed 12 May 2015

<sup>223</sup> *Cotter, op. cit.*, p. 354

<sup>224</sup> *Ibid.*, p. 354 – 355

<sup>225</sup> *Ibid.*, p. 323

<sup>226</sup> C-70/10 *Scarlet Extended SA v Société belge des auteurs, compositeurs et éditeurs SCRL (SABAM)*, judgement of 24 November 2011, ECLI:EU:C:2011:771, (“*Scarlet Extended*”), paras. 46 – 50

<sup>227</sup> C-360/10 *Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (SABAM) v Netlog NV*, judgment of 16 February 2012, ECLI:EU:C:2012:85, para. 44

<sup>228</sup> *Larouche, op. cit.*, p. 8

<sup>229</sup> *Scarlet Extended*, para. 43

<sup>230</sup> *Telyas, op. cit.*, p. 203

<sup>231</sup> Enforcement Directive, recital 12

Injunctive reliefs, which are aimed at preventing imminent threats of infringement or at stopping infringers from continuing the infringement, are vital for securing protection of IPRs, especially in high technology industries.<sup>232</sup> Legal theory distinguishes between preliminary (interlocutory) injunctions which as provisional measures are granted pending the case, and final (permanent) injunctions which are issued once the case is resolved.<sup>233</sup> When pursuing a final or permanent injunction, the patent owner must prove that his patent has been infringed<sup>234</sup> and where a counterclaim concerning validity of the patent is raised, the patent owner must successfully disprove it.

The availability of injunctions within the standardisation context has been subject to debates. There is a danger that too interventionist approach with complete elimination of injunctions as even potential remedies could result in discouragement of SEP owners from contributing their technologies to standardisation with the fear that they will not be rewarded for the value of their inventions.<sup>235</sup> On the other hand, little or no intervention would enable SEP owners to gain monopoly power with a potential of discouraging further innovation from other ICT industry participants.<sup>236</sup>

The possibility to obtain injunctions plays an important role especially in Europe where the rationale of providing damages is to compensate, not to punish as is the case in the U.S.,<sup>237</sup> which leads only to a little private competition law litigation in Europe.<sup>238</sup> Moreover, since damages do not bring infringements to an end, they do not always constitute an effective remedy.<sup>239</sup> In case of total elimination of injunctions, there is a danger that legal proceedings could last a lifetime of the patent, thus leaving the patentee without adequate protection against possible misuse of his invention.<sup>240</sup>

Nonetheless, when determining damages in SEPs disputes, the view of legal scholarship is not unified as to whether these should be calculated on the basis of FRAND royalty<sup>241</sup> or rather on the basis of lost profit of the SEP owner or according to the profits made by the infringer of the SEP. However, the debate in Europe has been purely theoretical so far as there is no existing case law on that matter.<sup>242</sup> In the U.S., it has been suggested that

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<sup>232</sup> Larouche, *op. cit.*, p. 9

<sup>233</sup> Injunctions issued on temporary basis, pending an assessment of the case on the merits. Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics - Frequently asked questions. Commission Memo 14/322 <[http://europa.eu/rapid/press-release\\_MEMO-14-322\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-322_en.htm)> accessed 12 May 2015

<sup>234</sup> The precondition is that an infringement of the IPR is found in the proceedings on the merits. See Case Motorola Mobility, para. 40

<sup>235</sup> See Lim, *op. cit.*, p. 55, footnote 304

<sup>236</sup> Telyas, *op. cit.*, p. 196

<sup>237</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 298

<sup>238</sup> Cotter, *op. cit.*, p. 356

<sup>239</sup> Rato, *op. cit.*, p. 195 – 196

<sup>240</sup> Cotter, *op. cit.*, p. 348

<sup>241</sup> In that regard, it is interesting to note that courts in Europe do not usually determine what a FRAND royalty is. They rather determine whether the particular royalty proposed is FRAND or not. See Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 301

<sup>242</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 298 – 299

damages should be determined on the basis of hypothetical licensing terms that the parties would have negotiated before the patent-protected technology was adopted into a standard.<sup>243</sup>

## 4.2. Enforcement of rights or abusive litigation?

The right to seek an injunction forms an integral part of the exclusive rights conferred on patent owners. It aims to protect their incentives to innovate and at the same time discourage potential infringers. However, the concern from competition law perspective is that injunctions will not be used only in a lawful way as a means of enforcing ones' rights, but rather as a threat to distort competition by forcing SEP implementers to agree on licensing terms that they would not have agreed to prior to the inclusion of the patented technology into a standard.

The possibility to exclude others from competition even through the means of litigation is inherent in the exclusive patent right conferred on its owner.<sup>244</sup> Nonetheless, as has been held by the General Court, even litigation, provided that it is vexatious,<sup>245</sup> can amount to an abuse of dominant position under Article 102 TFEU.

The legal test, which has been established<sup>246</sup> in *ITT Promedia*,<sup>247</sup> and later confirmed in *Protégé International*,<sup>248</sup> stipulates that the initiation of legal proceedings can constitute an abuse of dominant position only in situation where a dominant undertaking “*brings an action (1) which cannot reasonably be considered as an attempt to establish its rights and can therefore only serve to harass the opposite party and (2) which is conceived in the framework of a plan whose goal is to eliminate competition.*”<sup>249</sup> Given that the criteria, which need to be fulfilled cumulatively, constitute an exception to the fundamental right of access to courts, they have to be applied and construed strictly.<sup>250</sup> Such high legal standard requires the Commission to prove that the undertaking's conduct of initiating legal proceedings was manifestly unfounded.<sup>251</sup> Regarding the first subjective criterion, the General Court has emphasised that as long as “*an action was intended to assert what the undertaking could, at that moment, reasonably consider to be its rights,*” there is no abuse within the meaning of Article 102 TFEU.<sup>252</sup> The second criterion, which is objective in nature, seeks to determine whether the allegedly abusive conduct was part of a broader plan to eliminate competition in the market. As Petit points up, this criterion seeks to determine whether there was a

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<sup>243</sup> Petrovčič, *op. cit.*, p. 179

<sup>244</sup> Telyas, *op. cit.*, p. 198

<sup>245</sup> Litigation which has no legal basis and is only aimed to achieve an anti-competitive goal. See Telyas, *op. cit.*, p. 200

<sup>246</sup> While it is true that the General Court only considered whether the test was correctly applied by the Commission, most legal scholars “*read in this judgment an implicit endorsement of the Commission's test.*” See Petit, *op. cit.*, p. 8, footnote 25 and *ITT Promedia*, para. 58

<sup>247</sup> T-111/96 *ITT Promedia v Commission of the European Communities*, judgment of 17 July 1998, ECLI:EU:T:1998:183 (“*ITT Promedia*”)

<sup>248</sup> T-119/09 *Protégé International v European Commission*, judgment of 13 September 2012, ECLI:EU:T:2012:421

<sup>249</sup> *ITT Promedia*, para. 30

<sup>250</sup> *Ibid.*, paras. 60 – 61

<sup>251</sup> Camesasca, P., Soames, T., “What Are the Implications, if Any, of Google's Consent Agreement (under Section 5 FTC Act) for Cases under Investigation by the EU Commission?”, 34 (6) *European Competition Law Review*, 2013, p. 306

<sup>252</sup> *ITT Promedia*, para. 73

consistency in the dominant undertaking's practises. In that regard, he refers to the judgement in *Tetra Pak II*, where the General Court held that “*whole series of important and convergent factors*” supporting the finding of the undertaking's intent must be proved.<sup>253</sup> Moreover, the wording of the second criterion suggests that the purpose of the plan has to be exclusionary and that a mere imposition of onerous licensing terms would not satisfy this criterion.<sup>254</sup>

The two cases illustrate the standing that competition law cannot prevent undertakings from enforcing their rights in courts. Reaching the opposite conclusion would jeopardise fundamental rights, in particular the right of access to courts, and would also threaten to undermine the goal of effective competition by diminishing undertakings' incentives to innovate.<sup>255</sup> The rationale of the abusive litigation test is that competition law should only prevent IPR owners from seeking remedies where these are pursued in order to achieve anti-competitive aims to the detriment of public interest.<sup>256</sup>

Applying the abusive litigation test to a situation of enforcing SEPs in courts, Telyas argues that the right to exclude “*is not a prerequisite for maintaining [the SEP owners'] incentive to innovate*”<sup>257</sup> since they knowingly trade off their exclusive right to decide the terms of their licences by the voluntary FRAND commitment, given with the view of gaining monetary compensation for the wide-spread implementation of the standard. In Telyas' view, by committing to license their technology on FRAND terms, SEPs owners give up any possibility of providing objective justification for seeking injunctions. It should only be possible for SEP owners to have recourse to injunctions where the alleged infringers have not genuinely been willing to take a license on FRAND terms.<sup>258</sup> Telyas concludes that “*the assertion of SEPs (or threat hereof) against a good faith potential licensee should be considered one of the “wholly exceptional circumstances” [within the meaning of the ITT Promedia line of case law] in which the reliance on statutory rights may constitute abuse, because in light of the FRAND commitment, doing so serves only to harass the defendant and eliminate competition.*”<sup>259</sup>

The abusive litigation test is consistent with the provisions of freedom to conduct business as enshrined in Article 16 of the Charter and right to access courts as enshrined in Article 47 of the Charter, particularly the latter being of vital importance, since without the right of access to courts all other rights could not be effectively enforced.<sup>260</sup> Same as the refusal to deal test, it only condemns practices that are exclusionary. Thus, the legal test would not be applicable towards SEP disputes over injunctions that are used not in order to eliminate competitors from the market, but rather to extract higher royalties.

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<sup>253</sup> T-83/91 *Tetra Pak International SA v Commission of the European Communities*, judgment of 6 October 1994, ECLI:EU:T:1994:246, para. 151

<sup>254</sup> Petit, *op. cit.*, p. 9 – 10

<sup>255</sup> Telyas, *op. cit.*, p. 201

<sup>256</sup> *Ibid.*, p. 199

<sup>257</sup> *Ibid.*, p. 202

<sup>258</sup> *Ibid.*

<sup>259</sup> *Ibid.*

<sup>260</sup> Petit, *op. cit.*, p. 36 – 37

However, as suggested by Petit, the abusive litigation test might not be the likely legal standard to be used for assessing the availability of injunctions.<sup>261</sup> In order to understand this position, one has to go back to the General Court's ruling in *Micro Business Leader*,<sup>262</sup> on the issue of potential abuse of dominant position through the enforcement of copyright. In that case, Microsoft, a holder of the copyright, who was allegedly dominant on the market attempted to block importation by Micro Leader Business of infringing products into France. The General Court noted that “*such enforcement [as in this particular case] may, in exceptional circumstances, involve abusive conduct.*”<sup>263</sup> In that regard, it referred to the judgment in *Magill*<sup>264</sup> which seems to show that it considers the notion of exceptional circumstance used for assessing potential abuse through exercise of IPRs to be the same for enforcement of IPRs, at least through certain means. The case law of the General Court suggests that the court distinguishes between the situation of enforcement of rights through means of litigation on one hand and enforcement of IPRs through means of blocking importation of infringing products on the other hand. As Petit notes, injunctive reliefs in the SEPs context are rather similar to the latter situation of enforcement through blocking importation of infringing products,<sup>265</sup> since both have the same effect on competition in the market – they are able to exclude competing products.

### **4.3. The threat of injunctions in disputes over SEPs – the U.S. perspective**

As already articulated above, there is a concern that injunctions might be used by SEP owners as tools enabling them to either exclude their competitors from the market or to demand excessive royalties. In both scenarios, injunctions would lead to SEP implementers being held up by owners of the SEPs. Since the phenomenon of hold up has its roots in the patent law system, both the practise and the doctrine in the U.S. suggest that it should be solved with the help of patent law tools.<sup>266</sup>

The current legal standard of assessing whether injunctions should be granted in patent law disputes is based on the 2006 U.S. Supreme Court's decision in *eBay*. *eBay* modified then existing approach applied by the Court of Appeals for the Federal Circuit which stated that injunctions were to be granted upon establishing an infringement of a patent unless there were exceptional circumstances or a need to protect public interest. The Supreme Court reversed this rule by holding that granting of injunctions rests within the discretion of district courts which has to be exercised within the framework of the traditional principles of equity.<sup>267</sup> In his concurring opinion, Justice Kennedy expressed a view that granting injunctions might not be appropriate especially in cases such as the present, where the patent owner is a non-

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<sup>261</sup> Petit, *op. cit.*, p. 32

<sup>262</sup> T-198/98 *Micro Leader Business v Commission of the European Communities*, judgment of 16 December 1999, ECLI:EU:T:1999:341 (“*Micro Leader Business*”)

<sup>263</sup> *Micro Leader Business*, para. 56. See also Petit, *op. cit.*, p. 32 – 33

<sup>264</sup> para. 56 of *Micro Leader Business* where the General Court refers to paras. 49 and 50 of *Magill*

<sup>265</sup> Petit, *op. cit.*, p. 32

<sup>266</sup> In that regard see Cotter, *op. cit.*, p. 352 *et seq.*; or Lemley, M., A., “Ten Things to Do About Patent Holdup of Standards (And One Not To),” 48 *Boston College Law Review*, 2007, pp. 149 – 168

<sup>267</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), Opinion of the Court (Justice Thomas), at II <<https://supreme.justia.com/cases/federal/us/547/388/opinion.html>> accessed 12 May 2015

practising entity<sup>268</sup> and where the threat of injunctions is thus prone to be used in order to obtain leverage in commercial negotiations. Justice Kennedy concluded that in situations where injunctions are used as bargaining tools and where patented inventions form only a small component of the final product, damages appear to be a sufficient remedy for the patent owner to compensate infringement of his patent.<sup>269</sup> In that regard, Cotter implies that the Court's opinion should remain of valid consideration in the context of SEPs where final products are designed pursuant to standards incorporating numerous individual patents and where implementers cannot easily switch to alternative technologies once a standard has been adopted.<sup>270</sup> The equitable balancing of the four factor *eBay* test allows, precisely, for taking into account “*technological and legal developments in the patent system.*”<sup>271</sup> In any event, since the decision in *eBay* admittedly concerned a specific situation of a non-practising entity, some authors have expressed doubts as to the substantial shift of the approach to injunctions under “normal” circumstances.<sup>272</sup>

