THE HUAWEI CASE. PATENTS AND COMPETITION RECONCILED?
Il presente lavoro è stato sottoposto ad un procedimento di revisione tra pari, secondo i criteri indicati nella Nota per gli autori.
THE HUAWEI CASE. PATENTS AND COMPETITION RECONCILED?

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Summary: 1. The intersection between Intellectual Property and Competition and the litigation issue. – 2. Standard Essential Patents at the crossroad between the right of access to Courts, the abuse of litigation and the abuse of dominance. – 3. The abusive litigation doctrine and tests before Huawei. – 4. The Huawei case: the doctrine and the tests. – 5. The post Huawei case law. – 6. The role of enforcers and the role of the policy makers.

1. The intersection between Intellectual Property and Competition and the litigation issue.

According to current legal and economic theory, the intellectual property (“IP”) system and competition law do not have conflicting goals, nor the grant of intellectual property rights (“IPRs”) contrasts with the competitive market model. On the contrary, the IP and antitrust systems play a complementary role in ensuring the correct functioning of the market; indeed, through different means, both of them contribute to the maximization of consumer welfare. In particular, from a general perspective, the protection of intellectual property is coherent with the macro-economic goal of promoting product differentiation, prevents the imitation of products by competitors and thereby eliminates the risk that investments in the market concentrate on already successful products. In addition, IPRs enforcement provides incentives to produce and commercialize inventions and creations and, by granting an exclusive right, allows the title-holder to appropriate the benefits and profits deriving from the use of his/her invention or creation.

Competition law aims at ensuring the correct functioning of the market, by preserving the competitive process and favoring the maximization of consumer welfare. The development and commercialization of innovative products represent a key driver of economic growth and an important mean of rivalry among firms and enhance consumer welfare.

The IP system contains several provisions directed at stimulating competition, and in particular at favoring the circulation of innovative information, such as the duty to describe

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and disclose the invention in the database of the patent office. In certain circumstances, however, IP holders may use their rights so as to restrict rivalry in the market, violate competition and thereby reducing consumer welfare. The issue of the abuse of IPRs as an antitrust violation has been discussed mostly in the context of the application of the rules on abuses of dominant position. However, the emergence of certain trends in the market, such as standardization and patent pooling, raised the question of the application of the prohibition against anti-competitive agreements. The administrative, judicial and para-judicial enforcement of IPRs constitutes an important form of their exercise by the holder. Nevertheless, such right may be abused. The issue of abusive IP enforcement and litigation is intertwined with the debate on the relationship between the IP system and competition law, since, under certain conditions, such enforcement and litigation may constitute an abuse of dominant position. In the vast majority of legal systems, access to Court is a fundamental right, protected at the constitutional level. Some authors have underlined that, in balancing conflicting concerns, the prestige of such constitutional right tends to outweigh most vexatious concerns. Also IPRs, and notably Patent Rights - due to their proprietary nature - have been qualified as fundamental rights, protected by national Constitutions and by the Convention of Human Rights.

The competition principle has different legal value across national jurisdictions around the world. Probably, the highest level of protection is granted by the Treaty on the Functioning of the European Union. Apart from the legal value of each of the above-mentioned rights and principles, a conflict between different interests - all of the utmost importance - emerges in cases involving patent protection and competition enforcement.

First of all, it has to be acknowledged the mentioned tension between IPRs and Competition.

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4 See e.g. M. BERTANI, Proprietà intellettuale, antitrust e rifiuto di licenze, Milano, Giuffrè, 2004, pp. 18 ff..  
6 In the Italian Constitution, the right of petition is provided for in article 24. The Constitutional Court has developed a significant case law on the provision. With regard to the European Convention of Human Rights (ECHR), the right of petition may be inferred from article 6. The principle is moreover stated by the European General Court in ITT Promedia: see EU General Court, 17 July 1998, case T-111/96, ITT Promedia NV vs. Commission of the European Communities.  
8 Article 42 of the Italian Constitution protects property rights. Article 1 of Protocol No. 1 of the ECHR added the right to the peaceful enjoyment of possessions in the ECHR.  
9 The text of Italian Constitution expressly mentions “competition” only in article 117, which concerns the boundary line between the legislative powers of the State and of the Regions. A theory considers the freedom to compete as a feature of the freedom of enterprise, which is protected by article 41. A doctrine argues that the protection of the competitive market is a principle enshrined in the so called “Substantial Constitution”.
Secondly, several scholars highlighted the emergence of "a necrotic disease of the Intellectual Property system": notably patents, although also the copyright protection rationale, have been deeply criticized. Finally, in several sectors, the intersection between IPRs and competition concerns, on one side, and fundamental rights - such as the right to health or the right to be informed as a feature of the freedom of thought-, on the other side, is at stake. As far as absolute rights are concerned, the question arises if they can be interfered with lawfully, no matter how important the conflicting interests may be. If a balancing process is admitted, the delimitation of the borderline between the use and the abuse of the mentioned rights becomes crucial in striking the balance among all potentially conflicting interests.

The legal community has been dealing with the interpretation of the "abuse of rights" doctrine since several decades: we do not intend to enter the theoretical debate, but only to discuss such doctrine in relation to the abuse of process - to protect IPRs - as an anticompetitive issue.

In this respect, three general remarks may be done: the first one is that the abuse of an intellectual property right may directly harm competition, as well as it may be part of a more complex damageable practice.

Such remark applies also to vexatious litigation in the enforcement of IPRs: it may be used as a means in itself, but also be part of a broader anticompetitive strategy. The second remark is that, in cases in which the IP abuse is itself the cause of a tort - effective or potential - competition, questions arise whether the legal use of the exclusive right does exclude by itself the possibility of anticompetitive effects or such use may be unlawful.

In this regard, on one hand, it has been argued that the IP system provides for inherent filters against the misuse of IPRs. On the other hand, however, external constraints - like antitrust or procedural rules - are considered as essential remedies to otherwise possible abuses. Thirdly, it has been claimed that also the antitrust realm is crowded by opportunistic and anti-competitive lawsuits: in light of this, it has been questioned whether competition law may effectively constitute a cure to vexatious IP litigation.

In this latter regard, scholars highlighted, however, that antitrust law has taken stronger steps to mitigate rent-seeking through litigation and suggest to follow the same path in order to control opportunistic and anti-competitive intellectual property lawsuits. In such scenario,

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12 See B. CARAVITA, (nt. 5), pp. 53 et seq.
the economic perspective can be helpful, as it stresses the effect of sham litigation on competition, therefore, on consumer welfare and economic efficiency\textsuperscript{14}. A paradigmatic example of the complex relationship between patent law and competition is the regime of the so-called Standard Essential Patents (“SEPs”) encumbered with obligations to license on fair, reasonable and non-discriminatory (“FRAND”) terms. This article concerns the legal issues surrounding FRAND encumbered SEPs and the \textit{Huawei} judgment. In particular, it addresses such issues in the context of the debate on the relationship between the IP systems and competition law and focuses on the abuse of injunctions as an abuse of dominant position. The conclusions regard the different roles played by various decision makers and policy makers in assessing such controversial issues and underlines the major role to be attributed to enforcers, first of all Courts, but also Competition Authorities, in the balancing process to be based on a case by case approach.

2. Standard Essential Patents at the crossroad between the right of access to Courts, the abuse of litigation and the abuse of dominance.

According to the OECD definition,\textsuperscript{15} «Standard setting is the process of determining a common set of characteristics for a good or service” and technical standards «concern the establishment of norms and requirement for technical systems, specifying standard engineering criteria, methodologies or processes». There are several classifications of standards. For instance, as explained by OECD, standards may arise from industry collaboration or uncoordinated processes\textsuperscript{16}. Also, standards may be classified as \textit{de jure} or \textit{de facto} standards. According to the International Organization for Standardization (ISO) and the European Telecommunications Standard Institute (ETSI) – two of the most distinguished standard-setting organizations (“SSOs”) – a \textit{de jure} standard may be described as «a document, established by consensus and approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context»\textsuperscript{17}.

A technology constitutes, instead, a \textit{de facto} standard, if it has been developed by one or more companies and, due to certain peculiar factors or events, it is adopted and implemented by

\textsuperscript{14} On the convergence of Law and Economics in this area see M.J. MEURER, \textit{Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation}, Boston College Law Review, 2003, Vol. 44, Issue 2, pp. 509 ff., who also indicates methods to discourage rent seeking activity by reducing the credibility of weak lawsuits and, more extremely, by restricting or eliminating certain intellectual property rights that generate relatively little direct social benefit. Also, of interest is the report drafted by BORGES BARBOSA, L.H. SALGADO, G. FERRERO ZUCOLOTO, (nt. 7), pp. 1 ff., who investigate sham litigation as a type of no-price predation in the light of the Game Theory.

\textsuperscript{15} See OECD, \textit{Intellectual Property and Standard Setting, Background note by the Secretariat}, 2014.


