

# Injunctive Relief for SEP Holders, Promise to license FRAND and role of SSOs

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# Introduction (1)

## Standardization

- Advantage: Interoperability (+ compatibility and portability)
- Facilitate the exchange and use of information among parties thus enabling different products to work together
- Difference

*De facto* standard

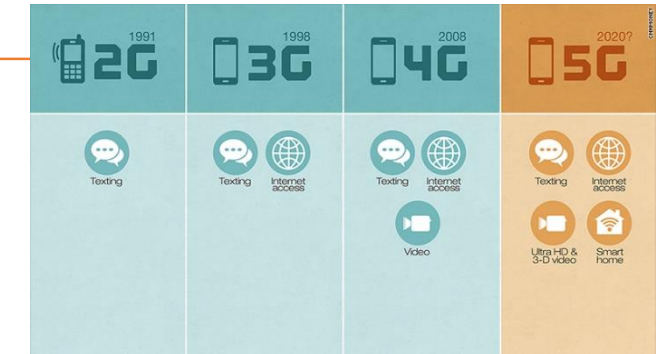
*De jure* standard



# Introduction (2)

- Part of the agenda of the Commission regarding the Digital Single Market
- Development of 5G and IoT – key feature for European competitiveness
- Risk of companies seeking competitive and economic advantages of building proprietary systems
- → Want smooth, practicable and fair market system for SEP licenses

## CONNECTOR



Source: <https://www.socialyawareblog.com/2016/04/14/the-internet-of-things-evaluating-the-interplay-of-interoperability-industry-standards-and-related-ip-licensing-approaches-part-2/>



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- Horizontal Co-operation Guidelines: “*standardization agreements usually produce significant positive economic effects*” and “*standards [...] normally increase competition and lower output and sales costs, benefiting economies as a whole*” (paragraph 263).
  - However “*can [...], in specific circumstances, also give rise to restrictive effects on competition*” if, for example, firms are prevented from having effective access to a standard (paragraph 264).



# Anticompetitive Concerns (1)

## SSOs – Risks associated with “pooling”

## Standard Essential Patents

- Promotion of innovation and diffusion of technological developments
- Right holders obtain Standard Essential Patents – SEPs – best/most advanced technology – reward R&D
- 102 TFEU – *large market shares [on market for technology] may turn out to be ephemeral – not necessarily indicative of market power (T79/12 Cisco v Commission)*



# Anticompetitive Concerns (2)

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## Risks associated with SEPs

- *Patent hold-up and rent-seeking*
- *Patent Ambush*
- *Enforcement of an IPR (+ request injunctive relief)*



# Anticompetitive Concerns: Patent hold-up and rent-seeking



- Hold-up: *Risk that good-faith technology users threatened with an injunction accept licensing terms that are not FRAND, or in the worst case, are unable to market their products*
- Rent seeking: *the right holder should not take advantage of the standard and its particular position on the market to impose unreasonable prices and terms on technology implementers*
- Moreover: concerns of weak patent portfolio and reliance on litigation threats
- On the other hand: Patent hold-out
  - Free-riding, intentional infringement, reluctance to negotiate in good faith



# Anticompetitive Concerns: Patent Ambush

- “Patent ambush” = when a company taking part in the standard-setting process hides the fact that it holds essential [IPRs] over the standard being developed, and starts asserting such IPRs only after the standard has been agreed [...] (IP/09/1897).
- Ability to charge excessive or discriminatory royalties or refusal to license
- Case COMP/38.636 *Rambus* (2009)





# Anticompetitive Concerns: Patent Ambush

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- Why is it an issue for competition law?
  - No competition on the merits – the industry did not have the choice to select another technology
  - Question vis-à-vis 102 TFEU: Obtained market power >< Abused of a dominant position?



# Anticompetitive Concerns: Solutions?

- (1) SSOs patent policy and (2) judicial measures
- (1) SSOs policy – *ex ante* mechanisms:
  - Declaration of essentiality
  - (F)RAND or RF declaration
  - Horizontal Co-operation Guidelines: voluntary commitments from IPR holders that they will license their IPRs that prove essential to the implementation of the standard on FRAND terms (see question 12) “*ensure effective access to the standard*” and “*can prevent IPR holders from making the implementation of a standard difficult*” (paragraphs 285 and 287).