It is disputable to what extent should FRAND commitment affect the possibility to obtain an injunction.<sup>273</sup> Kesan and Hayes maintain that under FRAND commitment, SEP owners should only be entitled to claim damages but not injunctions. They explain their position on the basis of Calabresi and Melamed's theory of distinction between property and liability rules.<sup>274</sup> The foundation of the theory is that interests of individual members or groups of society may generally be protected by property rules or liability rules. While property rules confer the right to exclude, injunctions can thus be characterised as property rules, liability rules confer a right to obtain compensation. Unlike liability rules, application of property rules is appropriate where the aim is to deter conduct that is viewed as harmful by the whole society. Although the potential harm to consumers in the form of excessive prices may call for arguing against issuing of injunctions as a general rule, injunctions appear to be desirable to be preserved for the interests of society mainly in cases of deliberate infringements, and in the standardisation context, particularly where there is a legitimate fear that SEP implementers could free ride on technological inventions. Nonetheless, since the two situations illustrated above constitute “*very limited circumstances,*” Kesan and Hayes argue that injunctions in general should not be available as remedies in the standardisation context. In their view, FRAND commitment should be construed as a waiver of the property rule to preserve exclusivity in the form of an injunction, into a liability rule which instead only

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<sup>268</sup> As noted by the District Court, MercExchange lacked “*commercial activity in practising [its] patents*”. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), Opinion of the Court (Justice Thomas), at II <<https://supreme.justia.com/cases/federal/us/547/388/opinion.html>> accessed 12 May 2015

<sup>269</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), Concurrence (Justice Kennedy), <<https://supreme.justia.com/cases/federal/us/547/388/concurrence2.html>> accessed 12 May 2015

<sup>270</sup> Cotter, *op. cit.*, p. 320 – 321 and 349

<sup>271</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), Concurrence (Justice Kennedy), <<https://supreme.justia.com/cases/federal/us/547/388/concurrence2.html>> accessed 12 May 2015

<sup>272</sup> Kur, A., Schovsbo, J., “Expropriation or Fair Game for All? The Gradual Dismantling of the IP Exclusivity Paradigm” in Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper No. 09-14 (2009). <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1508330](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1508330)> accessed 26 June 2015. P. 23

<sup>273</sup> Kesan, *op. cit.*, p. 304

<sup>274</sup> Calabresi, G., & Melamed, A. D., “Property Rules, Liability Rules, and Inalienability: One View of the Cathedral”, 85 (6) *Harvard Law Review* (1972), pp. 1089 – 1128. Shapiro and Pearse list this article as the sixth most-cited law review article of all time. See Shapiro, F. R., & Pearse, M., The Most-Cited Law Review Articles of All Time, 110 (8) *Michigan Law Review* (2012), p. 1489

allows for compensation, in the form of monetary damages for past infringements and ongoing royalties for future infringements.<sup>275</sup>

Considering injunctive reliefs in the context of standardisation in the approach of U.S. courts after *eBay*, the Ninth Circuit in an interlocutory appeal in *Microsoft v Motorola*<sup>276</sup> noted in obiter dicta that “*injunctive relief is arguably a remedy inconsistent with the [FRAND] licensing commitment,*”<sup>277</sup> and that the only remedy consistent with the contractual commitment would be for the court “*to set a reasonable royalty rate and have it applied retrospectively.*”<sup>278</sup> To put it into perspective, the U.S. Department of Justice has similarly suggested that rather than an injunction, a monetary compensation in the form of ongoing royalties appears to be more appropriate remedy. Unlike the Ninth Circuit, it however narrowed down such approach to cases where the SEP owner is a non-practicing entity.<sup>279</sup> Outside the scenario of SEP owners as non-practising entities, it appears from the judgment in *Apple Inc. v. Motorola, Inc.*,<sup>280</sup> where the Federal Circuit Court of Appeal held that injunctions for FRAND-pledged SEPs cannot be excluded and that the availability of injunctions should be assessed under the *eBay* framework which in the Federal Circuit’s view provides flexibility for “*addressing the unique aspects of FRAND committed patents and industry standards in general,*”<sup>281</sup> that the courts would not rule out the availability of injunctions in general, but would rather focus on equitable balancing of interests of the parties at dispute.

The reasons why addressing SEP owner’s conduct of seeking an injunction under anti-trust law is rare in the U.S. is that a claim based on Section 2 of the Sherman Act, an equivalent of Article 102 TFEU which, however, only prohibits unlawful monopolisation,<sup>282</sup> has to satisfy a high legal standard requiring a proof of market power, existence of anti-competitive conduct and the undertaking’s intent. In order to succeed with a claim under the Sherman Act, it has to be established that the anti-competitive behaviour has harmed the competition on the market, not only the competitor.<sup>283</sup> *Rambus Inc. v FTC*,<sup>284</sup> a leading case on deceptive behaviour during a standard-setting process, considerably limited the application of anti-trust laws to patent law cases<sup>285</sup> by emphasising a principle established in the Supreme

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<sup>275</sup> Kesan, *op. cit.*, p. 306 – 309

<sup>276</sup> *Microsoft Corp. v. Motorola Inc.*, 696 F.3d 872 (9th Circuit, September 28, 2012)

<sup>277</sup> *Microsoft Corp. v. Motorola Inc.*, 696 F.3d 872 (9th Circuit, September 28, 2012), para. 885 <<http://www.leagle.com/decision/In%20FCO%2020120928162.xml/MICROSOFT%20CORP.%20v.%20MOTOROLA.%20INC>> accessed 14 May 2015

<sup>278</sup> Kesan, *op. cit.*, p. 306

<sup>279</sup> US D.O.J. & the F.T.C., “The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition (2011)”, p. 27 – 29. <<https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf>> accessed 10 July 2015. Petrovčič, *op. cit.*, p. 176.

<sup>280</sup> *Apple Inc. v. Motorola, Inc.*, No.12-1548, (Federal Circuit, April 25, 2014).

<sup>281</sup> *Apple Inc. v. Motorola, Inc.*, No.12-1548, (Federal Circuit, April 25, 2014), p. 71 – 72 <<http://law.justia.com/cases/federal/appellate-courts/cafc/12-1548/12-1548-2014-04-25.html>> accessed 14 May 2015

<sup>282</sup> Hovenkamp, H., ‘The Monopolization Offence’, 61(3) *Ohio State Law Journal*, 2000, p. 1037

<sup>283</sup> Kesan, *op. cit.*, p. 266 – 271

<sup>284</sup> *Rambus Inc. v FTC*, 522 F.3d 456 (D.C. Circuit, 2008)

<sup>285</sup> Since a patent always confers on its owner a monopoly power

Court's case of *NYNEX Corp.*<sup>286</sup> that deceptive behaviour, even though it leads to imposition of higher prices on consumers does not *per se* violate anti-trust law as long as the increase in prices directly follows from lawful exercise of monopoly power.<sup>287</sup> Moreover, the Noerr-Pennington doctrine as applied in *Apple Inc. v Motorola Inc.*<sup>288</sup> limits the possibility to raise an anti-trust law counterclaim in patent infringement suits. In essence, the immunity from anti-trust law provided for by the doctrine applies where the allegedly anti-competitive conduct arises from an attempt to enforce one's rights in a court.<sup>289</sup>

Nonetheless, the Federal Trade Commission ("FTC"), which is one of the bodies entitled to enforce anti-trust law, can also address the issue of seeking injunctions under Section 5 of the Federal Trade Commission Act ("FTC Act") which prohibits unfair methods of competition.<sup>290</sup> In January 2013, the FTC challenged Google's conduct of seeking injunctions based on SEPs which it recently acquired from Motorola Mobility against implementers who were willing to take a license on FRAND terms under the unfair competition rules contained in Section 5 of the FTC Act.<sup>291</sup> Concluding that such behaviour indeed violated the unfair competition rules, it finally adopted a consent order,<sup>292</sup> where Google agreed to cease from the conduct.<sup>293</sup> The consent order states that in order to avoid violation of the unfair competition rules, Google cannot seek injunctions before making offers to the prospective licensees to conclude FRAND licensing agreement. Exceptions apply only where, for instance, the prospective licensee refuses in writing to conclude a licensing agreement or where it does not accept an agreement where FRAND terms are set up by a court or an arbitrator.<sup>294</sup> The order specifies a procedure for establishing a FRAND licensing agreement. In essence, the parties have to agree to negotiate the terms of the licensing agreement for a period not less than 6 months. Only after that, or at any time after 60 days from the request of the prospective license, is the SEP owner allowed to send to the prospective licensee the proposed agreement. Subsequently, the prospective licensee can either execute the agreement or indicate which terms of the agreement it does not consider to be FRAND, propose an alteration and turn to a court or an arbitrator for determination of FRAND licensing terms.<sup>295</sup>

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<sup>286</sup> *NYNEX Corp. v. Discon, Inc.*, 525 U.S. 128, 119 S. Ct. 493, 142 L. Ed. 2d 510 (1998)

<sup>287</sup> *Rambus Inc. v FTC*, 522 F.3d 456 (D.C. Circuit, 2008), at 464 – 465. <<http://cyber.law.harvard.edu/people/tfisher/2008%20Rambus.pdf>> accessed 4 August 2015. See also Kesan, *op. cit.*, p. 268 – 269

<sup>288</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1066 (W.D. Wis. 2012)

<sup>289</sup> Kesan, *op. cit.*, p. 269

<sup>290</sup> *Ibid.*, p. 269 – 270

<sup>291</sup> Lundqvist, B., "'The Rise of Standardization and the Limits of Self-Governance' - Unilateral Conduct under International Standards from EU Competition Law Perspective," (January 5, 2015), p. 4 – 5. DRAFT to be published in Riis, T., Schovsbo, J., (ed), 'User Generated Law – Reconstructing IP law in the knowledge society', Edward Elgar, 2015. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2551060](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2551060)> accessed 20 May 2015 ("Lundqvist 2015")

<sup>292</sup> *Motorola Mobility LLC and Google Inc.*, Federal Trade Commission [File No. 121-0120] ("Google consent order") <<https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf>> accessed 4 August 2015

<sup>293</sup> Petrovčič, *op. cit.*, p. 123 – 124.

<sup>294</sup> Google consent order, paragraph II (B), (C) and (E)

<sup>295</sup> *Ibid.*, paragraph III

## 5. Seeking injunctions against SEPs implementers as an abuse of dominant position

There have been few cases across Europe and three Commission's decisions that specifically touched upon the issue of seeking or threatening to seek injunctions in SEPs disputes. First judgment of the CJEU on the matter has been rendered out only recently. As will be seen below, the tests for assessing the conduct of seeking injunctions differs in the approaches of national courts, the Commission, the AG's opinion and the CJEU's judgment.

### 5.1. Approaches adopted by national courts

The cases before national courts which concern the issue of availability of injunctions are generally patent infringement proceedings where the alleged infringers try to defend their behaviour under the so-called FRAND defence,<sup>296</sup> a specific form of a competition law defence.<sup>297</sup> Even though the defence, having its origin in competition law, is available in all EU Member States, the requirements for successfully raising it, may, however, vary between the jurisdictions.<sup>298</sup> In that regard, it has been subject to debates whether those requirements allow for an appropriate balance to be set in order to secure both the protection of rights holders and public interest.<sup>299</sup> While it is true that some injunctions related to infringements of SEPs have been granted, namely in Germany,<sup>300</sup> there appears to be no case “*in which a final injunction has ever been enforced in the case of a SEP in the telecoms sector where a FRAND defence has been raised.*”<sup>301</sup>

#### 5.1.1. Germany

Germany has become a popular forum for SEP owners since the courts there almost always grant the patent owner injunction, subject only to successful competition law defence raised by the defendant.<sup>302</sup>

Jurisdiction of German courts is specific in a way that patent validity disputes are tried in the Federal Patent Court in Munich, whereas patent infringement proceedings are heard by specialised chambers of the 16 district courts (*Landgericht*). This bifurcation leads to a situation that it is not possible to dispute validity of the patent in the course of the infringement proceedings, which provides yet another explanation for increased popularity for filing patent infringement suits in Germany. According to the German Act on Improving

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<sup>296</sup> An alternative based on the FRAND concept would be to bring “*legal action against the patentee [...] or file a complaint with the Commission [...] in order to obtain a FRAND license.*” Telyas, *op. cit.*, p. 193

<sup>297</sup> Although in France, for instance, FRAND is considered as a contract law defence. See Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 295, footnote 27

<sup>298</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 294 – 298

<sup>299</sup> Telyas, *op. cit.*, p. 193

<sup>300</sup> See Mueller, F., “Motorola Mobility wins German patent suit against Apple, overcomes FRAND defense,” Foss Patents, 9 December 2011, <[www.fosspatents.com/2011/12/motorola-mobility-wins-germanpatent.html](http://www.fosspatents.com/2011/12/motorola-mobility-wins-germanpatent.html)> accessed 12 May 2015. Nevertheless, the injunction obtained by Motorola Mobility in Mannheim District Court was later suspended by the Karlsruhe Court of Appeal.