\textsuperscript{17} See www.etsi.org/standards/what-are-standards.
most market actors. Indeed, sometimes private innovations are adopted with such universality that they become *de facto* standards. Normally, standards arising from industry collaboration are agreed by standard-setting organisations, such as ISO and ETSI, in which patent holders and manufacturers of standard-compliant products participate. As a general rule, they may be classified as *de jure* standards.

In the context of SSOs, participation in the standard setting process is often unrestricted and transparent. Standards are frequently set through consensus after wide discussion among members.

SEPs are patents essential to implement a specific industry standard. This means that it is impossible to manufacture standard-compliant products – such as smartphones or tablets – without using technologies that are covered by said patents. Standardization creates a specific context from the perspective of competition enforcement: on one hand, it implies benefits, favours economies of scale and reduce barriers to entry by fostering interoperability.

On the other hand, however, it may raise antitrust risks, facilitate the choice of one technology to the exclusion of others and give market power to the SEP owner, which would not have existed absent the standard, and which can be exploited.

In order to keep the benefits of standardization and to protect against its risks, several mechanisms can be implemented.

The first mechanism is the *ex-ante* disclosure of essential patents, which allows informed decisions by the participants in the standard setting process and protects against patent ambush.

Secondly, measures can be adopted in order to increase the level of transparency into SEPs ownership, thereby limiting the risk of high transaction costs and royalty rates.

Thirdly, SEPs owners are obliged to licence their SEPs on FRAND conditions, thereby ensuring access to the standard for all.

However, several problems related to the mentioned remedies may arise, such as the blanket disclosure of SEPs, the undisclosed transfer of SEP ownership, the so-called hold up or reverse hold up, disputes on the meaning of FRAND terms. Also, should FRAND-encumbered patents be transferred, it has been questioned whether the FRAND commitments apply also to the transferee.

Let us focus now on the FRAND issue and especially on its relation to question of the abuse of litigation and abuse of dominance.

In line with the Horizontal Cooperation Guidelines, SSOs require the owners of patents that are essential for the implementation of a standard to commit to license these patents on FRAND terms.

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18 Paragraph 287 of the Guidelines on the applicability of Article 101 TFUE to horizontal co-operation agreements provides as follows: «FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions. In particular, FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable
These commitments are mere contractual obligations and not statutory rules. Therefore, non-compliance with FRAND commitments can be addressed, for instance, as a breach of contract, under contract law, or, in case of dominant firms, as an abuse of dominance under antitrust law.

As for dominance, the holding of SEPs may mean market power. Nevertheless, neither IPRs nor standards can be presumed to confer dominance: market power has to be assessed on a case by case basis. In this regard, one should, firstly, define the relevant market, and, secondly, assess the power of the company in such market. In this regard, substitutability, market shares, indispensability, lock-in, countervailing buyer power are concurrent concepts and criteria to be applied.

In the Horizontal Cooperation Guidelines, the Commission acknowledges that there is no presumption that holding a SEP implies the existence of market power.\(^{19}\) Moreover, a patent which has been declared essential to a standard may turn out to be invalid or non-essential to implement the same standard.

As for the abuse, the refusal to offer SEPs on FRAND conditions may constitute an exclusionary abuse by vertically integrated competitors or an exploitative abuse, if the patent holder does not compete with licensees.

However, FRAND commitments does not imply the obligation to license independently of the economic conditions of the licensing agreement. Therefore, determining what fair, reasonable and non discriminatory means in practice appears as a core issue.

Moreover, the provision of the FRAND safe harbour within EU guidelines does not automatically imply that non-compliance with FRAND commitments amounts automatically to an infringement of either art. 101 or art. 102 TFEU.\(^{20}\)

Moving to SEP-based injunctions as a particular case of abuse, injunctions as a measure to enforce IPRs are in themselves a legitimate remedy, protected at the constitutional level in a large majority of legal systems.

However, due to the specific context created by standardisation, bringing an action for injunction to protect a FRAND encumbered SEP may amount to an abuse, if the defendant is a licensee willing to enter into a FRAND licence.

In this context, in a number of jurisdictions, some significant body of law and case law have been developed to regulate the abusive use of legal means and even a set of tests has been adopted to assess the abuse of litigation\(^{21}\). Let us examine the abusive litigation doctrine and tests applied to SEPs, before and after the Huawei case.

3. The abusive litigation doctrine and tests before Huawei.

\(^{19}\) See European Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, (nt. 18) 2011, para. 269,


\(^{21}\) See BORGES BARBOSA, L.H. SALGADO, G. FERRERO ZUCOLOTO, (nt. 7), pp. 27, 28
Some of the most active jurisdictions in developing sham litigation doctrines are US and EU and their positions – in this field - are singularly close.

Under the Noerr-Pennington doctrine, the first question to be answered is whether - according to an objective standard - the plaintiff reasonably could be held to believe it had rights to be protected. Secondly, it has to be assessed the intent of the same plaintiff and in particular whether the lawsuit was conceived as part of a plan aimed at eliminating competition.

Moreover, when dealing with a number of lawsuits, the question is not whether one or more of them have merit, but whether they are initiated without regard to the merit of the case and for the purpose of injuring a competitor.

The Noerr-Pennington and sham litigation doctrines developed by US Courts have been criticized by scholars on the grounds that they fail to consider relevant constitutional principles other than the right to petition, which may shift the current balance. As a result, the right to petition is strongly protected and such doctrines are rarely applied in practice.

In the European Union, the ITT Promedia cumulative criteria have been applied: the bringing of a lawsuit by a dominant company is abusive if such lawsuit (i) cannot reasonably be considered as an attempt to enforce its rights and can therefore only serve to harass the opposite party, (ii) is «manifestly unfounded» and (iii) is «conceived in the framework of a plan whose goal is to eliminate competition».

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22 See, inter alia, E. R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961) (“Noerr”); United Mine Workers of Am. v. Pennington, 381 U.S. 657 (1965) (“Pennington”) (the so called Noerr-Pennington doctrine is named after these Supreme Court cases); City of Colum. v. Omni Outdoor Adver., Inc., 499 U.S. 365, 379 (1991) (“it is obviously peculiar in a democracy, and perhaps in derogation of the constitutional right ‘to petition the Government for a redress of grievances,’ U.S. Const., Amdt. 1, to establish a category of lawful state action that citizens are not permitted to urge”); Vibo Corp. v. Conway, 669 F.3d 675, 683-84 (6th Cir. 2012) (explaining that Noerr-Pennington protects the constitutional right to petition the government embodied in the Petition Clause of the First Amendment); Mercatus Grp., LLC v. Lake Forest Hosp., 641 F.3d 834, 846 (7th Cir. 2011) (“Noerr-Pennington was crafted to protect the freedom to petition guaranteed under the First Amendment.”)

23 See EU General Court, (nt. 6). In ITT Promedia case, Belgacom had the exclusive right to publish the listing of its subscribers as part of its telephone concession. Once this right was excluded in 1994 by a supervening law, a company (ITT Promedia) requested access to the database to publish a specialized, commercial edition of the same listing. Belgacom refused Promedia the requested access. ITT then went to a Belgian court to claim the access to the database; eventually, the case was settled. Belgacom, however, initiated a new action in court, arguing a number of rights it alleged to remain in force from the prior contract; such rights referred to various items of data, commercial know-how and intellectual property rights. The court took position against Belgacom, stating that the rights alleged by plaintiff contravened the 1994 law. ITT defended itself by asserting that Belgacom suit was vexatious and therefore illegal, but such claim was refused by the court. In pursuance of the same argument, ITT filed a case before the Commission of the European Communities, at the time acting as the administrative antitrust agency within the European environment. According to ITT claim, Belgacom had abused a dominant position, contrary to Article 86 of the Treaty, by initiating that suit before the Belgian courts, when it should be classified as a vexatious litigation. The Commission understood that Belgacom had not abused its dominant position by so raising in court the intellectual property claims. To ascertain such result, it proposed a two-thronged test (ITT Promedia test). ITT filed before the European Court of First Instance (now General Court) a request of review of the Commission’s finding. The sham litigation test adopted by the Commission and upheld by the Court is structured as follows. In order to find an infringement of article 86, a dominant undertaking should file a lawsuit i) which cannot reasonably be considered as an attempt to establish its rights and can therefore only serve to harass the opposite party; the suit must be «manifestly unfounded»; and ii) which is conceived in the framework of a plan whose goal is to eliminate competition.
A substantive analysis of the tests leads to the conclusion that also EU authorities adopted a very narrow definition of vexatious litigation, as referring only to unmeritorious, groundless litigation. Under such test, the bringing of a lawsuit may not be considered abusive if there is only a likelihood that the party aimed at achieving an illegitimate result. Even in jurisdictions without specific precedents on abusive litigation, the vexatious nature of lawsuits is assessed, considering the possibility of pathological use of the right of petition and the need to prevent evident harms to the competition environment.