## ANNEX 6: ETSI Intellectual Property Rights Policy

### 4 Disclosure of IPRs

- 4.1 Subject to Clause 4.2 below, each MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER's IPR which might be ESSENTIAL if that proposal is adopted.

### 6 Availability of Licences

- 6.1 When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions under such IPR to at least the following extent:
- MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
  - sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
  - repair, use, or operate EQUIPMENT; and
  - use METHODS.

The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.



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## (2) Question of enforceability/valuation of SEP license

### Judicial: Control *ex post*

- Essentiality
- Validity
- FRAND or RF



# Anticompetitive Concerns: Enforcement of IPRs

- Issue when a right holder pledged to license FRAND but request and injunction before a court
- Use of threat of injunction – Potential for hold-up due to lock-in
- Different than regular refusal to license as mentioned in Module 3
- Need different conditions to obtain a compulsory license on the basis of an abusive action for injunctive relief



## *Orange Book Standard* (Germany, 2009)

German law: an injunction by an SEP holder who is found to occupy a dominant position would generally be *granted* unless the party seeking to resist the injunction can raise an *antitrust defense* that the award of the injunction would be anticompetitive

*Antitrust defense* = very burdensome for alleged infringers – two conditions:

1. Need to have made an unconditional offer to the plaintiff to conclude a license contract on conditions which the plaintiff cannot refuse without inequitably impeding the defendant or infringing the prohibition on discrimination
2. If already using the IPR, need to comply with the obligations of the intended contract, ie, to deposit the royalties due because of the license



# Commission's Decisions before *Huawei v. ZTE*

- Investigation in 2012
- Motorola and Samsung Commission' decisions (Cases COMP/39.939 and COMP/39.985, 2014)
  - Relevant markets for SEPs: “[t]he specificity of SEPs is that they have to be implemented in order to comply with a standard and thus cannot be designed around, ie, there is by definition no alternative or substitute for each such patent” - “each SEP constitutes a separate technology market on its own” (Google/Motorola merger, Case COMP/M.6381, 2012 paragraph 54)
  - + Assumption of genuine essentiality, validity and infringement of SEPs by those implementing the standard
  - To some extent: merely holding a single patent that has been declared as potentially essential to 2G and 3G wireless communications standards developed within ETSI may result in a finding of dominance



# Commission's Decisions before *Huawei v. ZTE*

## Abuse of dominant position?

- NOT if ‘*unwilling licensee*’
- + (i) financial distress and unable to pay its debts, (ii) has assets that are located in jurisdictions that do not provide for adequate means of enforcement of damages, (iii) is unwilling to enter into a license agreement on FRAND terms or (iv) is seeking injunctive relief with respect to its own SEPs
- Rem:
  - Burden of proof on SEP holder
  - Willingness + judicial or arbitral determination of FRAND
  - Challenge validity/essentiality/infringement





# Commission's Decisions before *Huawei v. ZTE*



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## Outcome

- Article 9 decision against Motorola
- Article 7 decision against Samsung + commitments



# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

## Facts

- Infringement action in Germany
- Measures requested: Injunction and recall of products

## Issue

- Antitrust defense: *Orange Book Standard* or Commission's Decisions?



# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

- The Court did not directly address market definition since the referring national court did not ask any questions on the topic
- Huawei ruling does not refer to declared (potentially) essentiality of a patent, the Court acts on the premise that the patent in suit is genuinely essential to the standard, valid and infringed (see paragraphs 49 and 62)
- Not exactly the same position as the Commission but similar approach on certain points
  - (1) SEPs are different than other patents due to FRAND undertaking
  - (2) The fact that there is a *willing licensee* plays a role vis-à-vis the assessment of an abuse of dominant position under 102 TFEU when right holders request injunctive relief



# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

- On dominance: the Commission's Horizontal Co-operation Guidelines state that:
- *Even if the establishment of a standard can create or increase the market power of IPR holders possessing IPR essential to the standard, there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power. The question of market power can only be assessed on a case by case basis”* (paragraph 269)
- For example, even if one were to assume genuine essentiality, validity and infringement, competition between standards, the existence of unpatented solutions, the degree of “lock in” to a standard and the presence of countervailing buyer power of potential licensees must be considered in the case-by-case assessment of the market power, if any, enjoyed by a holder of SEPs



# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

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- Type of abusive conduct?
  - the CJEU did not endorse any exploitative licensing theories, or even mention the *United Brands* precedent
  - Competitive harm = the potential to exclude competitors from a downstream product market (paragraph 52)

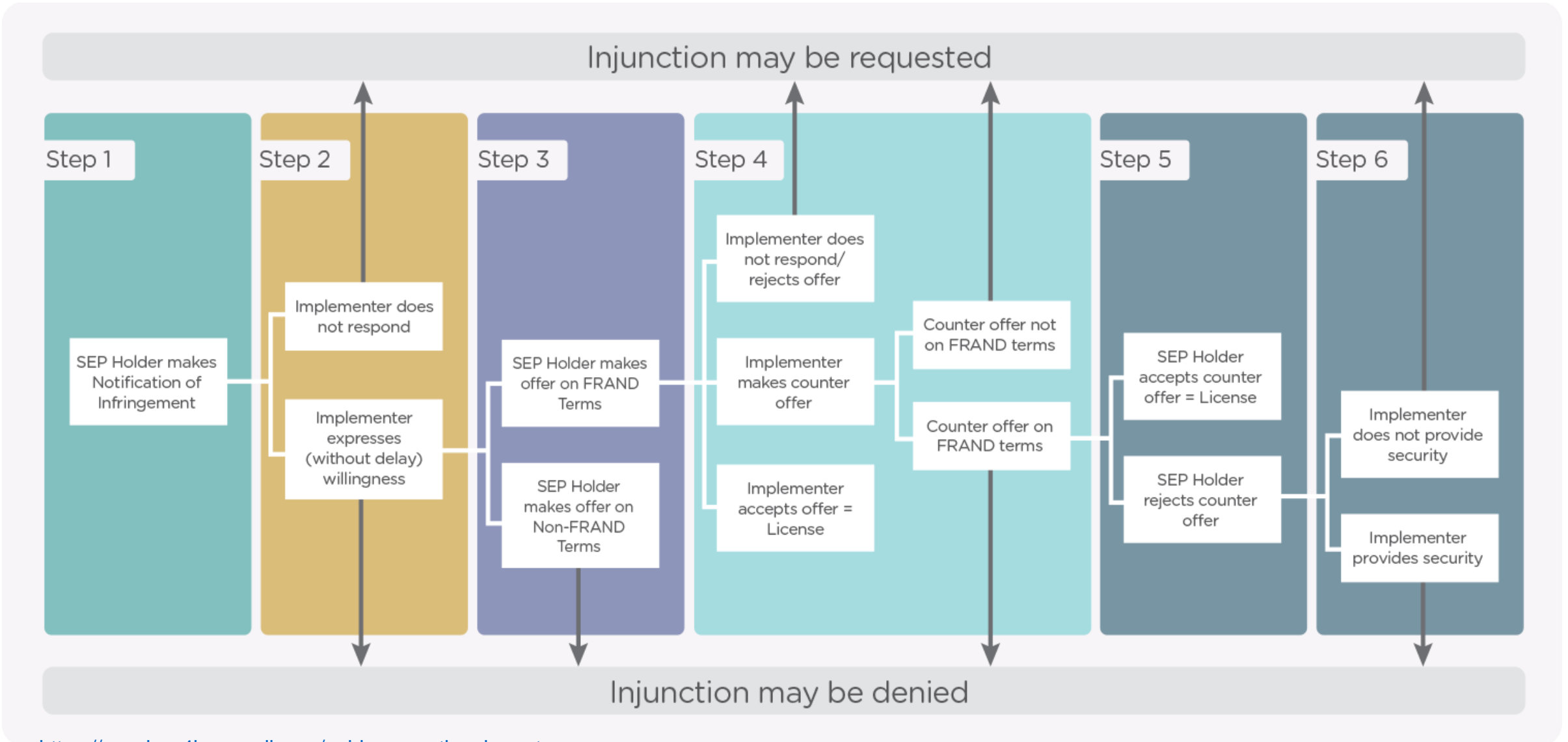


# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

- Framework of negotiations
- According to the *Huawei* ruling, due to the “particular circumstances of the case”:
  - Indispensability of the SEP to compete on the downstream product market; and
  - The FRAND commitment given to the SDO (paragraphs 48-51)
- a SEP holder (who is also in a dominant position) *will not infringe article 102 TFEU* by seeking injunctive relief in respect of the alleged infringement of an SEP – and presumably have the right to obtain an injunction – “as long as”: ... (Paragraphs 60-68)