<sup>301</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 298

<sup>302</sup> Larouche, *op. cit.*, p. 19 – 22

Enforcement of Intellectual Property Rights which implements the Enforcement Directive, preliminary injunctions can only be issued upon an existence of a *fumus boni iuris*,<sup>303</sup> meaning that they can only be obtained if the patent is valid beyond doubt.<sup>304</sup> The law also contains a requirement of balancing of hardships which has to be done within the assessment of whether an injunction should be granted or not and which “*according to some, is not different from that occurring in common law jurisdictions.*”<sup>305</sup> Permanent injunctions, on the other hand, are issued without a possibility to take into account discretionary considerations, unlike under the common law approach, save for situations of extreme likelihood of invalidity of the patent or competition law violation in the form of abuse of dominant position.<sup>306</sup> Such approach follows from the German legal tradition which provides strong protection of rights to IP owners.<sup>307</sup>

German law treats prospective licensees as being entitled to obtain a license under competition law claim. However, where a prospective licensee already uses a SEP without having a license, it is not sufficient to prove that he has been denied the license in order to successfully raise the competition law defence.<sup>308</sup> The conditions under which the alleged infringer can rely on competition law defence in proceedings initiated by the patent owner have been articulated by the German Federal Supreme Court (*Bundesgerichtshof*) in the *Orange-Book-Standard* decision,<sup>309</sup> which to date represents the legal standard.<sup>310</sup>

The German Federal Supreme Court held that the prospective licensee has to behave as if already possessing a FRAND license. In other words, the prospective licensee has to demonstrate its willingness to take a license on FRAND terms by making a genuine unconditional offer to conclude a licensing agreement.<sup>311</sup> The prospective licensee has to consider itself bound by that offer, meaning that the offer must be of such nature that the patentee cannot refuse it without violating competition law.<sup>312</sup> The offer should either include a proposed FRAND royalty or the prospective licensee can leave it to the SEP owner to specify the FRAND royalty, subject to a court review.<sup>313</sup> Concerns have been raised in that regard that as SEP implementers might not know what constitutes common terms on the market defined by the standard, they might offer royalties higher than what would have been considered as FRAND in order to make sure that they comply with the *Orange-Book-Standard*.<sup>314</sup> In any event, since the prospective licensee must already satisfy the obligations

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<sup>303</sup> “likelihood of success on the merits of the case”

<sup>304</sup> Larouche, *op. cit.*, p. 19 – 21

<sup>305</sup> *Ibid.*, p. 20

<sup>306</sup> *Ibid.*

<sup>307</sup> Jones, *op. cit.*, p. 11

<sup>308</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 295. Similarly Telyas, *op. cit.*, p. 217

<sup>309</sup> *Orange-Book-Standard*, Bundesgerichtshof [BGH] [Federal Court of Justice] May 6, 2009, KZR 39/06 (F.R.G.)

<sup>310</sup> Jones, *op. cit.*, p. 11

<sup>311</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 295

<sup>312</sup> Larouche, *op. cit.*, p. 21

<sup>313</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 295

<sup>314</sup> Lundqvist 2015, *op. cit.*, p. 2

which will be binding on him pursuant to the future licensing agreement,<sup>315</sup> it is required that the patentee either obtains a payment of reasonable royalty rate or is guaranteed such payment “by putting a sufficient amount in escrow for the time of use of the patented technology.”<sup>316</sup>

It follows from the foregoing that the Orange-Book-Standard approach represents a formalistic legal test, based on fulfilment of certain conditions which is not well suited for balancing of the interests at stake.<sup>317</sup> Moreover, it has to be pointed up that the case concerned a *de facto* industry standard<sup>318</sup> without FRAND commitment, where the validity of the patent at issue had already been established previously.<sup>319</sup> The application of the *Orange-Book-Standard* requirements by lower courts in cases where validity of the patents has not been fully reviewed, and where some of them have adopted striking interpretations of the conditions, stating for instance that “willingness [to take license on FRAND terms] implies foregoing the right to challenge the validity of the patent,”<sup>320</sup> thus raises a bit of controversy in terms of compatibility with the precedential judgement.<sup>321</sup> Irrespective of the differences, the *Orange-Book* judgement was applied by the lower courts even in proceedings concerning FRAND-pledged SEPs developed within the context of SSOs.<sup>322</sup>

In *Motorola Mobility v Apple*,<sup>323</sup> the Mannheim District Court ordered Apple to cease offering products in Germany which incorporated Motorola’s patents essential to the General Packet Radio standard (“GPRS”). The court reached such conclusion despite Apple’s six offers to pay FRAND royalties<sup>324</sup> by which Apple aimed to qualify as a willing licensee under the *Orange-Book-Standard* case.<sup>325</sup> The enforcement of the injunction was later suspended by the Karlsruhe Appellate Court on the basis that Apple’s sixth offer was sufficient enough to satisfy the willing licensee requirement under the *Orange-Book-Standard*.<sup>326</sup> Even though Apple and Motorola signed a settlement agreement,<sup>327</sup> the case became a centre part of the infringement proceedings initiated by the Commission against Motorola, later resulting in the adoption of the *Motorola Mobility* infringement decision.

The strict interpretation of the *Orange-Book-Standard* conditions by the lower courts leads to difficulties in successfully raising the FRAND defence. Jones argues that the relative easiness for SEP owners to obtain injunctions in Germany may lead to situations where SEP implementers rather accept higher royalty rates in order to avoid being excluded from the

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<sup>315</sup> AG Wathelet, opinion, para. 31

<sup>316</sup> Larouche, p. 21

<sup>317</sup> Telyas, *op. cit.*, p. 218

<sup>318</sup> “[P]atented technology reading on the “Orange Book” specifications developed by Philips and Sony for recordable and rewritable CD-Rs and CD-RWs.” (Motorola Mobility, para. 80) A standard developed outside any SSO. See Motorola Mobility, para. 83

<sup>319</sup> Jones, *op. cit.*, p. 12

<sup>320</sup> Larouche, *op. cit.*, p. 21

<sup>321</sup> *Ibid.*

<sup>322</sup> In the proceedings between Motorola and Apple before the Mannheim District Court and Karlsruhe Appellate Court which led to the Commission’s investigation and adoption of the Motorola Mobility decision on enforcement of the GPRS SEP. See Motorola Mobility, para. 84

<sup>323</sup> Motorola Mobility Inc v Apple Sales International, Regional Court of Mannheim, 7th Civil Division, 9 December 2011, file no 7 O 122/11 and Karlsruhe Court of Appeal, 30 January 2013, file no 6 U 136/11.

<sup>324</sup> Jones, *op. cit.*, p. 13

<sup>325</sup> Motorola Mobility, para. 120

<sup>326</sup> *Ibid.*, para. 151

<sup>327</sup> *Ibid.*, para. 162

biggest mobile telephony market in the EU. The attractiveness of Germany as a forum of choice for resolving global disputes can be illustrated by the *Huawei v ZTE* case which despite representing a conflict between two Chinese electronics companies is being tried in the Regional Court of Düsseldorf.<sup>328</sup>

### 5.1.2. The Netherlands

The Netherlands is an attractive forum for patent infringement proceedings as it has a speedy procedure and specialised courts which have an exclusive jurisdiction to handle patent infringement disputes, in particular the District Court of The Hague and The Hague Court of Appeal.<sup>329</sup>

In the case of *Philips v SK Kassetten*,<sup>330</sup> the District Court of The Hague adopted a seemingly patentee friendly approach. Since no offer has been made by the alleged infringer, the court rejected the FRAND competition law defence. It held that as long as the defendant “*had not actually converted its alleged entitlement to a FRAND license into an actual license*,”<sup>331</sup> there is no basis in law which would allow the defendant to implement the SEP or which would prevent the SEP owner from enforcing his rights by demanding that an injunction is issued. In the court’s view, the defendant in this particular case should have proactively sought a license from the SEP owner.<sup>332</sup> Nevertheless, the court did not rule out the possibility to raise competition law defence in special circumstances, which it elaborated on in subsequent case law.<sup>333</sup>

In deciding on whether to issue injunctions, the courts in the Netherlands take into consideration numerous circumstances that could be potentially relevant, trying to strike a balance between the interests at stake.<sup>334</sup> For instance, in *Phillips v LG*<sup>335</sup> and *Samsung v Apple (2012)*,<sup>336</sup> the injunctions were not granted on basis of good faith negotiations initiated by the alleged infringers.<sup>337</sup> In the latter case, the District Court of The Hague has rejected Samsung’s application for an injunction against Apple who has allegedly infringed Samsung’s FRAND-pledged SEPs relating to the 3G standard on the basis that Samsung has only made one offer and did not respond to Apple’s counter-offers, and that Apple has acted as a willing licensee.<sup>338</sup> The District Court of The Hague concluded that in this particular case Samsung’s request for an injunction “*should be considered as abusive and contrary to the principles of pre-contractual good faith*.”<sup>339</sup> In *Sony v LG Electronics*<sup>340</sup> the injunction was denied on the

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<sup>328</sup> Jones, *op. cit.*, p. 13

<sup>329</sup> Larouche, *op. cit.*, p. 22

<sup>330</sup> Joint Cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 Koninklijke Philips Electronics N.V. v. SK Kassetten GmbH & Co. KG, judgment of the District Court of The Hague in of 17 March 2010

<sup>331</sup> Telyas, *op. cit.*, p. 219

<sup>332</sup> *Ibid.*

<sup>333</sup> See for instance *Samsung v Apple (2012)*

<sup>334</sup> Larouche, *op. cit.*, p. 22

<sup>335</sup> Philips v. LG, In Hof Hague May 9, 2008, n. 07-528, overturning In Hof Hague April 25, 2007, n. 06-995

<sup>336</sup> Samsung Electronics Co. Ltd. v. Apple Inc., D.C. Hague, March 14, 2012, Dkt. Nos. 400367/HA ZA 11-2212, 400376/HA ZA 11-2213, 400385/HA ZA 11-2215

<sup>337</sup> Larouche, *op. cit.*, p. 22

<sup>338</sup> Jones, *op. cit.*, p. 10

<sup>339</sup> Telyas, *op. cit.*, p. 220

<sup>340</sup> Sony Supply Chain Solutions (Europe) B.V. and LG Electronics, Inc., Rechtbank 's-Gravenhage, 10 March 2011, Docket n°: 389067 / KG ZA11-269

basis of bad faith of the patent owner who sought the injunction without responding to Sony's counteroffer.<sup>341</sup>

Unlike in Germany where defendants have to fulfil certain requirements in order to successfully rely on the competition law defence, the Dutch courts, when deciding whether it is appropriate to grant an injunction, rather assess the parties' conduct prior to initiation of the legal proceedings in order to determine who has acted in good faith.<sup>342</sup> The Dutch approach is more licensee friendly since it does not require the prospective licensees to come up with their own suggestion of FRAND royalties.<sup>343</sup>

## 5.2. The Commission's approach

The Commission touched upon the issue of seeking injunctions in standardisation context within the review of the merger between Google and Motorola, where it expressed the view that the conduct of seeking injunctions in SEPs infringement proceedings may have negative effect on both SEP implementers, who may be forced to accept onerous licensing terms, and on consumers, where the products implementing the standard are excluded from the market.<sup>344</sup> On the other hand, the Commission observed that the conduct of seeking an injunction is not in itself anti-competitive and that SEP owners may actually legitimately seek injunctions against prospective licensees who are not willing to negotiate a FRAND license agreement in a good faith.<sup>345</sup>

In the very same decision, the Commission accepted that the exceptional circumstances test as adopted in *Magill* and later developed in *IMS Health* and *Microsoft*, could be applicable to seeking injunctions in disputes over non-SEPs, where a refusal to grant access to technology that has become indispensable for competitors can, in specific circumstances of the case, amount to an abuse of dominant position under Article 102 TFEU.<sup>346</sup> By distinguishing SEPs as always being necessary in order to obtain access to the standard,<sup>347</sup> the Commission implicitly suggested that different legal standard might be needed.<sup>348</sup>

Nevertheless, by holding that SEP owners can generally seek injunctions in order to enforce their IPRs, and that such conduct can only in exceptional circumstances amount to an abuse of dominant position,<sup>349</sup> the Commission in *Samsung Electronics* and *Motorola Mobility* extended the exceptional circumstances doctrine which had until then been applied within the context of exercise of IPRs to situations concerning protection of IPRs through injunctions.<sup>350</sup>

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<sup>341</sup> Larouche, *op. cit.*, p. 23

<sup>342</sup> Telyas, *op. cit.*, p. 215

<sup>343</sup> *Ibid.*, p. 218

<sup>344</sup> Google/Motorola Mobility, para. 107

<sup>345</sup> *Ibid.*, para. 126

<sup>346</sup> *Ibid.*, para. 59

<sup>347</sup> *Ibid.*, para. 60

<sup>348</sup> See Petit, *op. cit.*, p. 8

<sup>349</sup> Motorola Mobility, para. 278. Samsung Electronics, paras. 55 – 56

<sup>350</sup> Larouche, *op. cit.*, p. 26

In both cases, the Commission found both Samsung and Motorola's conduct as potentially amounting to an abuse of their dominant positions by seeking and enforcing injunctions in the exceptional circumstances of the cases which were deemed to be the Universal Mobile Telecommunications Service ("UMTS") and the GPRS standard setting processes within ETSI and Samsung and Motorola's commitment to license the UMTS<sup>351</sup> and GPRS<sup>352</sup> standards on FRAND terms. Recalling that the exceptional circumstances as set out in the previous case law were not exhaustive,<sup>353</sup> the Commission introduced two novel circumstances.<sup>354</sup> It held that patent owners are generally allowed to refuse license, to receive appropriate remuneration and to seek remedies for infringements, which is after all within the legitimate exercise of their rights. However, in the Commission's view, the situation is different in the standardisation context where the SEP owner issues voluntary commitment to give license on FRAND terms and where there is a danger that the benefits of the standardisation process would be lost.<sup>355</sup> Within that context, the assertion of SEPs constitutes an exceptional circumstance, triggering a competition law intervention.