It is worth noting that, even in those systems where a substantially objective standard seems to prevail, demonstration of unlawful intent is frequently required due to the particular nature of the discussed tests. The «too much subjectivity» issue represents one of sham litigation doctrines’ most critical aspects and, indeed, the role of intent in current tests is often criticized. In the litigation doctrine, different conduct have been examined and studied. However - in the field of Intellectual Property - particular attention has been paid to the abuse of preliminary and permanent injunctions, due to the qualitative and quantitative significance of such remedies in the IP framework.

In the US, in the MercExchange case, the Court established a four-step test in order to assess whether injunctions are appropriate. In order to obtain injunctive relief, it should be demonstrated that: (i) the plaintiff suffered irreparable harm; (ii) monetary damages are inadequate; (iii) the injunction is warranted in view of the balance of hardships between the plaintiff and defendant; (iv) it serves the public interest.

In Europe, the Commission opened up the debate with the Motorola landmark case, and affirmed several principles related to the abuse of dominance and the abuse of litigation issues in the FRAND encumbered SEPs realm.

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24 See V. Guimarães de Lima e Silva, (nt. 23), pp. 455 ff..
26 See European Commission, 29 April 2014, case AT.39985, Motorola - Enforcement of GPRS standard essential patents. In the case at hand, the Commission started an investigation against Motorola Mobility for a potential abuse of dominance under Article 102 TFEU, by seeking and enforcing an injunction against Apple in Germany in relation to a smartphone SEP covering GPRS standard. The Motorola Mobility SEPs in question relate to the ETSI GPRS standard, part of the GSM standard, which is a key industry standard for mobile and wireless communications. When this standard was adopted in Europe, Motorola Mobility declared some of its patents as being essential and gave a commitment that it would license such patents on FRAND terms. Motorola sought to enforce the injunction, despite Apple agreeing to be bound by a determination of FRAND royalties by the German court. The Commission concluded its investigation, finding that Motorola has abused its dominant position under Article 102 TFEU on two accounts: (i) by seeking and enforcing an injunction against Apple on the basis of a SEP which it had committed to license on FRAND terms, and where Apple had agreed to take a licence and be bound by a determination of the FRAND royalties by the relevant German court; (ii) by insisting, under threat of enforcement of the injunction, that Apple give up its right to challenge the validity or infringement by Apple’s mobile devices of Motorola’s SEPs. No fines have been imposed on Motorola on the basis that there is no EU case law available on the application of Article 102 TFEU to SEP based injunctions, and that national courts have so far reached diverging conclusions on the issue.
As far as the definition of the relevant market is concerned, the Commission differentiates between: (a) an input market, which is the market for the licensing of the technology; and (b) an output market, which is the market for the products incorporating that technology.\textsuperscript{27}

The Commission identified the relevant market on the basis of the criteria of demand-side and supply-side substitutability.\textsuperscript{28} It reached the conclusion that «there are no viable substitutes to the GPRS standard in the European Economic Area. In order to manufacture and sell lawfully a GPRS-compliant product, an implementer of the GPRS standard must therefore obtain a licence to the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS»\textsuperscript{29}

With respect to the issue of dominance, the Commission affirmed the principle, according to which the mere holding or exercise of SEP rights does not confer dominance on its own, but market power must be assessed on the basis of all relevant factors. Three factors are given particular importance in this assessment: (i) the indispensability of the standard; (ii) the industry lock-in to that standard; (iii) the absence of countervailing bargaining power.\textsuperscript{30}

\textsuperscript{27} Idem, at para. 183, that recalls the Guidelines on technology transfer agreements (see European Commission, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014, available at eur-lex.europa.eu). See European Commission, Motorola – Enforcement, (nt. 29), at para. 184-191: «For the purposes of this Decision, the relevant input market is the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads, and the relevant output market comprises the downstream products on which GPRS standard-compliant products, such as chipsets and mobile devices, are sold. […] this Decision focuses on the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads. […] The definition of technology markets follows the same methodology as that for general product market definition. Technology markets consist of the technology and the IP protecting that technology and its close substitutes, i.e. other technologies and related IP rights which customers could use as alternatives. […]The relevant technology market in this case encompasses the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads, and other technologies to which customers could switch in response to a small but permanent increase in relative prices of Motorola’s technology».

\textsuperscript{28} Idem, at para. 193-210: «For the purposes of this Decision, the Commission has reached the conclusion that for manufacturers of mobile devices in the EEA, there are no substitutes to Motorola’s technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads. This conclusion is based on the following three elements: (i) GPRS, part of the GSM mobile telecommunication technology (2G/2.5G technology), cannot be substituted by mobile standards of other generations, such as UMTS (3G technology) or LTE (4G technology); (ii) GPRS cannot be substituted by any other 2G standard; and (iii) GPRS cannot be lawfully implemented without having access to the Cudak patent. […] In the present case, there is a lack of supply-side substitutability due to the fact that the technology on which the Cudak GPRS SEP reads is part of the GPRS standard. It is impossible for any other holder of SEPs (relating to GPRS or any other standard) to provide customers with alternatives to the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads. The holders of other technologies, whether patented or not, cannot supply technologies fulfilling the same function within GPRS due to the nature of the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads».

\textsuperscript{29} Idem, at para. 212.

\textsuperscript{30} Idem, at para. 225-241: «Motorola holds a 100% share of the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads. Motorola’s mere holding or exercise of its rights under the Cudak GPRS SEP does not, however, confer dominance on its own. This must be assessed on the basis of all relevant factors. Two factors are of particular importance for this assessment: first, the indispensability of the GPRS standard on which Motorola’s Cudak GPRS SEP reads for manufacturers of standard-compliant products, and, second, the industry lock-in to that standard. Due to the widespread adoption of the GPRS standard, it is indispensable for manufacturers of...
Finally, in relation to the abusive nature of the conduct, the Commission underlined that seeking injunctions before courts is generally a legitimate remedy for patent holders in case of patent infringements. However, seeking an injunction based on SEPs may constitute an abuse of a dominant position, if a SEP holder has given a voluntary commitment to license its SEPs on FRAND terms and where the company against which an injunction is sought is willing to enter into a licence agreement on such FRAND terms.

Exceptional circumstances in this case may be: (i) standard setting; (ii) commitment to license on FRAND terms; (iii) the existence of a dominant position;\(^{31}\) (iv) no objective justification for the bringing of the lawsuit against a willing licensee.

The Commission argued that, since injunctions generally involve a prohibition of the product infringing the patent being sold, seeking SEP-based injunctions against a willing licensee could imply the risk of excluding products from the market. Such a threat against the standard implementer can therefore distort licensing negotiations and lead to anticompetitive licensing terms that such implementer would not have accepted absent the seeking of the injunction.

As a conclusion, according to the Commission, such an anticompetitive outcome would be detrimental to innovation and could harm consumers.

The Commission has faced the above-mentioned issues in several other cases, such as the Google/Motorola Mobility merger case,\(^{32}\) in which the Commission approved acquisition of Motorola Mobility by Google and reaffirmed the above-described principles.\(^{33}\)

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31 Note that commitment to license on FRAND terms can be used to influence the adoption of a certain industry standard. For instance, if there’s competition between two alternative standards, the commitment to license on FRAND, by lowering (ex-ante) transaction costs, can drive the industry toward the adoption of the FRAND-encumbered standard.

32 See European Commission, 13 February 2012, Case COMP/M.6381, Google/ Motorola Mobility.

33 «Depending on the circumstances, it may be that the threat of injunction, the seeking of an injunction or indeed the actual enforcement of an injunction granted against a good faith potential licensee, may significantly impede effective competition by, for example, forcing the potential licensee into agreeing to potentially onerous licensing terms which it would otherwise not have agreed to.» It also repeated that «the seeking or enforcement of injunctions on the basis of SEPs is also not, of itself, anti-competitive. In particular, and depending on the circumstances, it may be legitimate for the holder of SEPs to seek an injunction against a potential licensee which is not willing to negotiate in good faith on FRAND terms.» See European Commission, Google/ Motorola Mobility, (nt. 32), paras. 107 and 126.
In the Samsung case,\textsuperscript{34} according to the commitments accepted by the Commission, Samsung will not seek injunctions in Europe on the basis of its SEPs on smartphones and tablets against licensees who sign up to a specified licensing framework.\textsuperscript{35} Several national courts have dealt with the above-mentioned issues and adopted different legal solutions: as a general remark, preliminary injunctions have been usually denied when FRAND encumbered SEPs were involved and courts typically have taken into consideration whether the parties were negotiating in good faith.

In Italy, in the Samsung-Apple case,\textsuperscript{36} the Intellectual Property Specialized Court of Milan rejected the request for a preliminary injunction for alleged infringement of FRAND encumbered SEPs, taking into account that serious negotiations had already taken place between the parties. However, the Court did not find bad faith in the conduct of the parties and this was deemed sufficient to exclude, in the preliminary ruling, that the SEP holder had committed an abuse of dominance by seeking injunctive relief.