# FRAND negotiations under *Huawei v ZTE* **CONNECTOR**



# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

- Safe harbor
- FRAND offer and counter-offer to be assessed
- Rem:
  - Third party determination
  - Challenge validity or essentiality





# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

## Key elements

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- Behavioral criteria to assess when a potential licensee can be considered willing to enter into FRAND license
- FRAND undertaking creates legitimate expectations for third parties
- Good faith negotiations from both parties (balance of interests between right holders and implementers – constraint on hold-up and hold-out)



# CJEU ruling in *Huawei v ZTE* (C170/13 2015)

## Rem: Attempts at circumventing the framework

- Injunction sought against operators/resellers instead of manufacturers
- Injunction sought by Non-Practicing Entities (NPEs) or Patent Assertion Entities (PAEs)
- Requests focused on damages and/or other measures falling outside the scope of the decision



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- Helpful guidance from CJEU but still rooms for national courts to develop
  - *Unwired Planet v Huawei* [2017] EWHC 711 (Pat)
    - Rem: UP - privateer of Ericsson
    - Undertaking = *public, irrevocable and enforceable* (rem: ETSI + FR law)
    - FRAND = rate and not range for any given set of SEPs and circumstances
    - Abuse if SEP holder's offer = significantly above the true FRAND rate
    - Reliance on 'similarly situated licensees' for determination of FRAND – including licenses from Ericsson as right holder (more difficult for non-PAE cases)
    - Worldwide license may be FRAND – sectorial practice
    - Number of patents in portfolio = important – factor for strength of portfolio



## ■ *Unwired Planet v Huawei* [2017] EWHC 711 (Pat) (seq.)

- No abuse of dominant position – FRAND offer under *Huawei/ZTE* – no willingness from *Huawei*
- 2 Methods of calculation
  - (1) Comparable license rates
  - (2) Top-down analysis of the total aggregate royalty attributable to the standards and SEPs at issue
- Findings of infringement of valid patents
- Creation of the “FRAND injunction” – enforcement on hold for few weeks to allow the parties to reach a licensing agreement

■ See 4ip Council – <https://caselaw.4ipcouncil.com>



# Reminder:

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- Methodology of 102 TFEU – Antitrust defense for ‘enforcing an IPR’
  - Prerequisite: ‘exceptional circumstances’
    - a) Dominant position? Not automatic even if SEPs
    - b) Definition of potentially affected market? Difficulty of definition for market for technology – SEPs = potentially very limited market
    - c) Abuse/ harm to effective competition? Case-by-case assessment – importance of discrimination between licensees and/or access to market due to SEPs
    - d) Sanction? Compulsory license on FRAND terms



## *Unwired Planet* (UK) [2017]

- Reliance on similarly situated licensees – FRAND rate based on the value of the licensed patents, not on the size or other characteristics of the licensees
- BUT: The “non-discrimination” (ND) prong of the FRAND commitment does not imply a “hard-edged” test in which a licensee may challenge the FRAND license that it has been granted on the basis that another similarly situated licensee has been granted a lower rate, so long as the difference does not distort competition between the two licensees
- Question: two-type of discrimination?
  - Competition law effects of violating FRAND
  - Private/contractual meaning of FRAND

J. Contreras, “*A New Perspective on FRAND Royalties: Unwired Planet v. Huawei*” (2017)



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## ■ More recent CJEU case: C-525/16 *MEO*

- Is it sufficient to show that the undertaking contracting with the dominant firm faces unfavorable economic conditions as a result of that discrimination? NO
- Or, rather, is it necessary to take account of its specific effects on the competitive dynamics existing in the market where the affected undertaking operates? YES

■ What matters = potential *distortion of competition between* (para. 27).