Moreover, the exceptional circumstance of the standard setting process demonstrates that unlike the courts in Germany which treat *de jure* selected SEPs and *de facto* standards alike, the Commission actually bases its distance from their approach on the difference between the two.<sup>356</sup> The Commission did not consider the Orange-Book Standard criteria as it stated that the ruling in that case "*did not specifically relate to SEPs.*"<sup>357</sup> It is, however, questionable whether such basis for the differentiation can hold. Not only have parts of the Orange-Book Standard actually been "*encompassed by de jure standards,*"<sup>358</sup> as Lundqvist suggests, differentiation should rather be made between standards used in markets characterised by network effects (infrastructure markets), which are practically locked once a standard has been adopted and where competition law intervention is desirable in order to access the market, and those used in markets where network effects are absent and where adoption of standards does not rule out existence of competing technology on the market, thus maintaining a possibility of competition by substitution.<sup>359</sup>

In the *Samsung Electronics* decision, the Commission preliminarily identified Samsung's conduct of seeking injunctions in various Member States on basis of the UMTS technology standard despite its previous commitment to ETSI to license its SEPs on FRAND terms as potentially anti-competitive under Article 102 TFEU.<sup>360</sup> The Commission concluded that, within the exceptional circumstances of the case, such conduct was capable of excluding Apple and other implementers of the UMTS standard from the market and of imposing on

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<sup>351</sup> Samsung Electronics, para. 4

<sup>352</sup> Motorola Mobility, para. 2

<sup>353</sup> Samsung Electronics, para. 56

<sup>354</sup> Larouche, *op. cit.*, p. 27

<sup>355</sup> Motorola Mobility, paras. 281 – 284

<sup>356</sup> Lundqvist 2015, *op. cit.*, p. 7

<sup>357</sup> Commission press release in Case COMP/39.985, Motorola – Enforcement of GPRS standard essential patents, MEMO/13/403 (Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents Questions and Answers), 6 May 2013

<sup>358</sup> Lundqvist 2015, *op. cit.*, p. 10

<sup>359</sup> Lundqvist 2014, *op. cit.*, p. 31 – 32

<sup>360</sup> Samsung Electronics, para. 2 – 3

Apple onerous licensing terms.<sup>361</sup> Thus, the Commission identified possibly both exclusionary and exploitative abuses. Even though Samsung disagreed with the Commission's initial assessment, in order to meet the concerns expressed by the Commission, it offered commitments under article 9(1) of Regulation 1/2003 by which it undertook to refrain from seeking injunctions against implementers who comply with a certain licensing framework.<sup>362</sup> The licensing framework provides for negotiations period of 12 months and if no licensing agreement is reached between the parties at the end of the negotiations period, the dispute should be submitted to a court or an arbitrator for a determination of the FRAND licensing terms.<sup>363</sup> By articulating a procedure which was clearly inspired by the FTC's Google consent order, this part of the decision provides a safe harbour for both parties. If complied with the procedure, the SEP implementer will not be faced with injunctions, and the SEP owner will not be faced with potential violation of Article 102 TFEU.<sup>364</sup> In that regard it is interesting to note that the Google consent order was articulated within the boundaries of unfair competition under Section 5 of the FTC Act, meaning that if the order was not complied with, the conduct of seeking injunctions would be found infringing unfair competition law,<sup>365</sup> but not U.S. anti-trust law,<sup>366</sup> whereas in *Samsung*, the framework was adopted within the context of competition law.

In the *Motorola Mobility* decision, the Commission found Motorola to be abusing its dominant position by seeking an injunction in infringement proceedings concerning patents essential to the GPRS standard which it previously committed to license on FRAND terms against Apple, a willing licensee, who had agreed to take a license and be bound by a determination of a FRAND royalty by the Mannheim District Court (Landgericht Mannheim).<sup>367</sup> Separate abuse of dominant position was found in Motorola's conduct of requesting Apple to give up its right to challenge the validity or infringement of Motorola's SEPs under a threat of an injunction.<sup>368</sup> Even though the obligation was based on contractual termination clause, meaning that Motorola could suspend the licensing agreement if Apple challenged the validity of Motorola's GPRS SEP, the Commission stated that its effect was the same as if it was a non-challenge<sup>369</sup> clause which is generally contrary to the public interest<sup>370</sup> of ensuring effective competition since SEP implementers and ultimately the

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<sup>361</sup> Samsung Electronics, para. 62

<sup>362</sup> *Ibid.*, para. 76 et seq.

<sup>363</sup> *Ibid.*, para. 78

<sup>364</sup> Lundqvist 2015, *op. cit.*, p. 8

<sup>365</sup> Google consent order, p. 1

<sup>366</sup> Lundqvist 2015, *op. cit.*, p. 12

<sup>367</sup> Motorola Mobility, paras. 1 – 3, 120 et seq.

<sup>368</sup> Commission press release in Case COMP/39.985, Motorola – Enforcement of GPRS standard essential patents, MEMO/13/403 (Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents Questions and Answers), 6 May 2013

<sup>369</sup> To put it into perspective, the 2004 Technology Transfer Regulation provides that any obligation on the licensee not to challenge the validity of the IPR is excluded from the scope of the exemption pursuant to Article 2 of the Regulation. Article 5(1)(c) of Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123, 27.4.2004, p. 11. See also Article 5(1)(b) of Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements, OJ L 93, 28. 3. 2014, p. 17

<sup>370</sup> It is of importance to allow SEP implementers to challenge validity of patents since otherwise, there might not be any party interested in bringing up this issue. See Lundqvist 2015, *op. cit.*, p. 12

consumers should not pay for invalid patents.<sup>371</sup> The termination clause was one of those<sup>372</sup> that in the Commission's view constituted the inclusion of disadvantageous terms which Apple would not have accepted under normal course of commercial negotiations without Motorola's recourse to an injunction. The clause had an adverse impact on the level of royalties paid by Apple and hindered Apple's ability to use the challenge of validity as a legal defence in order to influence the royalty rate as determined by the Mannheim District Court.<sup>373</sup> Furthermore, denying Apple the possibility to challenge validity or essentiality of the patent infringes Apple's right of access to courts.<sup>374</sup>

The Commission concluded that the decision was not liable to create a reverse hold-up problem which could only arise in a situation where there was a danger that Motorola might not receive an appropriate remuneration for making its innovative technology available to others.<sup>375</sup> Such situation did not arise in the specific circumstances of the case since Apple as of its second offer was willing to enter into licensing agreement on FRAND terms<sup>376</sup> determined by the Mannheim District Court, on the basis of which Motorola would be ensured to receive an appropriate remuneration.<sup>377</sup> It is interesting to note that in contrast to the finding of the Mannheim District Court, the Commission considered Apple to qualify as a willing licensee by its second offer. Since then, Motorola was in the Commission's view abusing its dominant position.<sup>378</sup> This example illustrates the difference between the Orange-Book Standard and the Commission's approach, where the latter's criteria of willingness are much easier fulfilled by the prospective licensee.

The Commission acknowledged that injunctions in themselves are not anti-competitive. Rather, they are used as tools to achieve anti-competitive effects. Recalling the judgment in *AstraZeneca*, it held that “[t]he fact that an act by an autonomous judicial body (e.g the granting of an injunction by a court) is a precondition for the likely anti-competitive effects resulting from the conduct to materialise cannot affect the abusive nature of the conduct.”<sup>379</sup> The Commission stated that seeking an injunction was an autonomous act of Motorola who was responsible for ensuring that the conduct was compatible with Article 102 TFEU. It concluded that Motorola's act of seeking an injunction was capable of having anti-competitive effects of a temporary ban on the sale of Apple's GPRS standard-compliant products, imposition of disadvantageous licensing terms<sup>380</sup> and last, but not least, negative

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<sup>371</sup> Motorola Mobility, paras. 375 – 377, 479

<sup>372</sup> The other two clauses that in the Commission's view represented disadvantageous terms were the inclusion of iPhone 4S in the list of infringing products and Apple's acknowledgment of Motorola's past claim for damages. Motorola Mobility, para. 322

<sup>373</sup> Motorola Mobility, paras. 338 – 339

<sup>374</sup> *Ibid.*, para. 525

<sup>375</sup> *Ibid.*, para. 419

<sup>376</sup> And pay the same royalty for the past sales of the products implementing the standard. See Motorola Mobility, para. 125 et seq.

<sup>377</sup> Motorola Mobility, para. 420

<sup>378</sup> *Ibid.*, para. 280 and 307

<sup>379</sup> *Ibid.*, para. 309. The Commission's observation is based on Case T-321/05 *AstraZeneca v Commission*, judgment of 1 July 2010, ECLI:EU:T:2010:266, para. 377, confirmed on appeal in Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, ECLI:EU:C:2012:770, para. 106

<sup>380</sup> “Apple had the choice of either having its products excluded from the market or accepting the disadvantageous licensing terms requested by Motorola as a condition for not enforcing the injunction...” Motorola Mobility, para. 320

effects on the whole standardisation process.<sup>381</sup> The Commission noted that the ban on the sale of Apple's GPRS standard-compliant products could potentially "*limit consumer choice and partially eliminate downstream competition.*"<sup>382</sup> The criterion of only partial elimination of downstream competition particularly contrasts with the refusal to deal line of case law where it is necessary to satisfy a criterion of complete exclusion from the secondary market in order for the conduct to amount to an abuse of dominant position.

Moreover, the Commission concluded that its approach was fully compatible with the requirement of setting a fair balance between the fundamental rights at stake – Motorola's right to IPRs as enshrined in Article 17(2) of the Charter, Motorola's and Apple's right of access to courts as enshrined in Article 47 of the Charter and the freedom to conduct business of Apple and other potential licensees that are not unwilling to take a FRAND license as enshrined in Article 16 of the Charter.<sup>383</sup> Remarkably, the Commission did not explicitly mention freedom to conduct business of Motorola. The Commission has conducted a balancing exercise of the rights at issue in accordance with Article 52(1) of the Charter which provides that limitations on the exercise of the rights and freedoms enshrined in the Charter (1) "*must be provided by law*" and may only be imposed subject to the principle of proportionality, where (2) they are "*necessary and genuinely meet the objectives of general interest recognised by the EU*" and (3) "*the need to protect the rights and freedoms of others.*"<sup>384</sup> Moreover, the limitations must not constitute "*a disproportionate and intolerable interference which infringes upon the very substance of the rights.*"<sup>385</sup>

The Commission's enforcement decision is based on Article 102 TFEU, which sufficiently proves that the limitation is provided by law.<sup>386</sup> The restriction is imposed in accordance with the Union's objective of establishing an internal market where competition is not distorted<sup>387</sup> as enshrined in Protocol No 27.<sup>388</sup> In that regard, the Commission recalled the case law on abuse of dominant position by refusing to license an IPR where a restriction on the exclusive right is permitted in accordance with the general interest of maintaining effective competition.<sup>389</sup>

The Commission further stated that the restriction does not constitute an interference which would be infringing upon the very substance of Motorola's rights. Regarding Motorola's right of access to courts, the Commission held that the decision does not prevent Motorola from seeking injunctions on basis of SEPs other than the GPRS standard against Apple and other licensees unwilling to enter into a licensing agreement on FRAND terms. Moreover, the decision does not prevent Motorola from seeking other remedies provided for

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<sup>381</sup> Motorola Mobility, paras. 310 – 311

<sup>382</sup> *Ibid.*, para. 312

<sup>383</sup> *Ibid.*, para. 500 et seq., similarly Samsung Electronics, para. 72

<sup>384</sup> Motorola Mobility, paras. 508

<sup>385</sup> *Ibid.*, para. 509

<sup>386</sup> *Ibid.*, paras. 512 – 513

<sup>387</sup> *Ibid.*, para. 514

<sup>388</sup> Protocol No 27 on the internal market and competition, annexed to the Treaty of Lisbon, OJ C 83, 30. 3. 2010

<sup>389</sup> Motorola Mobility, para. 514. The Commission in that regard referred to the General Court's judgment in Microsoft (2007), para. 691

by patent law. In that regard, the Commission noted that damages can provide Motorola with “a certain level of protection.”<sup>390</sup>

Regarding Motorola’s right to IPR, the Commission stated that by voluntarily committing to license its SEP essential to the GPRS standard on FRAND terms, Motorola publicly declared that it does not want to prevent standard-compliant goods from being manufactured as long as it receives FRAND remuneration for making its technology available to others.<sup>391</sup> The rationale of the FRAND commitment is that Apple as a willing licensee can legitimately expect that Motorola would fulfil its commitment. By seeking an injunction against Apple, Commission’s view is that Motorola breached the commitment.<sup>392</sup> It appears that the Commission sees FRAND commitment as a SEP owner’s waiver to enforce its right of exclusion against willing licensees in exchange for remuneration.<sup>393</sup> What is at issue is that there is no explicit waiver of injunctive reliefs for FRAND declarations in the rules of any major SSO, including ETSI, meaning that there is no legal basis for such theory. The assumption adopted by the Commission thus breaches a general principle of law of no implied waiver.<sup>394</sup> From that perspective, the foundation of the approach appears to be problematic.