In Germany, in the Orange Book Standard case,\textsuperscript{37} the German Federal Court of Justice adopted an approach more favourable to patent-owners. In order to avoid an injunction, the license seeker: i) must have made an unconditional binding offer for the conclusion of a license that the patent owner cannot refuse without being in breach of its obligations; ii) must satisfy in advance the obligations ensuing from the license agreement that is being concluded. These criteria have been further specified by German lower courts, which adopted a less favourable approach towards license seekers.

In the French Samsung/Apple case,\textsuperscript{38} the Court declined Samsung’s claim on factual grounds and stated that the measure of the injunction would be manifestly disproportionate. However, it also rejected Apple’s counterclaim for damages for abuse of process.

\textsuperscript{34} See European Commission, 29 April 2014, case AT39939, Samsung - Enforcement of UMTS standard essential patents.

\textsuperscript{35} Under this framework, any dispute over what are FRAND terms for the SEPs in question will be determined by a court, or if both parties agree, by an arbitrator. The commitments therefore provide a "safe harbour" for all potential licensees of the relevant Samsung SEPs. Indeed, potential licensees that sign up to the licensing framework will be protected against SEP-based injunctions by Samsung. To address the Commission’s concerns, Samsung has for a period of five years committed not to seek any injunctions in the European Economic Area (EEA) on the basis of any of its SEPs, present and future, that relate to technologies implemented in smartphones and tablets against any company that agrees to a particular framework for licensing the relevant SEPs. The licensing framework provides for: i) a negotiation period of up to 12 months; ii) and if no agreement is reached, a third party determination of FRAND terms by a court if either party chooses, or by an arbitrator, if both parties agree on this.

\textsuperscript{36} See Court of Milan, order dated January 5, 2012, in Giur. it. 2013, pp. 86 ff.


\textsuperscript{38} See Tribunal de Grande Instance of Paris, 8 December 2011,(Docket No. 11/58301). The judgment has been issued in the context of a worldwide dispute between the companies Samsung and Apple. Samsung initiated an action for preliminary injunction before the Court of Paris against Apple, alleging the infringement of its SEP by the chips contained in Apple's products. Apple, by way of defense, contested the adversary claims on the following grounds: 1. the occurred exhaustion of Samsung’s IP rights related to the chips at issue; 2.Apple companies were already granted a “FRAND” user license for Samsung SEPs by virtue of the rules of ETSI, including Article 6-1 of IPR Policy; in the alternative, Samsung’s irrevocable undertaking pursuant to Article 6-1 of the ETSI IPR Policy constitutes an irrevocable granting offer; 3.the invalidity of the patents at stake for lack of novelty and/or of inventive step (in this regard, it should be noted that such patents have been limited by Samsung before EPO); 4.the enforcement of the patents in the present case constituted an abuse of a dominant position. The Court of Paris rejected Samsung’s claims, upholding Apple’s objection concerning the
Also, a few National Competition Authorities have tackled the issue: in the United States, in the Google case,\textsuperscript{39} the Federal Trade Commission (FTC) stated that Google, by seeking injunctions for infringement of FRAND-encumbered SEPs for mobile phones, video codec, and wireless LAN standard’s against willing licensees, engaged in unfair methods of competition and committed a violation of the Sherman Act. Under the settlement reached with the FTC, Google has undertaken not to request preliminary injunctions, except for IP proceedings against a potential licensee who: 1. is outside the jurisdiction of US District Courts; 2. refuses to enter a license agreement covering the FRAND-encumbered Patent on terms that have been set in the final ruling of a Court or through binding arbitration; 3. does not provide the written acceptance of the arbitration offer.

In the Robert Bosch case,\textsuperscript{40} the FTC alleged that SPX has failed to honor the commitment to license on FRAND terms by seeking injunctions against willing licensees of patents and, having ascertained an unfair method of competition, as well as a Sherman Act violation, closed the proceedings with a settlement. In particular, on the basis of such settlement, Bosch has agreed to abandon claims for injunctive relief related to SEPs owned by SPX. Only in the following two cases, Bosh is entitled to continue IP enforcement proceedings: 1. a Court finds that the SEP is used by a competitor for a purpose other than the implementation; 2. the counterparty has stated in writing that it will not require a license or comply with the FRAND terms agreed between the parties / determined by the Court.

However, although the US Department of Justice (DoJ) and the FTC have just published an updated version of the Antitrust Guidelines for the Licensing of Intellectual Property,\textsuperscript{41} the topic of standard essential patents remains unaddressed in such text.

In China, on February 10, 2015, the National Development and Reform Commission (NDRC) condemned Qualcomm to pay a fine for abusive licensing practices. In particular, Qualcomm, owner of several SEPs, adopted the following anticompetitive conducts: i) Charging unfairly high patent royalties; ii) Bundling SEPs and Non-SEPs without justification; iii) Imposing unreasonable terms on the sale of baseband chips.\textsuperscript{42}

\textsuperscript{39} See Us Federal Trade Commission, Order dated July 23, 2013- Docket No. C-4410, Google v. FTC.
\textsuperscript{40} See Federal Trade Commission, Order dated US April 23, 2013- Docket No. C-4377, Robert Bosch v SPX. The case concerns Robert Bosch GmbH’s acquisition of the SPX Service Solutions business of SPX Corporation. Said latter company, which was the owner of several SEPs, made a commitment to license on FRAND terms. See FTC and DoJ, Antitrust Guidelines for the Licensing of Intellectual Property, 2017, available at www.justice.gov, especially para 2.2. on Intellectual Property and Market Power. It should be remembered that the US Supreme Court held in its 2006 ruling in Illinois Tool Works v Independent Ink that patents do not necessarily confer market power.
\textsuperscript{42} Unofficial press release of the decision in English is available at http://www.linklaters.com/pdfs/mkt/beijing/A19534114.pdf.
On October 19, 2015, the Ministry of Commerce (MOFCOM) approved the merger of Alcatel-Lucent and Nokia, in accordance with anti-monopoly laws, provided that Nokia undertakes to license SEPs on FRAND terms.\(^{43}\)

On April 7, 2015,\(^4^{44}\) the State Administration for Industry and Commerce (SAIC) adopted a regulation aimed at prohibiting the abuse of IPR to exclude or restrict competition (i.e. Order No. 74).\(^{45}\)

A similar guidance has been recently amended by the Japan Fair Trade Commission (JFTC) on matters related to FRAND-encumbered SEPs, such as the seeking of an injunction by holders of FRAND-encumbered SEPs.

4. The Huawei case: the doctrine and the tests.

Taking into account the different approaches followed by the Commission and the German Courts, on 21 March 2013, the District Court of Dűsseldorf referred five questions to the European Court of Justice (“ECJ”):\(^{46}\) a) does the owner of a FRAND encumbered SEP abuse its dominant position if he/she requests an injunctive relief, although the alleged infringer has declared its readiness to enter into negotiations? Or is an abuse to be excluded only if the license seeker has submitted to the patent owner an unconditional offer? b) if readiness to enter into negotiations is sufficient, are there any qualitative and/or time related requirements? c) if an unconditional offer is required, are there any qualitative and/or time related conditions that the alleged infringer must meet? May the offer include the condition that the SEP is legally valid? d) if the fulfilment by the licence seeker of the obligations arising from the future licensing agreement is a pre-requisite for preventing an injunction, are there specific conditions that the same seeker must meet (e.g. render an account for past acts of use)? e) does the same conditions for the finding of an abuse apply to actions against patent infringements other than injunctions (e.g. damages)?


\(^{44}\) Unofficial version of the Order in English is available at www.linklaters.com/pdfs/mkt/beijing/19848090.pdf.

\(^{45}\) In particular, according to article 13, «in the course of exercising intellectual property rights, undertakings shall not eliminate or restrict competition by setting or implementing standards (including mandatory requirements in national technical specifications). An undertaking with a dominant market position shall not, without any justification, engage in any of the following conducts in the course of setting or implementing standards to eliminate or restrict competition: (1) in the course of participating in setting standards, intentionally refraining from disclosing information on the patent to the standards-setting organisation, or explicitly waiving its patent right but nevertheless claiming for patent rights against undertakings implementing the standard after the patent is involved in the standard; and (2) refusing to grant a licence, tying products or imposing other unreasonable conditions on transactions in violation of the principles of fairness, reasonableness and non-discrimination in order to eliminate or restrict competition, after such patent becomes a standard essential patent. For the purpose of these provisions, standard essential patents refer to patents that are indispensable in implementing standards».

\(^{46}\) See European Court of Justice, 16 July 2015, case C-170/13, Huawei Technologies/ ZTE.
In the Huawei judgement, the ECJ has reconciled the above-mentioned positions in an original way and confirmed the approach adopted by the Advocate General Wathelet in its opinion. 47

The Court has set up a number of specific obligations bearing upon the parties during the negotiation, explicitly stating that the failure by the SEP holder to comply with said obligations provisions would entail a violation of art. 102 TFEU. The mechanism should work as follows.

Before bringing an action against an alleged infringer, the SEP holder must alert the latter of the infringement complained about by designating the infringed SEP and specifying the way in which it has been infringed, «even if the SEP has already been used by the alleged infringer» 48.