# FRAND?

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## Dominance + SEP?

- e.g. no alternative standard or too costly to switch + truly indispensable

## Anti-competitive effects not easy to prove

- Price discrimination
- Distortion of competition by tariff discrimination





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## ■ Reluctance of SSOs to define FRAND

## ■ Exception: US – IEEE changes

- *Members may charge a reasonable royalty that is based in part on the value that the functionality of the claimed invention or feature within the essential patent claim contributes to “the smallest saleable compliant implementation” that practices the essential patent claim*
- More favorable to technology users
- Not extremely well received by right holders community



# Commission's Communication on SEPs (Nov. 2017)



COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE

Setting out the EU approach to Standard Essential Patents

- *"The Commission therefore considers that there is an urgent need to set out key principles that foster a balanced, smooth and predictable framework for SEPs. These key principles reflect two main objectives: incentivizing the development and inclusion of top technologies in standards, by preserving fair and adequate return for these contributions, and ensuring smooth and wide dissemination of standardised technologies based on fair access conditions".*
- *"This Communication draws on the responsibility of all actors in the SEP licensing context, and all stakeholders are encouraged to contribute to making this framework work in practice".*



# Commission's Communication on SEPs (Nov. 2017)



## ■ Key Findings/Recommendations:

1. Increasing transparency on SEPs exposure – essentiality and validity
2. Guidance on meaning of FRAND
  - Difficult – reliance on parties/courts determination – sectoral discussions
  - Method of calculation: present value added of patented technology, irrespective of market success of end-product unrelated to value of patented technology
  - Similar licensees principle – commercial practice in sectors – worldwide licenses may be FRAND – no one-size-fit-all solution
  - *The Commission will monitor licencing practices, in particular in the IoT sector. It will also set up an expert group with the view to deepening expertise on industry licensing practices, sound IP valuation and FRAND determination*



# Commission's Communication on SEPs (Nov. 2017)



## 3. Predictable enforcement environment for SEPs

- Guidance from *Huawei v. ZTE* for availability of injunctive relief
- Patent hold-up and hold-out
- Case by case analysis
- Transparency and timeliness
- Proportionality – Art 3(2) IPRED
- Can rely on ADR (+ arbitration and mediation at UPC)

■ Note, see also: *Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights* (COM(2017)708)



# Reminder: PAEs concerns?

## Communication SEPs + JRC Report on PAEs

- Transferability of FRAND (already in *IPCom* decision 2009)
- Opposability of *Huawei/ZTE* to PAEs
- European litigation system and UPC + safeguards
- Same rules as any other SEP holder
- Transparency and proportionality
- *The Commission will closely monitor the ongoing impact of these market players on the SEP licensing market in Europe, in particular once the EU unitary patent is operational*



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- *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – ICT Standardisation Priorities for the Digital Single Market ([19 April 2016](#))*
  
  - Promotion of open standards >< Proprietary technology
  
  - ICT standardisation requires a balanced IPR policy, based on FRAND licensing terms
    - *A balanced policy should take into account a variety of needs: fair return on investment to incentivise R&D and innovation, a sustainable standardisation process, wide availability of technologies in an open and competitive market, and the difficulty for SMEs to participate*



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- New consortium/SSOs with IP licensing Policies
  - SEPs and Copyright for software and codes
    - E.g.: *Open Interconnect Consortium* + FRAND or RAND-Z licenses; *AllSeen Alliance* + Non-enforcement pledge; *Thread Group* + RAND-RF licenses; *Wi-Fi Alliance* + IEEE policy
  - Might be relevant to have a look at the SEP/FRAND discussion
  - Issue: Interpretation of FRAND – diversity in approaches to licensing



# Looking ahead: The Unified Patent Court

- Technically: Not in the list of exclusive competence of the court to decide on competition law issues
- However: defenses against claims of infringement and/or related actions = part of the competences of the UPC
- Could include an ‘antitrust defense’ w/o preliminary decision from Competition authority
- Same role as many national courts
- Would be in an optimal position to decide on EU-wide injunctive relief compared to national courts vis-à-vis current practices in SEP context and internationalization







# Thank you for your attention!



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