Nevertheless, considering that Motorola’s SEP essential to the GPRS standard relates only to a small component of the final mobile device as manufactured by Apple, seeking an injunction in such scenario constitutes in the Commission’s view “a disproportionate interference” with Apple’s freedom to conduct business,<sup>395</sup> in the form of “lawful manufacture and sale” of the GPRS-compliant mobile devices. The restriction on Motorola’s right to seek an injunction is thus necessary in order to protect the freedom to conduct business of Apple and other willing licensees and in order to protect Apple’s right of access to courts. All the more so since the potential anti-competitive effect of seeking an injunction in the form of ban on selling Apple’s GPRS-compliant mobile devices and contract termination in case Apple challenges Motorola’s SEPs’ validity run counter to the objective that competition is not distorted to the detriment of public interest.<sup>396</sup>

The Commission dismissed Motorola’s arguments that its conduct could only amount to abuse of dominant position under the *ITT Promedia* and *Protégé International* line of case law. It noted that irrespective of the two judgments, the CJEU has expressly held in *IMS Health* that even an exercise of the exclusive IP rights in order to enforce them by way of seeking an injunction can amount to abuse of dominant position. This statement seems to confirm the conclusion in regard to the *ITT Promedia* and *Micro Business Leader* approaches and the distinction between the situations of enforcement of rights through means of litigation on one hand and enforcement of IPRs through means of seeking injunctions with the view of precluding appearance of the competing products on the market. Moreover, in the Commission’s view, the standardisation context and the commitment to license the GPRS

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<sup>390</sup> Motorola Mobility, paras. 517 – 519

<sup>391</sup> *Ibid.*, para. 520

<sup>392</sup> *Ibid.*, para. 521

<sup>393</sup> Telyas, *op. cit.*, p. 221 and 224

<sup>394</sup> Petit, *op. cit.*, p. 37 – 38

<sup>395</sup> Motorola Mobility, para. 522

<sup>396</sup> *Ibid.*, paras. 524 – 525

SEP on FRAND terms distinguishes the present case from *ITT Promedia* and *Protégé International*, thus justifying the departure from that case law.<sup>397</sup>

In the event the Commission accepted the *ITT Promedia* exceptional circumstances line of case law as the legal standard to use in order to establish abuse of dominant position by seeking injunctions, it would have to prove that the request for injunction had no basis in law and that it produced anti-competitive effects on the market.<sup>398</sup> The Commission, however, took a different path. It adopted approach where seeking injunctions within the context of FRAND commitment is deemed abusive “*as a main rule rather than as an exception.*”<sup>399</sup> Thus, even though the Commission framed its assessment within the concept of exceptional circumstances, at this point, the approach considerably contrasts with the refusal to deal and vexatious litigation lines of case law, where the specific conduct can be found abusive only as long as certain “exceptional” requirements are fulfilled.<sup>400</sup> The Commission’s approach only allows possibility for the SEP owner to escape the competition law violation if he shows that his conduct can be objectively justified,<sup>401</sup> which generally requires demonstration that either the conduct was objectively necessary or that the exclusionary effect produced by it is counterbalanced by other efficiency gains to the benefit of consumers.<sup>402</sup> In this part of the assessment, the Commission considered Apple’s willingness to negotiate on FRAND terms. It explained that willingness of the prospective licensees to take a FRAND licensing agreement should be assessed when considering objective justification and not when determining whether the dominant undertaking’s conduct falls under the prohibition contained in Article 102 TFEU for the simple reason that abuse is an objective concept. Since the dominant undertaking is only responsible for the lawfulness of its own conduct, it would be contrary to the general principle of legal certainty to require it to take into consideration factors which are not under its control.<sup>403</sup>

Even though the willingness of prospective licensees should be determined on a case by case basis, the Commission stipulates that the licensee can demonstrate its willingness for instance by agreeing that a court or a mutually agreed arbitrator sets the FRAND royalty rate in case of a dispute.<sup>404</sup> It appears from the Commission’s statements that it would not consider a prospective licensee as unwilling where the licensee challenges the validity, essentiality or the infringement of the SEP where it otherwise agrees to be bound by determination of the FRAND terms by a third party.<sup>405</sup> The interpretation by the German lower courts of the Orange-Book-Standard requirement of willing licensee as not being able to challenge the

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<sup>397</sup> Motorola Mobility, paras. 531 – 532

<sup>398</sup> Petrovčič, *op. cit.*, p. 121 – 122

<sup>399</sup> Telyas, *op. cit.*, p. 221

<sup>400</sup> See chapters 3.2. and 4.2.

<sup>401</sup> Telyas, *op. cit.*, p. 221

<sup>402</sup> Motorola Mobility, para. 421

<sup>403</sup> *Ibid.*, para. 434

<sup>404</sup> European Commission, "Antitrust decisions on standard essential patents(SEPs) — Motorola Mobility and Samsung Electronics — Frequently Asked Questions" (April 29, 2014), <[http://europa.eu/rapid/press-release\\_MEMO-14-322\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-322_en.htm)> accessed 12 May 2015

<sup>405</sup> Commission press release in Case COMP/39.985, Motorola – Enforcement of GPRS standard essential patents, MEMO/13/403 (Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents Questions and Answers), 6 May 2013 <[http://europa.eu/rapid/press-release\\_MEMO-13-403\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-403_en.htm)> accessed 12 May 2015

validity of the SEP thus appears to be inconsistent with the Commission's approach.<sup>406</sup> Such conclusion is moreover supported by the commitments in *Samsung*, where it states that the prospective licensee cannot be precluded from raising issues of validity and essentiality or from challenging the existence of infringement.<sup>407</sup>

Although the decisions in *Samsung Electronics* and *Motorola Mobility* established a safe harbour by setting out the conditions under which a prospective licensee can avoid injunctions, it is not entirely clear what happens in cases where the safe harbour does not apply since the Commission did not articulate the criteria under which it would determine whether the defendant may be considered as willing to negotiate a license in a good faith.<sup>408</sup> As Telyas points up, neither of the decisions addresses the issue of timing of the licensee's request for the license, nor do they explicitly deal with the issue of how the negotiations must be initiated, if for instance the prospective licensee must request a license prior to infringement,<sup>409</sup> two aspects that appear to be crucial in the *Huawei v ZTE* preliminary reference. The Commission's memo accompanying the two decisions only clarifies the situation where prospective licensee is approached by a SEP owner with an offer. In such scenario, if the licensee remains unresponsive, he cannot be considered as willing.<sup>410</sup> However, the Commission's statement does not stipulate an obligation of the licensee to proactively seek a license.<sup>411</sup> Quite on the contrary, the memo seems to suggest that the SEP owner should invite the implementer to negotiate prior to seeking an action for infringement even in cases where the implementer has started using the patent before concluding a licensing agreement.<sup>412</sup> A burden is thus placed on SEP owners to monitor use of their patents. This is problematic in a way that SEP implementers could *de facto* use the patents for free until or unless (!) found infringing them and until the SEP owner approaches them with an offer to negotiate. In such scenario, there would be no incentive for the implementer to actually seek a license.<sup>413</sup> Not only thus this approach promotes infringement rather than setting a fair balance between the interest of SEP owners and SEP implementers, by shifting it in favour of the latter, it also risks eliminating the incentive of patent owners to participate in the standardisation process.<sup>414</sup> In Telyas' view, the approach is not aligned with Article 31(b) of the TRIPs Agreement which provides that compulsory licenses may only be issued where the prospective licensee has already made effort to obtain authorisation to use the patented technology from the owner prior to the refusal, on "*reasonable commercial terms*" and where "*such efforts have not been successful within a reasonable period of time.*"<sup>415</sup> Moreover, it

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<sup>406</sup> Telyas, *op. cit.*, p. 210 – 211

<sup>407</sup> Samsung Electronics, para. 99

<sup>408</sup> Telyas, *op. cit.*, p. 209 – 210

<sup>409</sup> *Ibid.*, p. 211 – 212

<sup>410</sup> Commission press release in Case COMP/39.985, Motorola – Enforcement of GPRS standard essential patents, MEMO/13/403 (Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents Questions and Answers), 6 May 2013 <[http://europa.eu/rapid/press-release\\_MEMO-13-403\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-403_en.htm)> accessed 12 May 2015

<sup>411</sup> Telyas, *op. cit.*, p. 212

<sup>412</sup> *Ibid.*, p. 210. See in that regard Samsung Electronics, paras. 76 and 79 and footnote 46; and Motorola Mobility, para. 115 and 125(b) and (d) where Apple implicitly admits using the SEPs in question prior to signing a licensing agreement

<sup>413</sup> Telyas, *op. cit.*, p. 212; Larouche, *op. cit.*, p. 31 – 32

<sup>414</sup> Telyas, *op. cit.*, p. 210 – 212

<sup>415</sup> Article 31(b) of TRIPs

can be found out from publicly accessible databases, which are generally maintained by SSOs, what patents are essential to a specific standard. Thus there is no space for SEP implementers to justify not seeking a license.<sup>416</sup>

Further criticism of the Commission's approach has been expressed in regard to being based on a scenario of ideal negotiations where the SEP owner and the SEP implementer agree on royalties that represent "*the underlying value of the patented technology*" included in the standard.<sup>417</sup> The abuse, in the Commission's view lies with Apple accepting licensing terms that it only agreed to under Motorola's threat of seeking an injunctive relief. The Commission's assessment is thus set against the benchmark of perfect competition<sup>418</sup> and "*normal bargaining considerations in undistorted negotiations.*"<sup>419</sup> Based on Lemley and Shapiro's assertion that "*patents are probabilistic in nature,*"<sup>420</sup> there is naturally some uncertainty about the validity and potential infringement at the starting point in licensing negotiations which generally affects the outcome. As illustrated by Larouche, the negotiations can basically follow two paths – (1) the parties accept the probabilistic nature of the patent or (2) they decide to remove the probabilistic element through court proceedings determining the validity of the patent. The Commission views the probabilistic element and the possibility not to pay any royalty in case the patent were found invalid as a loss for the implementer. It is true that the challenge of validity is a potential option for the SEP implementer to take in order to "*trigger a move*" from path (1) to path (2). However, the Commission does not take into consideration the option of SEP owner of seeking injunctive relief as a tool of incentivising the implementer to negotiate and to reach an agreement. The Commission by preventing Motorola from using the threat of injunctive relief shifts the balance in the negotiations process since it takes away the option of the SEP owner while allowing the implementer to keep his option.<sup>421</sup> Even though this shift might not be beneficial for the implementer in the end, as SEP owners may rather be expected to request higher royalty rate if following the negotiations path (1) in order to reflect the risk that the SEP is found invalid in future, there is some rationale in the Commission's approach which goes back to its reasoning that SEP implementers as well as the final consumers should not pay for invalid patents.<sup>422</sup> In a way, securing the SEP implementer's possibility to challenge the validity of the patent may be seen as the Commission's attempt to provide a cure for imperfect patent law system which is not "*able to ensure thorough quality control.*"<sup>423</sup>

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<sup>416</sup> Telyas, *op. cit.*, p. 210

<sup>417</sup> Larouche, *op. cit.*, p. 28

<sup>418</sup> *Ibid.*

<sup>419</sup> Motorola Mobility, para. 412

<sup>420</sup> See Lemley, M., A., and Shapiro, C., "Probabilistic Patents", 19 (2) *Journal of Economic Perspectives*, 2005, pp. 75 – 98

<sup>421</sup> See para. 338 of Motorola Mobility, where the Commission recognised that the contractual termination clause had an adverse impact on Apple's ability to use the challenge of validity of Motorola's SEP as a leverage in negotiations in order to influence the amount of royalties to be paid

<sup>422</sup> Larouche, *op. cit.*, p. 28 – 30

<sup>423</sup> *Ibid.*, p. 30

### 5.3. Huawei v ZTE

In the *Huawei v ZTE* reference, the Düsseldorf Regional Court has asked the CJEU to clarify whether the conduct of seeking injunctions by SEP owners in infringement proceedings and its compatibility with competition law should be considered under the requirements of the German *Orange-Book-Standard* case or rather under the more licensee friendly approach adopted by the Commission in *Motorola Mobility* and *Samsung Electronics*.<sup>424</sup> In that regard, it has to be pointed up that in light of the *Motorola Mobility* and *Samsung Electronics* test, the German *Orange-Book-Standard* appears to be incompatible with the approach taken under Article 102 TFEU.<sup>425</sup>

Since all five questions rely heavily on the framework of *Orange-Book Standard*, some scholars believe that the decision to seek guidance from CJEU rather than the Commission under Article 15 of Regulation 1/2003, which provides national courts with the possibility to ask for an opinion concerning the application of the EU competition rules, suggests that the Düsseldorf court has made an attempt to steer the debate from the Commission's approach. In Petit's view, the reference also seems to rule out the General Court's approach to vexatious litigation as indicated in *ITT Promedia*.<sup>426</sup>

The order for reference asks in what circumstances does an action for infringement brought by a SEP owner against an implementer of the standard-compliant goods constitute an abuse of dominant position. In other words, it seeks to establish the competition law framework for SEPs licensing negotiations.<sup>427</sup>

The referring court asks whether an abuse of dominant position may result merely from the conduct of a SEP owner, who has committed to license on FRAND terms, of seeking injunction against a willing licensee or whether the abuse can only be presumed<sup>428</sup> where the infringer has submitted an appropriate unconditional offer and where it has already acted in accordance with the future contractual obligations.<sup>429</sup> In that way, the referring court is making the CJEU choose between the Commission's approach and the *Orange-Book-Standard*.<sup>430</sup> The second and third questions consider both alternatives and ask about the conditions that have to be taken into account in order to establish the prospective licensee's willingness.<sup>431</sup> The reference implies that the Regional Court of Düsseldorf considers the Commission's standard of establishing good faith as vague and that it is of the view that features such as timing and quality of the offers are essential to take into consideration when establishing whether the prospective licensee can be viewed as willing or not.<sup>432</sup> By the fourth question, the referring court asks about the specifics of the offer, should the CJEU prefer the *Orange-Book-Standard* approach. The fifth question asks whether the conditions are the same

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<sup>424</sup> Petit, *op. cit.*, p. 3

<sup>425</sup> Jones, *op. cit.*, p. 15 – 16

<sup>426</sup> Petit, *op. cit.* p. 3 – 4, see footnote 10 in particular; p. 18

<sup>427</sup> AG Wathelet opinion, para. 40

<sup>428</sup> although it is not clear from the reference what kind of presumption should be introduced