As pointed out by the Advocate General, the reason for this obligation is that the high number of patents covering some hi-tech standards (e.g. in the smartphone environment) could lead a firm to infringe some of such patents without being aware of it. 49

Once the alleged infringer has expressed «its willingness to conclude a licensing agreement on FRAND terms», the SEP holder must submit «a written offer for a licence on FRAND terms […] specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated» 50

This is an ambiguous passage of the ruling, as the Court obliges the proprietor of the patent to present an offer in accordance with FRAND terms, but does not identify detailed technical criteria to exactly determine terms and rates.

It is not clear if this approach is a gap left blank on purpose by the ECJ or if it is a policy-making choice oriented to a «case by case approach». The latter option is likely to be the most realistic, as defining in depth what has to be meant with «FRAND» could excessively limit the SEP holders’ right to run a business and to lead free negotiations with their counterparties.

The alleged infringer must respond diligently to the offer of the SEP holder, without adopting delaying tactics 51. If the alleged infringer does not accept such offer, it must submit to the SEP holder, «promptly and in writing, a specific counter-offer that corresponds to FRAND terms». In absence of this counter-offer, the seeking of an injunction by the SEP holder does not have abusive nature. 52

A question instantly arises while reading this passage: how can the alleged infringer present an offer corresponding to non-discriminatory terms if he/she does not have access to the licensing agreements signed by the SEP holder with other parties with reference to the patent at issue? If determining FRAND rates proves to be hard for the SEP holder, as observed above, it could turn out to be impossible for the alleged infringer, since he/she has no access to important information. An answer to this issue has not been given by the ECJ.

47 See Opinion of the Advocate General Wathelet, 20 November 2014, case C-170/13, Huawei Technologies/ZTE.
48 See European Court of Justice, (nt.46), para. 60-61.
49 See paras 62 and 81.
50 Idem, at para. 63.
51 See European Court of Justice, (nt.46), par. 65.
52 Idem, at para. 66.
If the alleged infringer is using the teachings of the SEP before a licensing agreement has been concluded and its counter-offer is rejected, it must provide financial security (i.e.: bank guarantee, deposit). The value of the security should be calculated on the basis of, inter alia, the number of the past acts of use of the SEP. The alleged infringer must be able to render an account in respect of said acts of use.\(^{53}\)

Where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party without delay.\(^{54}\)

In the sequence of procedural obligations placed on the parties for the negotiation of a licence, however, the timing of the alleged infringer’s obligations remains unclear\(^ {55}\), although the Advocate General explains that «The time frame for the exchange of offers and counteroffers and the duration of the negotiations must be assessed in the light of the commercial window of opportunity available to the SEP holder for securing a return on its patent in the sector in question».\(^{56}\)

The alleged infringer always maintains the right to challenge the validity of the SEP or the essential nature of the patent for the implementation of the standard, independently from the outcome of the licensing negotiation.\(^ {57}\)

The Huawei judgment apparently provides competition authorities and national courts with detailed guidance to strike a fair balance between IPRs, the right of access to a tribunal and the freedom to conduct business.

However, after the judgment, several issues remain open. Firstly, an open question concerns dominance: is the owner of a SEP always dominant? The ECJ skips the issue because «the questions posed by the referring court relate only to the existence of an abuse»\(^ {58}\). Previously, in his Opinion to the Court, Advocate General Wathelet incidentally wrote that «the fact that an undertaking owns a SEP does not necessarily mean that it holds a dominant position [...], and that the presumption of dominance of the SEP holder should always be rebuttable.»\(^ {59}\) However, since the referring court had posed no question concerning the existence of a dominant position, the Advocate General did not go further with his reasoning. Secondly, the Court does not rule on how FRAND are actually to be determined. \(^ {60}\) The methodology to determine FRAND rates remains subject to a «case by case» approach and,

\(^{53}\) Idem, at para. 67.

\(^{54}\) Idem, at para. 68.


\(^{56}\) See the Opinion of the Advocate General Wathelet, (nt.47) [par. 89. On this point, Marty, Sibony and Wachsman note that the more the technological evolution is rapid in the sector, the shorter will be the aforesaid commercial window. See F. MARTY, A. SIBONY, A. WACHSMAN, Brevet essential à une norme (BEN) – Licence “FRAND” – Actions en contrefaçon: La Cour de Justice de l’Union européenne précise les conditions de l’action en contrefaçon d’un brevet, Concurrences 2015, 4, pp. 120 ff.

\(^{57}\) See European Court of Justice, (nt. 51), para. 69.

\(^{58}\) Idem at para. 43.

\(^{59}\) Idem at para. 57-58.

\(^{60}\) See SIR ROBIN JACOB –ALEXANDER MILNER “Lessons from Huawei v. ZTE” October 2016, available at www.4ipcouncil.com, underlines that stakeholders in mobile SEP licensing currently debates on the appropriate
as an increase in litigation is now expected, having no clear calculation parameters could at first lead to heterogeneous decisions by the «independent third party», which is called to determine the amount of the licensing royalties.61

Furthermore, in case in which the SEP holder has made an offer and the standard implementer has made a counter offer, but they are still unable to agree on the terms and conditions of the licence, the Court ruled that the parties may rely on an independent third party in order to determine the royalty rate. However, the Court does not offer guidance on what happens if they do not agree to submit their case to such third party.62

Also what should happen where both the patentee’s offer and the implementer’s counteroffer are both FRAND?63

Thirdly, the Court did not clarify the extent to which the SEP holder can require the standard implementer to take a global licence for its SEPs rather than a licence limited to the jurisdiction in which such patents are litigated or likely to be litigated.64 Moreover, the Court did not specify whether, in case of families of patents, the SEP holder can oblige the alleged infringer to take a licence for the whole patent portfolio covering the standard technology, instead of a licence on the mere SEP at stake.

A connected issue not addressed by the Court is that the fragmentation of patent portfolios and the growing use by patent owners of patent assertion entities may lead to royalties stacking; the increase of the total amount of royalties paid for standard technologies might not be compatible with FRAND terms.65

Fourthly, it has been noted that, in accordance with the Opinion of the Advocate General, the judgment focused on the weighing of conflicting rights and interests and did not take into account economic theories of effect and efficiencies.66

A fifth open question is whether the patentee can require the implementer to enter into a Non-Disclosure Agreement prior to making an offer.67

A sixth issue not addressed by the Court is whether or not the FRAND commitment may amount to a contract for the benefit of third parties and therefore an implementer can be entitled to a FRAND license by virtue of such a contract. Indeed, third parties can enforce contracts intended for their benefit.68

royalty base and in particular whether it should be the “smallest saleable unit” (“SSU”) or per device, also known as the “Smallest Saleable Patent-Practising Unit” or “SSPPU”).


62 See D. GERADIN, (nt. 60), 17 ff.

63 See R. JACOB, (nt. 60), 3 whose opinion is that in this case, the key question is whether the patentee’s offer is FRAND, and, if it is, he has fulfilled his commitment and is not guilty of any abuse.

64 See D. Geradin, (nt. 60), 17 ff.

65 Ibidem C. BROWN-SANFORD, B. FORD, (nt. 55).

66 See in this regard B. LUNDQVIST, (nt. 61), 1 ff.; Id., (nt. 61), 367 ff.

67 According to R JACOB, (nt. 60), p. 12 considering that this is standard practice and that the companies exchange information about their respective businesses, it would be advisable to allow this.

68 See R JACOB, (nt. 60), p. 12 who affirms that, since the commitment is given to the standard development organization (e.g. ETSI) in the form of a contract, the same commitment may deemed as contractual.
A seventh question is how a court should proceed where the defendant contends that the patent is invalid and/or not used, a sub-question being whether, in case an implementer unsuccessfully challenges validity, essentiality or use, the patentee can/must charge more than he/she charged those who did not make any of such challenges.\(^69\)

Furthermore, the Huawei judgment has raised several questions on its scope of application. For instance, it may be argued that the ruling does not apply to de facto standards.\(^70\)

Also, it is not clear whether the ruling only refers to the case of vertically integrated firms attempting to exclude a competitor in the downstream market or also applies, at least by analogy, where the SEP proprietor and the alleged infringer are not competitors.\(^71\) In light of this, it is doubtful whether the ruling applies also to patent trolls and patent assertion entities.\(^72\)

5. The post Huawei case law.

The judgment of ECJ has been followed by several decisions in European jurisdictions and notably in Germany and UK\(^73\).

German courts affirmed several principles: firstly, on the applicability of article 102 TFEU, German case law argued that the legal consequences of a patent ambush is a licensing obligation on FRAND terms with respect to the patent, irrespectively of the applicability of article 102 TFEU, but not, automatically, the denial of injunctive relieves under patent law.\(^74\)

\(^69\) R Jacob’s opinion in R JACOB, (nt. 60), p. 13 is that it is possible that the patentee is entitled to apply higher royalties to the above-mentioned implementers, considering also the commitment of the patentee not to discriminate among licensees.

\(^70\) See B. LUNDQVIST, (nt. 61), 1 ff.; Id., (nt. 61), 367 ff

\(^71\) Ibidem; see also F. HUBENER, M. JAKOBS, SEP or no SEP? Open questions after Huawei/ZTE, European Competition Law Review 2016, Vol. 37, 33 ff.

\(^72\) At the beginning, the judgment refers to «competitors» and then switches to the term «infringers»; however, the judgment always refers to competitors when it draws up the requirements for the exceptional circumstances doctrine. The Commission seems to be of the opinion that the Huawei doctrine applies also where the patent owner does not compete in the downstream market: see the speech of Margrethe Vestager, Intellectual property and competition, 19th IBA Competition Conference, Florence 11 September 2015, available at ec.europa.eu/commission, affirming that «In my view, this obligation applies to whoever exercises the patent right in question».

\(^73\) See in this regard B. LUNDQVIST, (nt. 61), 1 ff.; Id., (nt. 61), 367 ff.

\(^74\) Outside Europe, in Japan, the Japan Federal Trade Commission (JFTC), on November 18, 2016, issued a decision ascertaining the violation of the Antimonopoly Act by the company One-Blue. Said company, holder of several SEPs, has declared that it will license them on FRAND terms. In a nutshell, during the negotiations between One-Blue and Imation, the latter company was willing to pay a FRAND fee and requested at the same time to explain how license fees were determined. However, One-Blue gave no explanation and was unable to negotiate the license fee in order to provide non-discriminatory terms. Afterwards, for the purposes of advancing negotiations, One-Blue sent notice to three of the main customers of Imation, warning them that it had the right to seek injunction against them. After having found the violation of the Antimonopoly act, the JFTC, however, stated that it was not necessary to issue a cease-and-desist order because the relevant violation has already ceased.

\(^74\) See Regional Court Düsseldorf, dated 3 November, 2015, file no. 4a O 144/14, Sisvel vs. Haier, in www.darts-ip.com. In the case at hand, the company Sisvel requested an injunction before the Regional Court for the violation of the German part of its European patent no. EP 0852885B1 by the company Haier. Since such patent was essential for the implementation of the GPRS standard developed by the ETSI, Sisvel committed itself to license such patent to third parties on FRAND terms. In light of this, Haier defended itself by asserting
On the applicability of article 101, German courts stated that also the application of art. 101 TFEU does not lead automatically to the denial of the injunction. Indeed, «a violation of art. 101 TFEU can only lead to the nullity of the standardization agreement and may, under certain circumstances, trigger third party civil law claims for injunctive relief and removal with respect to the cartel-law violation, namely the adoption of the standard. […] Such a violation does not preclude the assertion of SEPs. The third-party damages claim [resulting from the violation of article 101] is not a claim for the grant of a license either.»

Secondly, the German Courts have ruled on the meaning of FRAND: the customary level of royalties in the industry is an indication of FRAND terms; however, when considering royalties applied in the industry, the specific technology licensed should be also taken into account and may justify a deviation from customary levels. The relevance of customary royalties also means that the more concluded license agreements on similar terms the SEP proprietor can present, the stronger is the assumption that the requested royalties are FRAND. In general terms, such previous license agreements are the more indicative, the more is similar the use undertaken by the alleged infringer relative to that of previous licensees. Also, the fact that the previous license agreement has been agreed after the claim of an injunction does not exclude per se that the same complies with FRAND terms.

German judges addressed also more specific issues on the meaning of FRAND in case of patent portfolios, patent pooling and worldwide licenses: according to some courts, in determining whether a portfolio license is FRAND, it is necessary to see whether this is in accordance with commercial practices in the relevant sector; in any case, the defendant may demonstrate that the SEP holder is bundling SEP and non-SEP patents in the portfolio license.

The comparison of the licensing conditions with those applied by a patent pool has been taken as an indication, but its probative value is limited: indeed, when a license is obtained via a large pool, participated by several companies, royalties will be normally lower.

that the judicial action of Sisvel constituted an abuse of dominant position. On similar issues, see also Regional Court Düsseldorf, dated 31 March 2016, file no. 4a I 73/14, Saint Lawrence Communications vs. Vodafone, HTC, in www.darts-ip.com. In the case at hand, Saint Lawrence Communications requested an injunction against Vodafone to restrain the offering/selling of smartphones. Certain European patents of Saint Lawrence were found to be a SEP for the Adaptive Multi-Rate-Wideband Standard (AMR-WB-Standard). HTC, because of its delivery of smartphones to Vodafone, was third party intervenor participating in the proceedings. The court dismissed the FRAND defense raised by Vodafone and HTC. Furthermore, the dismissal was also due to the fact that Vodafone did not rendered account and provided security. The defendant applied for a preliminary stay of the enforcement of the first instance decision, which was rejected also because the Court of Dusseldorf had ascertained the compliance of St. Lawrences’s offer with FRAND terms. See Higher Regional Court Düsseldorf, dated 9 May 2016, I-15 U 36/16, in www.darts-ip.com.


76 See Regional Court Düsseldorf, dated 31 March 2016, (nt. 74).

77 Ibidem.

78 Ibidem. On this issue, see also Regional Court Mannheim, dated 4 March 2016, (nt. 75).

79 See Regional Court Düsseldorf, dated 31 March 2016, (nt. 74).
Some courts affirmed that a worldwide license is considered to be «common practice in the respective field of business» and therefore «not obviously infringing FRAND requirements».

An offer by the SEP holder specifying the due royalties and providing that the same royalties may be reviewed by a court – as a general principle – has been judged as compliant with the FRAND obligation.

Thirdly, on the scope of application of the Huawei judgment, some Courts claimed that the negotiation requirements set out in such judgment apply regardless of whether the patent holder operates in the product market, or, in other terms, compete with the foreclosed alleged infringer or is a non-practicing entity.

According to one court, if the supplier of standard-compliant products complied with the obligations set out in the Huawei judgment, its customers can successfully raise the antitrust defense against the same SEP holder.

The obligations set out in the Huawei judgment have been qualified as «a behavior test», that also takes into account the common practice in the commercial sector concerned. According to some courts, a violation of the ECJ principles «suggests a lack of good faith»; considering the wording of the judgment, the ECJ thus gives the national courts the possibility not to base their decision solely on the fulfillment of the obligations prior to the filing of the action as the only decisive criteria.

Finally, German case law intervened on the procedural obligations established by the Huawei judgment: on the infringement alert, some German courts held that such alert can be done after filing the action for injunction (even with regards to non-transitional cases, i.e. actions initiated before the Huawei judgment), that the same alert can be replaced by other sources, such as third parties and media, and that it can be made to the parent company of the alleged infringer.

On one side, as far as the declaration of willingness of the alleged infringer is concerned, German Courts ruled that the expression of interest by the SEP user should be immediate. For instance, according to some courts, five months are too long for the SEP user to respond

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80 See Regional Court Mannheim, dated 4 March 2016, (nt. 75). According to the Court, a counter-offer license limited to Germany does not comply with FRAND terms, if the group of the alleged infringer make use of the patents in other countries.

81 See Regional Court Düsseldorf, dated 31 March 2016, (nt. 74).

82 Ibidem.

83 Ibidem.

84 See Regional Court Mannheim, dated 4 March 2016, (nt. 75).

85 See Higher Regional Court Düsseldorf, dated 9 May 2016, (nt. 74).

86 See e.g. Regional Court Mannheim, dated 27 November 2015, file no. 2 O 106/14, 2 O 107/14, 2 O 108/14, Saint Lawrence Communications vs. Deutsche Telekom, in www.darts-ip.com. In the case at hand Saint Lawrence Communications requested an injunction against Deutsche Telekom for the infringement of its SEP for the Adaptive Multi-Rate-Wideband Standard (AMR-WB-Standard). HTC smartphones sold by Deutsche Telekom. HTC was third party intervener participating in the proceedings. The Court issued an injunction in favour of the SEP owner and rejected the defendant’s FRAND defence, because Deutsche Telekom did not show its willingness to take a license on FRAND terms and because HTC counter-offer was too general.

87 See Regional Court Düsseldorf, dated 3 November, 2015, (nt. 74).
to the infringement alert. According to other courts, «the supplier may not take more than three months since the notification through the customer to indicate willingness».

On the other side, on the offer by the SEP holder, some lower Courts excluded that such offer should comply with FRAND terms or affirmed that only evident infringements of FRAND obligations must be examined by courts. However, some higher Courts have made clear that the SEP owner’s offer needs to be FRAND in order to trigger the SEP user’s following obligations and in order to exclude the abusive nature of the injunction.

In turn, the counter-offer by the SEP user should be specific; and the SEP holder is not obliged to accept offers that call for royalties to be determined by a third party. The option of having a third party determine the amount of the royalty mentioned by the ECJ only become available if the counter-offer is rejected and by common agreement of the parties.