<sup>429</sup> AG Wathelet opinion, para. 38

<sup>430</sup> Larouche, *op. cit.*, p. 32

<sup>431</sup> AG Wathelet opinion, para. 38

<sup>432</sup> Telyas, *op. cit.*, p. 214

in relation to remedies other than injunctions.<sup>433</sup> Since this issue does not directly fall within the scope of the research question, it will not be further dealt with. In any event, the questions are framed as considering the willing licensee criterion as an important feature of the assessment of potential abuse under Article 102 TFEU, implying that the applicable legal standard should allow for a balance to be set between the interests of the SEP owner and the SEP implementer.<sup>434</sup>

The dispute concerns two Chinese telecommunications undertakings – Huawei, the owner of the patent essential to the Long Term Evolution (“LTE”) standard, who committed to ETSI to license the patent on FRAND terms, and ZTE, a manufacturer of the standard-compliant products. Between November 2010 and March 2011, the two undertakings engaged in discussions about infringement of the patent, and later in negotiations concerning possible licensing agreement. During those negotiations, Huawei suggested an amount which it considered as a FRAND offer, ZTE, on the other hand, sought a cross-licensing agreement and proposed a royalty payment of EUR 50. In that regard, ZTE declared itself to be a willing licensee.<sup>435</sup> Nevertheless, as the referring court observed, the parties did not exchange any specific offers.<sup>436</sup> In April 2011, Huawei brought an action for infringement after “*the breakdown of the negotiations*” before the referring court, where it, among others, seeks injunctions and damages. ZTE opposes the action by claiming that Huawei abused its dominant position.<sup>437</sup> In order to paint the whole picture, it has to be pointed up that during the course of the negotiations ZTE challenged the validity of the patent before the European Patent Office, which in January 2013 confirmed its validity.<sup>438</sup> An appeal is currently pending.<sup>439</sup>

Even though the referring court observes that there was no basis in law for ZTE to implement the SEP at issue without concluding a licensing agreement, on the other hand, it takes the view that the action for injunction sought by Huawei could be dismissed on basis of Huawei possibly abusing its dominant<sup>440</sup> position under article 102 TFEU. In that regard, the Regional Court of Düsseldorf states that there are two possibly conflicting approaches determining whether the SEP owner’s conduct of seeking an injunction is compatible with competition law.<sup>441</sup>

Regarding the Orange-Book-Standard requirements, the referring court observed that neither of the two conditions were fulfilled in this particular case on grounds that ZTE offers were not unconditional within the meaning of the case law of the German courts and that

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<sup>433</sup> AG Wathelet opinion, para. 38

<sup>434</sup> Petit, *op. cit.*, p. 3 and footnote 11

<sup>435</sup> AG Wathelet opinion, para. 6

<sup>436</sup> *Ibid.*, paras. 26 – 27

<sup>437</sup> *Ibid.*, paras. 3 – 5

<sup>438</sup> The validity was confirmed by a decision of EPO on 25 January 2013. On 30 January 2013, ZTE proposed a cross-licensing agreement with the royalty payment of EUR 50.

<sup>439</sup> AG Wathelet opinion, para. 28

<sup>440</sup> The referring court considers Huawei to be an undertaking in a dominant position. The AG then introduces a presumption of dominance as a basis for addressing the questions. See AG Wathelet opinion, paras. 29 and 58

<sup>441</sup> AG Wathelet opinion, paras. 29 – 32. Since the Commission’s decisions were not available at the time of the reference, the Regional Court in Düsseldorf only referred to the press releases regarding the Statement of Objections sent to Samsung.

irrespective of the correctness of the determination of the FRAND royalty by ZTE, the royalty was not paid.<sup>442</sup> On the other hand, the referring court was of the view that under the Commission's approach as stipulated in its press release, the action for injunction brought by Huawei would have to be dismissed as an abuse of dominant position since Huawei committed to ETSI to license its LTE standard essential patent on FRAND terms and ZTE's written offers satisfied the criterion of willing licensee within the Commission's interpretation of the term.<sup>443</sup>

### 5.3.1. Opinion of AG Wathelet

Although the AG initially dismissed the Orange-Book-Standard approach, in a similar way as the Commission, due to “*significant factual differences*”<sup>444</sup> as it was adopted within the context of a *de facto* standard with no FRAND commitment issued,<sup>445</sup> he claims to try to find a “*middle path*”<sup>446</sup> between the *Orange-Book-Standard* approach and the approach indicated in *Samsung*. Since he considered the Commission's approach as vague, especially in regards to determining the infringer's willingness to negotiate, thus not being precise enough to justify limitation on the SEP owner's right to seek an injunction, the AG stated that neither the *Orange-Book-Standard*, nor the Commission's approach is appropriate. The former would result in over-protection and the latter into under-protection of the SEP owner.<sup>447</sup>

Same as the Commission, the approach suggested by the AG is based on an assumption that SEP owner's conduct of seeking an injunction against a prospective licensee who is willing to take a license on FRAND terms constitutes abuse of dominant position under Article 102 TFEU. Although the AG states that a fair balance between the different rights at stake must be set,<sup>448</sup> the opinion barely touches upon the right of access to courts and considers only Huawei's right to the IPR and ZTE's freedom to conduct business.

The AG starts his assessment by defining the right to bring an action for injunction as being directly linked to the IPR. Since property rights are not absolute, a restriction can be placed upon them either by law or the IPR owner can limit the exercise of his right by himself. The former occurs where the IPR collides with rules of general interest. In this particular case, the IPR has to be “*reconciled*” with Articles 101 and 102 TFEU which serve to ensure that competition is not distorted. Referring to Article 12 of the Enforcement Directive, the AG moreover states that the Directive “*envisaged*” that the right to seek an injunction may in certain circumstances be substituted by a right to obtain monetary compensation. However, it is disputable to what extent would those circumstances – the infringer has acted unintentionally and without negligence, the injunction would cause disproportionate harm and monetary compensation would be adequate – be fulfilled in the present case, especially in

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<sup>442</sup> AG Wathelet opinion, paras. 34 – 36

<sup>443</sup> *Ibid.*, para. 37. The AG considers only the Commission's approach as indicated in the Statement of Objections sent to Samsung, even though at the time the opinion was issued, both decisions in Motorola Mobility and Samsung Electronics were available in full.

<sup>444</sup> AG Wathelet opinion, paras. 48 – 49

<sup>445</sup> If the CJEU adopts the approach indicated in the opinion, the Orange-Book-Standard could no longer be applied to SEPS disputes and would be restricted to *de facto* standards only. See Lundqvist 2015, *op. cit.*, p. 13

<sup>446</sup> AG Wathelet opinion, para. 52

<sup>447</sup> *Ibid.*, paras. 50 – 51

<sup>448</sup> Larouche, *op. cit.*, p. 33 – 34

regard to the intention or negligence of the infringement, given that publicly accessible databases of SEPs are generally maintained by SSOs. In any event, the AG views the scenario of the present case as the latter situation, where the SEP owner limits the exercise of his exclusive right himself, by issuing a FRAND commitment.<sup>449</sup>

Huawei's commitment to ETSI to license its patent to third parties is also what distinguishes the dispute at hand from the previous case law on refusal to deal. Here, the centre of the issue is whether the FRAND commitment is complied with. In the AG's view, Huawei's commitment should be construed as meaning that it is in principle willing to license to third parties and that it accepts that FRAND royalty constitutes an adequate compensation. Thus, Huawei's conduct cannot be equated to refusal to deal within the meaning of the CJEU's case law, which should be applicable only partially, depending on the fulfilment of the commitment.<sup>450</sup> However, the AG's construction of FRAND commitment as leading to licenses of right<sup>451</sup> appears to be at odds with the typical wording of a FRAND commitment which rather suggests that SEP owners declare that they are prepared to grant licences, not that they will grant licenses.<sup>452</sup> In any event, under such construction of FRAND commitment, a comparison can be drawn to *TeliaSonera*,<sup>453</sup> where by applying the margin squeeze doctrine, the dominant undertaking was punished for "having tried to entertain commercial relationships with its competitors by facing a lower threshold for a finding of abuse than if it had done nothing at all."<sup>454</sup> Similarly as *TeliaSonera*, where the telecommunications undertaking was under no obligation to provide access to its network,<sup>455</sup> in this case, Huawei did not have to enter into the standardisation process and to issue a FRAND commitment, in which case it would have been under no obligation to license.

Taking an inspiration from the CJEU's judgment in *Volvo*<sup>456</sup> and using analogical reasoning, the AG identifies the possible abuse in the IP owner's conduct of exploiting a position which he has gained on the market by creating a relationship of dependence between himself and IP implementers through recourse to methods other than those governing normal competition.<sup>457</sup> The AG observes that in the circumstances of the standardisation process which leads to "technological dependence", the FRAND commitment, and where the prospective licensee is objectively willing to conclude a FRAND agreement, an action for injunction constitutes recourse to methods other than those governing normal competition. Since such conduct has adverse effects on both the consumers and SEP implementers who "have invested in the preparation, adoption and application of the standard," it must be seen as constituting an abuse of dominant position.<sup>458</sup> By framing the approach under *Volvo*, the AG has avoided the controversy of introducing novel "exceptional" circumstances, like the

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<sup>449</sup> AG Wathelet opinion, paras. 60 – 65

<sup>450</sup> *Ibid.*, para. 70

<sup>451</sup> *Ibid.*, para. 65

<sup>452</sup> Petit, *op. cit.*, p. 38

<sup>453</sup> C-52/09 *Konkurrensverket v TeliaSonera Sverige AB*, judgment of 17 February 2011, ECLI:EU:C:2011:83

<sup>454</sup> "in this case given no FRAND commitment" see Larouche, *op. cit.*, p. 34, footnote 190

<sup>455</sup> Harker, M., 'EU competition law as a tool for dealing with regulatory failure: the broadband margin squeeze cases', 8 *Journal of Business Law*, 2013, p. 829

<sup>456</sup> C-238/87 *AB Volvo v Erik Veng (UK) Ltd.*, judgment of 5 October 1988, ECLI:EU:C:1988:477, para. 9

<sup>457</sup> AG Wathelet opinion, para. 73

<sup>458</sup> *Ibid.*, para. 74

Commission did in *Motorola*. However, what is striking is that the wording, suggests that the AG is arguing for a per se abuse of dominant position. To put it differently, the AG considers the mere conduct of a SEP owner of seeking an injunction to amount to an abuse, without actually requiring a demonstration of anti-competitive effects.<sup>459</sup> This approach is contrary to the Commission’s statement in *Google/Motorola* and *Motorola* where it explicitly recognised that injunctions in themselves cannot be anti-competitive.<sup>460</sup>

The AG acknowledges that the conduct of seeking an injunction cannot constitute an abuse of dominant position where the SEP implementer behaves in tactical and dilatory way.<sup>461</sup> Holding that a SEP implementer who reserves the right to challenge the validity or essentiality of the patent cannot be regarded as dilatory,<sup>462</sup> the opinion provides for safe harbour fairly identical to the one articulated by the Commission. The AG bases his reasoning on grounds that given the high amount of 4 700 patents which have been notified as essential to the LTE standard, the SEP implementer is not able to verify the validity and essentiality of the patent.<sup>463</sup> However, an emphasis should perhaps not be put on whether it was possible for the SEP implementer to know that a certain patent was valid or essential, after all that is for patent offices to check, where the implementer should have known from a publicly accessible databases that the patent was declared as essential.

The AG suggests that before bringing the action for injunction, the SEP owner must, pursuant to the special responsibility that it has and pursuant to the FRAND commitment, take “*certain specific steps*,” which should consist of the following. The SEP owner must alert the implementer in writing that it has been infringing a SEP. In the AG’s view, such requirement is not disproportionate considering that the SEP owner would in any event have to take the same step “*in order to substantiate*” an action for injunction. Subsequently, the SEP owner should present the implementer a written offer for a licensing agreement on FRAND terms. Neither this step is in the AG’s view disproportionate as the SEP owner has already restricted the exercise of its exclusive right by giving the voluntary FRAND commitment. The AG moreover holds that “*it is reasonable to expect*” that the SEP owner drafts his offer upon obtaining the patent and giving his commitment to license on FRAND terms to a SSO. If the SEP implementer does not accept the offer, it must submit, in writing, a counter-offer.<sup>464</sup> It is perhaps surprising that the AG does not set a time frame for the licensing negotiations. Unlike the Commission which in *Samsung* considered the 12 months period to be appropriate,<sup>465</sup> the AG merely states that the timeframe of the negotiations must be assessed “*in light of the commercial window of opportunity available to the SEP-holder for securing a return on its patent.*”<sup>466</sup> In any event, the AG concludes that it is for the referring court to assess whether Huawei’s offer and ZTE’s response, complied with these guidelines.<sup>467</sup>

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<sup>459</sup> Lundqvist 2015, *op. cit.*, p. 12

<sup>460</sup> *Motorola Mobility*, paras. 309 – 311

<sup>461</sup> AG Wathelet opinion, para. 88

<sup>462</sup> *Ibid.*, paras. 93 – 94

<sup>463</sup> *Ibid.*, para. 81

<sup>464</sup> *Ibid.*, paras. 80 – 88

<sup>465</sup> *Samsung*, para. 78

<sup>466</sup> AG Wathelet opinion, para. 89

<sup>467</sup> *Ibid.*, paras. 90 – 92

While formulating the steps that the SEP owner needs to take in order to escape Article 102 TFEU violation, the AG, similarly as the Commission, seems to disregard some important features of standardisation. The opinion does not acknowledge that the SEP owner's behaviour follows the rationale of standardisation which is to ensure as wide implementation of the standard as possible.<sup>468</sup> Moreover, it does not reflect the fact that in order to avoid litigation costs, licensing negotiations "*without verifying the validity or essentiality of every SEP*" might very well be in the interest of both the SEP owner and the SEP implementer.<sup>469</sup>