Also, some courts gave some indications on the obligation of the SEP user to provide security and to render accounts: the security needs to cover all acts of use of the patent in the past. Indeed, according to the same courts, in mentioning «from the point at which its counter-offer is rejected», the Huawei ruling refers to the point in time when the security has to be provided to the plaintiff. Also, some courts affirmed that the alleged infringer can prepare the security and the rendering of accounts while preparing its counter-offer; therefore, it will be in delay, if said security and the rendering are offered several months after the SEP owner declined the counter-offer.

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88 See e.g. Regional Court Düsseldorf, dated 31 March 2016, (nt.74).
89 See Regional Court Mannheim, dated 27 November 2015, (nt. 86).
90 See e.g. Regional Court Düsseldorf, dated 3 November 2015, (nt.74). According to the Court, the alleged infringer must nonetheless make a counter-offer and, in any case, promptly reply; in addition, if it is already making use of the patent, it should – irrespectively of the fact that the offer is not FRAND – draw up an account and provide a security. Said judgment has been overturned on appeal by the Higher Regional Court Düsseldorf, dated 13 January 2016, I-15 U 66/15, in www.darts-ip.com. Indeed, according to the Higher Court, only if SEP owner’s offer complies with FRAND terms, the alleged infringer has the obligation to respond.
91 See e.g. Regional Court Mannheim, dated 29 January 2016, 7 O 66/15, in www.darts-ip.com; such case concerned a claim by NTT for alleged infringement by HTC of patents essential for the UMTS standard. NTT had offered HTC a licence at specified royalty rates. 18 months later, and 6 months after the infringement proceedings were commenced, HTC made a counter-offer. The counter-offer was rejected but no security was provided. The Court granted an injunction, holding that HTC had failed to make a prompt counter-offer and to provide security. See also Regional Court Mannheim, dated 4 March 2016, (nt.75).
92 See e.g. Higher Regional Court Karlsruhe dated 31 May 2016, 6 U 55/16, Pioneer vs. Acer in www.darts-ip.com. In the case at hand, the plaintiff – an electronics company – was the owner of certain patents on DVD software technology and licensed the same patents through a patent pool. With regard to the patents essential to the sale and/or use of DVD products, the same plaintiff made a FRAND commitment addressed to the DVD Forum (which managed the standard). It filed a complaint for alleged infringement against the defendant, which raised the FRAND defence. The Mannheim Regional Court issued the injunction and an order for recall/destruction against the defendant. The latter applied for a preliminary stay of the enforcement of the first instance decision; Higher Regional Court Düsseldorf, dated 13 January 2016, I-15 (nt. 90).
93 See e.g. Regional Court Düsseldorf, dated 31 March 2016, (nt. 74).
94 In particular, in Huawei, the ECJ affirmed that «Furthermore, where the alleged infringer is using the teachings of the SEP before a licensing agreement has been concluded, it is for that alleged infringer, from the point at which its counteroffer is rejected, to provide appropriate security» (see par. 67 of the judgment).
95 See e.g. Regional Court Düsseldorf, dated 31 March 2016, (nt. 74).
In the English Huawei case, the final judgment is expected in early 2017. However, for the time being, by examining the preliminary judgment, it may be taken into account some preliminary remarks on FRAND terms.

It should be noted that the preliminary decision – addressing the issue of FRAND terms - has been published before the Huawei judgment of the CJEU. Nevertheless, in said decision, Mr. Birss makes reference to the opinion of the Advocate General Wathelet delivered on November 20, 2014. In particular, he recalls the principle affirmed by the Advocate, according to which, if the infringer’s conduct is tactical/dilatory, the patentee seeking an injunction is not abusing its dominant position.

In addition, the defendants claimed that the SEP holder should offer a license on single patents and not on the whole portfolio; this may be inferred from ETSI IPR policy and ETSI declarations. Conversely, according to the patent holder, it does not exist an obligation to license SEP individually. Mr. Birss has not decided in this respect in the preliminary decision. Nevertheless, he seems to be more in line with the patentee’s position by affirming that: «The patentee may be advancing only a worldwide portfolio licence while the defendant may be offering to take a licence under only the patents actually found to be valid and infringed. Necessarily an individual patent offer would be territorially limited. Both proposals might be

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96 High Court of Justice, Unwired Planet v. Huawei, Samsung (Case No. HP 2014 000005). The dispute has been initiated on March 2014, when Unwired Planet International (hereinafter also referred to as “UPI”) brought proceedings for patent infringement, contending that the products sold by Huawei, Google and Samsung, which are compliant with the standards, infringed its SEPs. UPI obtained most of the patent at issue from Ericsson. Many of such patents have been declared essential to various communication standards, including GSM, UMTS and LTE. The defendants Huawei and Samsung, denied the infringement claim and alleged that the UPI patents were void, not infringed and not essential to the relevant standard. In addition to the above, the defendants have also raised, by way of counterclaim, several issues on FRAND terms and violation of competition law. Therefore, the Court split the litigation into a set of distinct trials, respectively named trials “A”, “B”, “C”, “D”, “E” and “F”, which have been scheduled to take place in 2015 and 2016. According to the Court, the first five trials (trials “A”– “E”), are called “Technical trials”, since they concern validity, infringement and essentiality of the patents at issue. The sixth trial (trail “F”), named by the Court “Non-technical trial” instead relates to competition law, FRAND terms, and aims at determining whether injunctions may be granted in the event of SEP infringement. Said last trial, which was scheduled to take place following the conclusion of the technical trials, began on October 24, 2016. As to the outcome of the technical trials, UPI won the first one (trail “A”) and the third one (trail “C”), and thus, the relevant patents have been declared valid and infringed. Conversely, at the end of the second trial (trail “B”), the patents at issue have been deemed void due to being obvious and have been revoked. In particular, the patents have been considered void for obviousness, because of a publicly available document proposed by Qualcomm as part of the LTE standardization discussions. Since the nullity of the patents at stake has been found, the Court did not take into consideration the infringement claim. The remaining two technical trials (trials “D” and “E”) seem to be still pending. It should be noted that the trial “E” is the only one concerning Non-SEP. As anticipated, defendants have also brought counterclaims for breach of competition law. To sum up, the defendants argued the following: 1. The terms offered by UPI are not FRAND; 2. by seeking an injunction, UPI has acted contrary to Art. 102 TFEU; 3. the MSA agreement (cd. “Master Sales Agreement”), by which Ericsson patents were transferred to UPI, is prohibited by Art. 101 TFEU and thus is void. With reference to the non-technical trial, on April 26, 2016, the High Court rejected Samsung application for transfer part of the case to the Competition Appeal Tribunal (CAT) in accordance with Section 16 Enterprise Act 2002 Regulation 2015. Consequently, the proceeding is still pending before the Chancery Division of the High Court, with appointed Judge Mr. Justice Birss. As anticipated, the “Non-technical trial” is scheduled for 13 weeks starting in October 2016. Therefore, the final judgment is expected in early 2017.

FRAND in terms of the ETSI IPR Policy but each side could be refusing the other's offer. The obligation owed by a patentee to ETSI may only be to make a FRAND offer such that once a single FRAND offer has been made, the obligation to ETSI is fulfilled. In addition, the licenses covered also a standard (2G); however, according to the defendant, the licensor had no essential patents with respect to such standard. At this stage, the appointing judge considered that a proposal including patents of which patentee is not the holder (as for instance, in the present case, proposal covering 2G and as well 3G) seems unlikely to be legitimate. The Court referred to the Windsurfing case; in particular, in such case, the ECJ found certain clauses to be anticompetitive, since the same clauses were outside the scope of the patent.

As far as the territorial scope of the license was concerned, in the present case, the patentee proposals had a worldwide scope. However, according to the licensee, the license should not cover the countries, where the patentee has no IP rights; indeed, the licensee sold products also in such countries. On the other hand, the patentee highlighted that this is not relevant, if the licensee the same products, in countries where the technology is protected. The Judge agreed that the products all need a license to be manufactured, but the royalty is calculated by selling price. The judge stated that this point is not suitable for summary determination. On proposals bundling SEPs together with non-SEPs and its compliance with ETSI obligation, according to Judge Birss, this kind of proposal is not compliant with ETSI obligations. However, the judge pointed out that in the present case, following the first proposal, the patentee made another proposal concerning SEPs only. In his view, the factual contest has a key role in deciding on this issue. As a result, a decision in this respect will be taken at a latter stage.

Lastly, the Court addressed the question whether licensing proposals not including important information (which are provided to the willing licensee afterwards and upon its request). According to the defendant, this kind of proposal is not FRAND and has to be considered as a mere invitation to commence negotiations. Mr. Birss disagreed with this position, affirming that negotiation have to start somewhere and that proposals should contain vital terms, such as territorial scope, standard scope and royalty rates. As a matter of fact, in his view, if a patentee makes proposals which cover those terms and the putative licensee makes it clear that it is not interested, I do not see why a patentee should be obliged nevertheless to produce a draft contractual document, capable of being accepted. Decision on this point was considered not suitable for determination by summary trial.

6. The role of the enforcers and the role of the policy makers.

The Huawei case has also opened a huge debate on the role played by the different subjects involved in patent protection and in competition law enforcement.