The AG holds that had the SSOs established rules of conduct for negotiations of FRAND licensing agreements, disputes could have been avoided. The current situation only encourages SEP owners to use injunctions as leverage in negotiations.<sup>470</sup> Such observation seems to suggest that the AG's view is much like the Commission's based on an assumption of perfect competition and it does not take into account that it is not only SEP owners who possess certain tools that they can use as leverage in negotiations. As mentioned above, SEP implementers' threat of challenging validity or essentiality of the patent is a powerful tool to use as leverage in negotiations much the same as the SEP owner's threat of an injunctive relief. This discussion was possibly not lost on the Regional Court in Düsseldorf which in its order for reference observed that a restriction of the SEP owner's right to bring an action for injunction would deprive him of significant leverage to use in the negotiations and would distort an equal position of the parties in the negotiations process.<sup>471</sup>

The AG in his own words tries to find a middle path between the approach stipulated by the *Orange-Book-Standard* case and the Commission's approach in *Samsung* and *Motorola*. The AG is right in stating that the Orange-Book-Standard approach results in over-protection of the SEP owner and that the Commission's approach, on the other hand, results in under-protection. Nevertheless, despite the laudable aim, he does not find the middle path. By imposing obligations on SEP owners to proactively monitor their existing SEPs, the AG's approach shifts the balance even further away from setting a fair protection. To put it differently, had the approach been adopted by the CJEU, it would have an even more adverse impact on the protection of the SEP owner's rights. By requiring a SEP owner to present a specific written offer to the implementer, it goes even a step further than the Commission's approach which merely required the SEP owner to invite the implementer to negotiate.<sup>472</sup> The AG is right in stating that the Commission's approach is vague. However, the approach that he indicates that certain specific steps need to be satisfied in order for the SEP owner to escape violation of Article 102 TFEU does not allow for balancing of interests. It is clear from the opinion that in the specific circumstances of the case, the SEP implementer's freedom to conduct business trumps the SEP owner's right to property.<sup>473</sup>

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<sup>468</sup> Larouche, *op. cit.*, p. 33

<sup>469</sup> *Ibid.*

<sup>470</sup> AG Wathelet opinion, para. 11

<sup>471</sup> *Ibid.*, para. 42

<sup>472</sup> Larouche, *op. cit.*, p. 34

<sup>473</sup> Lundqvist 2015, *op. cit.*, p. 11

### 5.3.2. Judgment of the Court

At first reading, the judgment appears to adopt approach similar to the one suggested by the AG. Both of them articulate, to certain extent, analogous procedural conditions that the SEP owner has to satisfy in order to escape violation of Article 102 TFEU by seeking injunctions in SEPs infringement proceedings. In several paragraphs of the judgment, the CJEU even makes references to the opinion. However, at closer look, there are certain distinctions in the CJEU's judgment,<sup>474</sup> relating to different theoretical considerations which the Court uses as a basis for its assessment.

Despite the referring court's detailed formulation of the questions, the CJEU has answered them jointly, stating that they essentially ask the same – i.e. under what circumstances the initiation of legal proceedings with the view of obtaining the recall of products<sup>475</sup> by a SEP owner who has given undertaking to a SSO to license on FRAND terms can amount to an abuse of dominant position under Article 102 TFEU.<sup>476</sup>

Even though Article 102 TFEU only condemns abuse of dominant position, not dominance as such, the CJEU has stayed clear of the discussion on a major issue of establishing dominant position of SEPs' owners by holding that it is apparent from the order for reference that Huawei's dominant position has not been disputed in the proceedings before the national court.<sup>477</sup>

The Court begun its assessment by stating that the lawfulness of the action for infringement has to be viewed within the context of a balance being established between the general interest of maintaining an undistorted competition, which is secured among others by Article 102 TFEU, and the rights of the SEP owner, in particular the right to IPRs pursuant to Article 17(2) of the Charter and the right of effective judicial protection under Article 47 of the Charter.<sup>478</sup> Thus, already the starting point of the assessment distinguishes the Court's approach from the one suggested by the Commission and the AG. The Court does not even make a single reference to the implementer's freedom to conduct business, unlike the Commission and the AG who justify the encroachment on the SEP owner's right to IPRs precisely on grounds of the implementer's freedom to conduct business. The Court on the other hand follows the framework of its settled case law which is based on an abuse as an objective concept. Therefore, the assessment focuses strictly on the conduct of the dominant undertaking.<sup>479</sup>

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<sup>474</sup> See in that regard Petit's comment on Lamadrid, A., "ECJ's Judgment of today in case C- 170/13, Huawei v ZTE" <<http://chillingcompetition.com/2015/07/16/ecjs-judgment-of-today-in-case-c-17013-huawei-v-zte/>> accessed 7 August 2015

<sup>475</sup> In the second part of the judgment, the Court considered Question 5 in regard to initiation of legal proceeding with the view of obtaining the rendering of accounts or award of damages. It held that such conduct cannot amount to abuse of dominant position since it cannot "have a direct impact on products complying with the standard in question manufactured by competitors appearing or remaining on the market." See paras. 72 – 76

<sup>476</sup> C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, judgment of 16 July 2015, ECLI:EU:C:2015:477 ("CJEU judgment in Huawei v ZTE"), para. 44

<sup>477</sup> CJEU judgment in Huawei v ZTE, para. 43

<sup>478</sup> *Ibid.*, para. 42

<sup>479</sup> *Ibid.*, para. 45

Referring to its established case law, the Court continued that the exercise of an exclusive right to bring an action for infringement which is directly linked to the owner's IPR can only amount to an abuse under exceptional circumstances.<sup>480</sup> This wording of action for infringement directly flowing from the exclusive rights conferred on IP owners, not from the right of access to courts, together with the omission of any reference to *ITT Promedia/Protégé International* seems to confirm the earlier implications relating to the judgment in *Micro Business Leader*. The CJEU does not consider the use of injunctions by SEP owners to amount to abusive litigation, but it rather focuses on the exclusionary effects that the use of injunctions can produce on the product market.

The Court agreed with the AG that the circumstances of the case at hand are, however, different to the ones that gave rise to the *Magill/IMS Health* line of case law on refusal to deal. It identified the "different" circumstances of the case as (1) the indispensability of the patent and (2) the fact that the status of a SEP was only obtained in return for a FRAND commitment.<sup>481</sup> Even though the requirement of indispensability is also one of the conditions which needs to be satisfied in order for a refusal to deal to amount to an abuse of dominant position, here the Court presumes that use of the patent essential to a standard is indispensable for all implementers, since unlike in the case of non-essential patents it is not possible for competitors to manufacture competing products. It is arguable whether this presumption is correct in relation to all SEPs. Considering the debate on the appropriateness of distinctions being made between *de facto* and *de iure* standards which was articulated above, it should perhaps be narrowed down to SEPs in network dependent industries. In any event, the Court's conclusion is that the SEP status of the patent leads into the possibility for SEP owners to block their competitors' products from appearing on the market.<sup>482</sup> In other words, the anti-competitive concern identified by the Court is that the SEP status of the patent brings along foreclosure risks on secondary markets. Thus it appears from the wording that the Court's reasoning only relates to vertically integrated undertakings, i.e. undertakings who are both owners of network protocol SEPs and manufacturers of mobile telephone devices. By refusing to license their network protocol SEPs to other mobile telephone manufactures, these undertakings are then able to foreclose the entire product market.<sup>483</sup> Such conclusion would mean that non-practising entities would be outside the scope of Article 102 TFEU. The Court, however, did not touch upon the issue of exploitative abuses.

Moreover, it should be pointed up that by crafting the legal test within the framework of exclusionary abuses conducted by vertically integrated dominant undertakings the Court has completely avoided the debate on the existence of patent hold-up, in fact the term is not mentioned in the judgment even a single time. Thus, by focusing solely on the exclusionary effect of the use of injunctions in SEPs infringement proceedings by vertically-integrated undertakings, which calls for competition law solution, the CJEU's approach can also be clearly distinguished from the U.S. doctrine, which is framed precisely within the context of the patent hold-up phenomenon, which in turn calls for a solution to be found in patent law.

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<sup>480</sup> CJEU judgment in *Huawei v ZTE*, paras. 46 – 47

<sup>481</sup> *Ibid.*, paras. 46 – 51

<sup>482</sup> *Ibid.*, para. 52

<sup>483</sup> See in that regard page 23, footnote 174 and reference to Petrovčič, who has illustrated the exact anti-competitive concern.

In the Court's view, given the circumstances identified above and given that the FRAND commitment creates legitimate expectations on the part of SEP implementers that SEP owners will grant licenses on those terms, a refusal to do so "may, in principle, constitute an abuse within the meaning of Article 102 TFEU."<sup>484</sup> Not only does FRAND lack a precise meaning which makes the concept of legitimate expectations on the basis of the commitment contradictory to the Court's previous case law<sup>485</sup> where it held in the *Microsoft 2012* case that the term reasonable encompasses a range of rates,<sup>486</sup> which leads to a conclusion that it does not have a sufficiently precise meaning in order to create a legitimate expectation. Similarly as the AG's construction of FRAND commitment leading to a license of right, the concept of legitimate expectations appears problematic considering the usual formulation of FRAND declarations. Furthermore, it is interesting to compare the judgment in *Huawei v ZTE* with the Commission's approach in *Motorola*, where the wording suggests that only willing licensees can legitimately expect that SEP owners will honour their FRAND commitment.<sup>487</sup> The Court, on the other hand, holds that "FRAND terms create legitimate expectations on the part of third parties,"<sup>488</sup> without considering their willingness to take a license.

Here again, a comparison may be made to the case law on margin squeeze abuse where the CJEU has held that despite there being no competition law obligation to deal, where the dominant undertaking voluntarily decides to do so, it has to "supply on terms at which it at least could compete."<sup>489</sup> Coates illustrates the doctrine<sup>490</sup> on the scenarios in *IPCom*, *Samsung* and *Motorola*, holding that these undertakings were under no obligation "to enter into the standardisation process," yet, since they voluntarily decided to do so, they have to comply with the FRAND commitment. Just like in *TeliaSonera*, the surprising implication of the approach is that if the said undertakings did not enter into the standardisation process they would have been "allowed" to refuse to license on FRAND terms or at all.<sup>491</sup> In that regard, the Court's approach thus appears to undermine the goal of promoting standardisation and innovation.

It follows from the Court's approach that the SEP owner's abusive refusal can be raised as a defence in infringement proceedings. The Court, however, added that SEP owners are only obliged to grant licenses on FRAND terms.<sup>492</sup> Since it is disputed what constitutes those terms and in order to avoid the conduct of seeking an injunction and the recall of products from being found abusive, the Court stated, similarly as the Commission and the AG, that the SEP owner has to comply with certain requirements in order "to ensure a fair

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<sup>484</sup> CJEU judgment in *Huawei v ZTE*, para. 53

<sup>485</sup> Petit, *op. cit.*, p. 38 – 39

<sup>486</sup> *Microsoft 2012*, para. 95

<sup>487</sup> See para. 521 of *Motorola Mobility*

<sup>488</sup> CJEU judgment in *Huawei v ZTE*, para. 53

<sup>489</sup> Coates, K., "The Estoppel Abuse", 28 October, 2013, 21st century competition: reflections on modern antitrust. <<http://www.twentyfirstcenturycompetition.com/2013/10/the-estoppel-abuse/>> accessed 17 August 2015. There, Coates refers to the use of "as efficient competitor" test as the benchmark.

<sup>490</sup> Coates refers to it as "the estoppel abuse"

<sup>491</sup> Coates, K., "The Estoppel Abuse", 28 October, 2013, 21st century competition: reflections on modern antitrust. <<http://www.twentyfirstcenturycompetition.com/2013/10/the-estoppel-abuse/>> accessed 17 August 2015

<sup>492</sup> CJEU judgment in *Huawei v ZTE*, para. 54

*balance between the interests concerned.*<sup>493</sup> The Court goes on stating that the high level of protection of IPRs which is guaranteed by the Enforcement Directive, which in that regard, in accordance with Article 17(2) of the Charter provides for various legal remedies, and Article 47 of the Charter which *inter alia* covers the right of access to courts, means that SEP owners may not generally be deprived of their right to initiate legal proceedings.<sup>494</sup> Even the FRAND commitment given by SEP owners cannot, in the Court’s words, “*negate the substance of [those] rights.*”<sup>495</sup> However, it apparently justifies imposition of specific requirements on the SEP owner when bringing an action for injunction or for the recall of products.<sup>496</sup> Thus, the CJEU does not shape its approach as an exceptional circumstance within the General Court’s *ITT Promedia* line of case law, but rather imposes limits on the SEP owner’s right to effective judicial protection.<sup>497</sup>

The Court stated that in order to escape violation of Article 102 TFEU, SEP owners have to notify the alleged infringers, specifying the SEP and the way in which it has been infringed. The SEP owner is obliged to alert or consult the infringer irrespective of whether the infringer has already been using the SEP in question or not. The Court justifies this obligation in the same way as the AG by holding that given the numerous patents that are essential to one standard, SEP implementers might not even know that they may be using teaching of a SEP. This argument, however, appears to be tenuous given that SSOs actually maintain publicly accessible databases of patents that are essential to a specific standard.