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98 See. par. 44 of the aforementioned decision, UK Court, dated April 24, 2015.
100 See. par. 52 of the aforementioned decision, UK Court, dated April 24, 2015.
101 See. par. 9 of the aforementioned decision, UK Court, dated April 24, 2015.
102 See. par. 61 of the aforementioned decision, UK Court, dated April 24, 2015.
First of all the key role of national patent (and Competition law) courts emerges: the ECJ goes beyond the approach adopted by the Commission in its assessment of SEP holders’ conduct, thereby enabling decision-making bodies to find a compromise between the protection of intellectual property and the need to ensure the proper functioning of competitive dynamics.\(^{103}\)

National courts are well equipped to undertake to strike the above-described balance on ‘a case by case’ basis, and by making reference to specific facts. In this regard, it should be noted that judges will be frequently obliged to assess the compliance of licensing conditions with FRAND commitments. Sir Robin Jacob stated that following Huawei case “The emphasis is on a FRAND defence before a national court, not enforcement by competition authorities.”\(^{104}\)

Secondly, as soon as the Unified Patent Court (“UPC”) enters into force\(^{105}\) its involvement in the debate surrounding FRAND encumbered SEPs should be considered. In the context of the unitary patent system, there is no express provision on actions for infringements of competition law by patent holders. However before the UPC, acting in its competence ex article 32 of the Agreement on a Unified Patent Court (“UPC Agreement”), an antitrust defense may be raised in patent infringement actions.

Moreover, I also wonder if the standardization issue might be raised in a nullity action and if the exception of non-essentiality of the patent could be regarded as a feature of the validity of SEPs. In 18\(^{th}\)Draft of the Rules of Procedure, changes in article 118.1 contain an explicit reference to the «discretion of the Court» with respect to the granting of injunctions by the Court articles 63, 64, 67 and 80 of the UPC Agreement, make implicit reference to such discretion by stating that the Court “may” grant an injunction or other measures.

By deciding on antitrust defenses in a case of FRAND encumbered SEP litigation, the UPC will have the opportunity to strike a balance between barriers to entry and interchangeability and consumer welfare, between competition protection and legitimate exercise of IPRs, on a case by case basis.

Thirdly also European Commission has an important role, as a decision maker, as well as a policy maker. In the first role it has opened the debate on FRAND encumbered patents with the Motorola case. Not having the ECJ specified, so far, in which measure holding a SEP amounts to a dominant position of its owner, the assessment offered by the European Commission in said case remains the latest reference on this point.\(^{106}\)

Acting as a policy maker, the Commission in its Horizontal Cooperation Guidelines has not provided technical guidance with regard to the determination of FRAND terms, limiting itself to define the objective they are supposed to serve.\(^{107}\).

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\(^{103}\) See European Court of Justice, (nt. 51), paras 42 and 59, which refers to the need to strike a balance between maintaining free competition …and the requirement to safeguard proprietor's intellectual property rights and its right to effective judicial protection, guaranteed by Article 17(2) and Article 47 of the Charter”.

\(^{104}\) R JACOB, (nt. 60), 3.

\(^{105}\) On the entry into force of the unitary patent system, see article 89 of the UPC Agreement.

\(^{107}\) See European Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, (nt. 18), para. 283 ff.
The Commission recently issued a Communication on ICT Standardisation Priorities for the Digital Single Market\textsuperscript{108} that also face the question “to clarify core elements of an equitable, effective and enforceable methodology around FRAND principles” that might show the intention of adopting any sort of soft law in the field.\textsuperscript{109} It seems not advisable at this stage: challenges in assessing FRAND royalties arise out to a significant extent of determining non-discriminatory royalties. Assuming that the Commission could provide guidance for the calculation of fair royalties, it could clarify to a limited extent the non discrimination criteria, because the application of such criteria relies on a comparative judgment and can only be assessed on the basis of the concrete facts of the case.\textsuperscript{110}

Nor is there a need for any general codification of the Huawei principles within IP Rights Enforcement Directive that might crystallize such principles of judgment in legislation if not counterproductive.

Finally, the role of National Competition Authorities (“NCAs”) remains at stake. In Europe NCAs have not dealt with FRAND encumbered SEPs cases yet and we may wonder whether they will be involved in the future or not, and, if this is the case, if they will be required to intervene in their enforcement and/or advocacy activity, at least for Agencies who also have powers to advocate competition.

What is undoubtable is that in international competition institutions and networks the debate is well advanced\textsuperscript{111} and more active NCAs are well equipped to tackle the issue. Their approach should be expected to be based on a case by case approach; the economic skills of their staff may be of help also in calculating FRAND terms.

However, in my opinion, their role is expected to be minor than the role played by National Courts and the UPC in applying the Huawei doctrine and tests. Indeed, the existence of an abuse of litigation as an abuse of dominance has to be justified in terms of exceptional circumstances. According to an highly authoritative opinion,\textsuperscript{112} following the Huawei judgment, the role played by the competition law in controlling the enforcement of SEPs is definitively reduced and, furthermore, the right to access to justice is more protected.

I would rather say that the Huawei case has contributed to acknowledge that Patents and Competition does not conflict with each other and to draw the line between the use and the -exceptional- abuse of patent protection, including judicial protection.

\textsuperscript{108} COM (2016), 176.
\textsuperscript{110} In Sir Robin Jacob’s opinion it is not advisable that the Commission promulgates any guidance or initiates legislation in the specific area covered by the Huawei judgment, for a number of reasons: i) The ruling is not intrinsically complicated, it would be repetitive or superfluous; ii) According to Article 19 TFEU, CJEU is the only institution having the power to reinterpret its rulings; iii) While there are subsidiary questions that the CJEU did not resolve, these kinds of lacunae are best decided by courts on the basis of concrete facts, not by the Commission in the abstract; iv) Any guidance would not be binding; v) There would be a risk of setting national courts on the wrong track. See R JACOB, (nt. 60), 14-15.
\textsuperscript{111} See for instance the hearing of the Competition Committee of the OECD in December 2014.
\textsuperscript{112} See R JACOB , (nt. 60), p. 2 “the judgment confirms that EU competition law indeed has a part to play in controlling the enforcement of SEPs but not as extensively or intrusively as the Commission had proposed. Broadly the position is that competition law merely bolsters existing FRAND commitments (to grant licences on Fair Reasonable and Non Discriminatory terms) and compels owners of SEPs to offer to grant licences on such terms”.
Patent law and antitrust law are to be deemed as compatible and complementary tools which ensure the functioning of the market and develop innovation, contributing in a different way, to maximize the consumer welfare. Nevertheless, it may occur that IP rights are abused by their holder to restrict market competition, then reducing consumer welfare.

The issue of abusive IP enforcement and litigation is intertwined with the debate on the relationship between the IP system and competition law, since, under certain conditions, such enforcement and litigation may constitute an abuse of dominant position. In this context, several conflicts of different interests may arise. First of all, fundamental rights, such as the right to access to Court, are involved. The FRAND encumbered SEPs issue is currently a paradigmatic example of the complex relationship between patent law and competition.

Before Huawei, an abusive litigation doctrine has been developed, both in US and in EU. According to EU doctrine, seeking an injunction is in principle a legitimate remedy that may result in an abuse of litigation merely in exceptional circumstances, to be detected by ad hoc tests. In the landmark Motorola case the European Commission dealt with the definition of the relevant market and the abusive nature of the conduct. In this last regard, it stated that seeking an injunction for FRAND encumbered SEPs against willing licensees may constitute an abuse of a dominant position. Different approaches have been adopted by national courts, which, from a general perspective, denied injunction when FRAND encumbered SEPs were involved. They payed remarkable attention to the good faith of the parties.

The Court – in the Huawei case - affirmed the procedural obligations placed on the parties for the negotiation of licenses. The failure to comply with such obligations by the SEPs holder may constitute an abuse of dominant position. However, several issues left open, such as the assessment of SEP-related market power.

Following the Huawei case, several national courts, especially in Germany and UK intervened on matters related to FRAND-encumbered SEPs. In particular, German Courts affirmed several principles on the applicability of article 102 TFEU, on the determination of FRAND terms, on the scope of application of the Huawei judgment, and on the procedural obligations established by the Huawei judgment. A UK court dealt with the features of the SEP holder proposal and the negotiation issue.

The Huawei case has also opened a huge debate on the role played by the different subjects involved in the patent protection and in the competition law enforcement. The national courts should have the task to assess compliance of licensing condition with FRAND terms and to strike the balance between IP protection and the need to ensure the functioning of competition dynamics. The Unified Patent Court will strike the abovementioned balance by deciding on the antitrust defence in cases related to FRAND encumbered SEPs. The European Commission, who opened the debate with the Motorola case, might act as a policy maker, for instance, by adopting guidelines for Courts on FRAND calculation, although it seems less desirable at the current stage. The role of National Competition Authorities remains at stake, although it is expected to be minor than the one played by National Courts and UPC.