After the alleged infringer expresses willingness to take a license on FRAND terms, the Court does not, however, explain how that is to be done, it is up to the SEP owner to present to the infringer a specific written offer. Here, the Court’s approach differentiates from the one taken by the AG in whose opinion the SEP owner has to present a specific written offer even without the infringer expressing his willingness.<sup>498</sup> Nevertheless, the Court continued that it is for the SEP owner to specify the royalty that is to be paid with an explanation of how it has been calculated. In the Court’s view that is the only reasonable step since the SEP owner is in any event expected to comply with its FRAND commitment and it is the owner of the patent who is better placed to determine the appropriate amount of royalty, knowing the terms of the licenses that he has concluded with other competitors and being guided by the principle of non-discrimination.<sup>499</sup>

In the next step, it is for the alleged infringer to “*diligently [...] respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular,*

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<sup>493</sup> CJEU judgment in *Huawei v ZTE*, para. 55

<sup>494</sup> *Ibid.*, paras. 57 – 58

<sup>495</sup> *Ibid.*, para. 59

<sup>496</sup> *Ibid.*

<sup>497</sup> See in that regard Lamadrid, A., “ECJ’s Judgment of today in case C- 170/13, *Huawei v ZTE*” <<http://chillingcompetition.com/2015/07/16/ecjs-judgment-of-today-in-case-c-17013-huawei-v-zte/>> accessed 7 August 2015

<sup>498</sup> Wolf, A., Firth, C., “CJEU gives Guidance on Standard Essential Patents and Injunctions”. King & Wood Mallesons < <http://www.kwm.com/en/uk/knowledge/insights/cjeu-gives-guidance-on-standard-essential-patents-and-injunctions-20150716>> accessed 11 August 2015

<sup>499</sup> CJEU judgment in *Huawei v ZTE*, paras. 60 – 64

*that there are no delaying tactics.*”<sup>500</sup> Unfortunately, the Court does not exemplify what those recognised commercial practises and objective factors might be and how should the national courts determine whether the SEP implementer’s behaviour may be characterised as a delaying tactic.

If the alleged infringer does not accept an offer made by the SEP owner in accordance with the abovementioned requirements, in order to successfully rely on the competition law defence, he has to present a specific written counter-offer which complies with FRAND terms.<sup>501</sup> In that regard, it is not clear from the judgment how FRAND terms are to be determined from the point of view of the alleged infringer. The Court only specifies that where the infringer has already been using the patent prior to concluding a licensing agreement and if the counter-offer has been rejected, the infringer has to render an account of the past acts of use and has to provide the SEP owner with an “*appropriate security, in accordance with recognised commercial practices in the field.*”<sup>502</sup> Here, the approach differs again to the AG who suggested that security should only be required where the infringer has asked for court determination of FRAND terms.<sup>503</sup>

Even though comparing to the Commission’s balancing exercise, the CJEU has only considered the first two steps, it did not examine the need to protect the rights and freedoms of others when imposing a restriction on the exercise of the rights enshrined in the Charter, the judgment seems to set a more appropriate balance between the interests of the parties. For instance, it improves the SEP owners’ position to what was suggested by the Commission and the AG. Although the procedural requirements seem to be drafted in similar way as those designed by the Commission in *Samsung* and by the AG in his opinion, a significant difference is that the Court’s assessment framework creates a safe harbour for the dominant undertakings, not for SEP implementers as the Commission stipulated. Further distinctions can be found in the subsequent paragraphs.

In the event an agreement on FRAND terms is not reached after the infringer has presented his counter-offer, a third party determination of an appropriate royalty may be requested by the parties.<sup>504</sup> The wording of the judgment suggests that unlike in the Commission’s and AG’s approach, third party determination of FRAND royalty should rather be voluntary step to take for the parties. The Court has thus removed the SEP implementers’ safe harbour created by the Commission and the AG that an injunction cannot be issued against them as long as they agreed to third party determination of FRAND terms.<sup>505</sup>

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<sup>500</sup> CJEU judgment in *Huawei v ZTE*, para. 65

<sup>501</sup> *Ibid.*, para. 66

<sup>502</sup> *Ibid.*, para. 67

<sup>503</sup> Wolf, A., Firth, C., “CJEU gives Guidance on Standard Essential Patents and Injunctions”. King & Wood Mallesons < <http://www.kwm.com/en/uk/knowledge/insights/cjeu-gives-guidance-on-standard-essential-patents-and-injunctions-20150716> > accessed 11 August 2015

<sup>504</sup> CJEU judgment in *Huawei v ZTE*, para. 68

<sup>505</sup> “Enforcing Standard-Essential Patents – The European Court of Justice’s Judgment in *Huawei v ZTE*”, Cleary & Gottlieb, Alert Memorandum, 3 August 2015. <[http://www.cgsh.com/files/News/d23034e9-186e-4b11-a120-b3acfb065e45/Presentation/NewsAttachment/cbc6c8d2-4f4a-418c-a0ad-b54908830217/Alert%20Memo%20\(PDF%20Version\)%202015-62.pdf](http://www.cgsh.com/files/News/d23034e9-186e-4b11-a120-b3acfb065e45/Presentation/NewsAttachment/cbc6c8d2-4f4a-418c-a0ad-b54908830217/Alert%20Memo%20(PDF%20Version)%202015-62.pdf)> (“Cleary & Gottlieb”) accessed 16 August 2015

Regarding the SEP implementer's possible challenge of validity or essentiality of the patent, the Court held, considering that SSOs do not check validity or essentiality of patents and given the SEP implementer's right of effective judicial protection pursuant to Article 47 of the Charter, that such conduct "*cannot be criticised.*"<sup>506</sup> The language is not as strong as the one used by the Commission and the AG, however, it is apparent that it renders the interpretation of *Orange-Book Standard* by German lower courts incompatible with EU law.

It can be concluded that despite the referring court's emphasis on the willing licensee criterion as being of great importance for the assessment of abuse, it did not play a major role in the CJEU's judgment. The Court did not let itself to be dragged into a discussion on the patent hold-up controversy. It stayed within the boundaries of its established case law on exclusionary conducts of dominant, vertically-integrated undertakings. Rather than assessing the conduct of seeking injunctions under the exceptional circumstances doctrine, it focused on legitimate expectations of third parties that SEP owners will honour their FRAND commitment. For the conduct of seeking injunctions not to fall under the prohibition contained in Article 102 TFEU, the CJEU stipulated number of procedural requirements that need to be satisfied. In that way, the Court followed the formalistic tone of the approaches crafted by the Commission and the AG.

Although the judgment was highly anticipated by both legal practitioners and scholars across Europe, it is arguable whether it has lived up to those expectations. Since the judgment left number of issues open, it is highly probable that rather than putting an end, it will merely become a chapter in the debate on the use of injunctions within the context of SEPs and EU competition law.

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<sup>506</sup> CJEU judgment in *Huawei v ZTE*, para. 69

## 6. Conclusion

Since injunctions are by origin equitable remedies, it seemed reasonable to expect that the parties' good faith<sup>507</sup> would play an important role in the assessment on whether granting of an injunction would be appropriate in the particular case.<sup>508</sup> When determining whether seeking injunctions amounts to an abuse of dominant position, it was thus expected that courts would balance the interests of the parties in the specific circumstances of the case.<sup>509</sup> This was done for instance by courts in the Netherlands. Even though such approach may threaten the objective of uniform interpretation of the EU law, which is contrary to the principle of legal certainty, the flexibility would allow for a proportionate balancing of interests within the meaning of the *Scarlet Extended* case.<sup>510</sup> In the approaches of the national courts, the Commission and the AG, the criterion of willingness of the prospective licensee plays an important role in that regard.

The German *Orange-Book-Standard* framework with its patentee-friendly formalistic criteria already appeared to be inconsistent with Article 102 TFEU as interpreted in the Commission's decisions in *Samsung* and *Motorola*. The interpretation of willingness of the prospective licensee by the lower German courts which consider the licensee to be willing as long as it gives up the right to challenge the validity of the patent contravenes the licensee's right of access to courts. The conclusion is implicitly confirmed in the CJEU's judgment in *Huawei v ZTE*, although the Court used much lighter words than the Commission.

Unlike the *Orange-Book-Standard* which stipulates that the action of seeking an injunction violates competition law only where certain requirements are fulfilled, the Commission considered the action of seeking an injunction to be an abuse of dominant position in the exceptional circumstances of the cases, with the possibility for the SEP owner to offer an objective justification. It appears from the Commission's wording that such justification would only be acceptable in case of unwilling licensees. As Larouche points up, "[t]he starting presumption in *Orange Book* is 'injunctive relief is available unless...', whereas in *Motorola* and *Samsung* it is 'injunctive relief is an abuse of dominant position unless...'"<sup>511</sup> Unlike in the *Orange-Book-Standard* where the courts placed the burden on the SEP implementer to behave in a certain way in order to be able to successfully raise the competition law defence, in *Samsung* and *Motorola*, it is the SEP owner who has to satisfy certain requirements in order to escape violation of Article 102 TFEU. This further relates to the differences in the use of the criterion of willing licensee. Under the *Orange-Book-Standard*, the criterion of willing licensee is raised by SEP implementers as a procedural defence against the imposition of injunctions, whereas under the Commission's approach,

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<sup>507</sup> In that regard, see Larouche, *op. cit.*, p. 6, where he considers the criteria of good faith or proportionality as fulfilling similar function as equitable remedies in the common law system.

<sup>508</sup> Lim, *op. cit.*, p. 64

<sup>509</sup> Jones, *op. cit.*, p. 25

<sup>510</sup> Telyas, *op. cit.*, p. 214

<sup>511</sup> Larouche, *op. cit.*, p. 31

(un)willingness of the prospective licensees can be raised as an objective justification for seeking injunctions, which would otherwise be found abusive.<sup>512</sup>

The Commission framed its approach within the exceptional circumstances line of case law, which conforms to the principle that the right to IPRs and the right of access to courts can only be encroached upon in exceptional circumstances as established in *Magill* and *ITT Promedia*. However, the Commission introduced completely novel circumstances under which an owner of a SEP can be found abusing its dominant position by seeking an injunction – the standard setting process and the FRAND commitment issued by the SEP owner. The problem is that there is nothing exceptional about the circumstances of the standard setting process and FRAND commitments. The Commission’s approach basically places all undertakings operating in the ICT industry under a threat of finding themselves in exceptional circumstances, which in words of Bo Vesterdorf, the former President of the General Court, is “*somewhat bizarre*.”<sup>513</sup> The Commission’s approach is especially “dangerous” given that the Commission considers seeking an injunction as an abuse unless there is an objective justification for the SEP owner’s conduct. In that regard it would appear as appropriate to interpret the notion of objective justification rather broadly, yet the opposite is true as follows from the Commission’s case law on the interpretation of the criterion of willingness.

Even less balanced approach in weighting the interests of the parties in the negotiations process was presented by the AG in his opinion in *Huawei v ZTE*, where he placed a considerable burden on SEP owners to monitor use of their SEPs. Moreover, considering that the AG’s approach appears to condemn injunctions in the FRAND context as such, without considering anti-competitive effects, this approach seems even less appropriate.

Within the discussion on standardisation and the hold-up problem, seeking injunctions should not be seen as a refusal to license since such conduct is not aimed at reserving the product market for the SEP owner. After all, doing so would contravene the rationale of standardisation.<sup>514</sup> Since SEP owners commit to grant licenses under FRAND terms, injunctions are rather used as bargaining mechanisms in the negotiations procedure, where they serve to balance the incentives of both the SEP owner and the prospective licensee, or in other words, balance between the potential opportunistic behaviour of both which could result either in hold-up or hold-out.<sup>515</sup> Injunctions are thus used in a similar way as implementers use challenges to validity of SEPs in order to gain leverage in licensing negotiations. Even though the Commission and the AG disregarded the balance between the parties’ possibility to use the respective tools of injunctions and challenges to validity, they both distinguished their approaches from the classical refusal to deal case law.

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<sup>512</sup> Petit, *op. cit.*, p. 14. In that regard, see also para. 38 of the CJEU’s judgment in *Huawei v ZTE*, where it is stated that the referring court considers that “it is not satisfactory to adopt, as a criterion of such an abuse, the notion of the infringer’s ‘willingness to negotiate’, since this may give rise to numerous interpretations and provide the infringer with too wide a freedom of action.”

<sup>513</sup> Vesterdorf, B., “IP Rights and Competition Law Enforcement Questions”, 4 (2) *Journal of European Competition Law and Practice*, 2013. P. 110

<sup>514</sup> Jones, *op. cit.*, p. 21, footnote 84

<sup>515</sup> Camesasca, P., Langus, G., Neven, D., and Treacy, P., “Injunctions for Standard Essential Patents: Justice Is Not Blind”, 9(2) *Journal of Competition Law & Economics*, 2013, p. 287

The CJEU's judgment is, however, based on different considerations. Despite certain similarities and references to the AG's opinion, the Court distanced itself from the discussion on the existence of hold-up problem within the standard setting context. Instead, it assessed Huawei's conduct of seeking injunction as a conduct of vertically-integrated undertaking, dominant on the upstream technology market which may potentially leverage its position into the secondary product market with the effect of excluding their competitors' products. In other words, the Court subsumed the current scenario under its line of case law on exclusionary abuses conducted by vertically-integrated dominant undertakings where the anti-competitive concern is that the dominant undertaking's conduct brings along foreclosure risks on secondary markets. Although the Court bases its approach on legitimate expectations of SEP implementers that SEP owners will fulfil their FRAND promise, it has the same implications as the exceptional circumstances line of case law since the circumstances of indispensability of the patent obtained in return for the FRAND commitment lead to a refusal to license on FRAND terms amounting to an abuse of dominant position.<sup>516</sup> Nevertheless, an assessment relying on legitimate expectations which are based on FRAND undertaking seems a bit controversial since there is no common agreement between the Member States on the nature and meaning of that commitment. The Court did not add anything in that regard, leaving it to national courts to assess whether certain terms might be considered FRAND or not. Not only does this approach lead to national courts turning into pricing authorities,<sup>517</sup> the absence of any guidance on the determination of FRAND will probably result in new preliminary references.

The Court's stance towards the FRAND concept might also seem surprising since it avoided discussion on another phenomenon in regard to which there is no consensus between legal practitioners and scholars and that is the existence of patent hold-up. However, it might not necessarily end the debate in Europe since the judgment seems to be narrowed down to the particular circumstances of the case of an exclusionary abuse of a vertically-integrated undertaking.

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<sup>516</sup> Cleary & Gottlieb, *op. cit.*, p. 5

<sup>517</sup> Criticism in that regard has been already expressed towards the Commission's and the AG's approach. See Lundqvist 2015, *op. cit.*, p. 15

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