

## Part IV. Standards-Setting and EU Competition Law

Compared to antitrust enforcement in the US, the European Commission faces an entirely different background in its application of Articles 101 and 102 TFEU on requests for injunctive relief for FRAND-encumbered SEPs. Although most European courts that have witnessed litigation on SEPs tend to be quite unwilling to grant injunctions, in Germany the application of the *Orange Book* standard by courts in the context of FRAND-committed SEPs has resulted in injunctions been granted in several occasions. As a result, apart from the typical hold-up problem discussed above, the Commission is also prompted to action to ensure a harmonised implementation of competition law throughout the EU.

### A. Case-Law in Member States – The Orange Book Standard

Despite the harmonisation of substantive patent law by the European Patent Convention of which all EU Member States are contracting parties, and of remedies by the EU Enforcement Directive, patent law and its application in particular, largely remain a national matter. For that reason, litigation of SEPs has produced divergent outcomes throughout the EU. However, in most cases national courts, with the important exception of Germany, appear unwilling to automatically grant injunctions for SEPs.<sup>79</sup>

In the UK, as in the US, injunction is an equitable remedy at the discretion of the courts. In *IPCom V. Nokia* the Chancery Division of the High Court refused injunction to IPCom, a patent-assertion entity, for its 3G-related SEPs based on the fact that Nokia was willing to take a licence on FRAND terms and IPCom had failed to honour its FRAND commitment. Under these circumstances Roth J felt no obligation to grant injunction and IPCom was awarded damages as a sufficient compensation.<sup>80</sup>

In the Netherlands, in one of the two cases that formed the background to the Commission's proceedings against Samsung, the District Court of The Hague, in its *Samsung V. Apple* judgment, rejected Samsung's request

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79 See Jones, *supra* n. 23, at 9 and 10.

80 *IPCom v Nokia* [2012] EWHC 1446 (Ch).

for preliminary injunction for some of its 3G SEPs.<sup>81</sup> The facts of this case are quite telling of the dangers of abuse of the standards-setting process. Samsung filed for an injunction against Apple's flagship products, namely the 4S iPhones and iPads. In its one and only proposal to Apple of a licence on a royalty rate of 2.4 percent of the final product price, Samsung saw a reasonable offer in compliance with its FRAND commitment. It is not surprising that the Dutch court failed to see the same. It dismissed Samsung request for preliminary injunction given that Samsung's offer was far from FRAND and Apple had acted as a willing licensee.<sup>82</sup> Samsung's requests for preliminary injunctions were rejected in France and Italy as well.

However, German courts have departed from the position of courts in other EU member states. Germany is the biggest market for mobile telecommunications devices in the EU and at the same time an especially attractive forum for patent owners in view of its strong pro-patentee legal tradition and its civil procedure for patent infringement cases.<sup>83</sup> In Germany patent infringement cases are adjudicated before specialist panels of Higher District Courts while, on the other hand, validity is litigated before the Federal Patent Court.<sup>84</sup> This leads to a significant time lag between decisions for infringement and validity, providing strong incentives for defendants to settle patent infringement disputes.

Moreover, German courts do not recognise the contractual nature of the FRAND commitment. In *IPCom V. Deutsche Telekom and Vodafone*, the District Court of Düsseldorf held that the FRAND commitment is no more than a declaration of an obligation to conclude a contract that already exists under German Competition Law.<sup>85</sup>

The defining feature of German case-law on FRAND-encumbered SEPs is its adherence to Bundesgerichtshof's *Orange Book Standard*.<sup>86</sup> In the *Orange Book Standard* case the Federal Court of Justice ruled that in SEPs infringement cases the defendant could escape injunction by means

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81 DC Hague, Mar 14 2012.

82 See Florian Mueller, *Samsung loses Dutch case against Apple over 3G patents as court gives meaning to FRAND* (October 14, 2011). Available at <http://www.foss-patents.com/2011/10/samsung-loses-dutch-case-against-apple.html>.

83 See Jones, *supra* n. 23, at 10.

84 Ibid, at 11.

85 Landgericht Düsseldorf Apr. 24, 2012, *IPCom v. Deutsche Telekom & Vodafone*, Case Number 4b O 274/10. Available at <http://openjur.de/u/454915.html>.

86 BGH, 6 May 2009, KZR 39/06, GRUR 2009 694.

of the ‘FRAND defence’ under competition law. The *Orange Book* case concerned a *de facto* standard on DVDs. The standard was not developed through the familiar cooperative process under a SSO, and the SEPs reading on the standard were not FRAND-committed.

The requirements for a successful pleading of the ‘FRAND defence’ under *Orange Book* are so high that it is no surprise that it is almost always rejected. The first condition is the defendant to make an *unconditional offer* to conclude a licence agreement that the patent owner cannot refuse without breaching competition law. What is essentially asked of the defendant is to renounce all his defences (non-infringement, non-essentiality, invalidity) and make a royalty payment offer marginally lower than the exploitative prices that would be a breach of competition law.<sup>87</sup> The second requirement is the defendant to have behaved as if a licensee, that is to pay a ‘reasonable’ licensee fee to the SEP-holder or otherwise put a sufficient amount in escrow.

Regardless of whether *Orange Book* is good case-law for *de facto* standards, it is remarkable how willingly the lower German courts extended its application to cases involving standards developed by means of industry coordination under SSOs to which the owners of SEPs provide FRAND commitments.

Though a more detailed analysis of German case-law is outside the scope of this paper, the *Motorola V. Apple* case before the District Court of Mannheim (confirmed by the Karlsruhe Higher Court) deserves notice. This is the second case that prompted the European Commission into action. The facts are identical with the *Motorola v. Apple* litigation in the US at the same time. However, the Mannheim court applying the *Orange Book* standard granted Motorola injunction for its SEPs on the ETSI 3G wireless standard. The court not only failed to take into account Motorola’s exorbitant royalty offer but also Apple’s conduct in the negotiations and its multiple licence offers. As a result, Motorola enforced its injunction, at least for some days, and Apple withdrew several of its products from its online store.<sup>88</sup> It is against this background that the Commission’s enforcement activity should better be understood.

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87 See Jones, *supra* n. 23, at 11 and 12.

88 Florian Mueller, *Apple TEMPORARILY removed products from German online store due to Motorola injunction based on FRAND patent* (February 3, 2012). Available at <http://www.fosspatents.com/2012/02/apple-removed-products-from-german.html>.

## B. Enforcement Action by the Commission

The Commission sent a first clear sign of its intention to intervene, in case of injunctions by SEPs-holders against ‘willing licensees’, in its *Google/Motorola* merger review decision.<sup>89</sup> It is no secret that Google’s primary purpose for acquiring Motorola was to access the latter’s very significant SEPs portfolio in mobile telecommunication standards. This was not left unnoticed by the Commission.

In its decision, clearing the merger, the Commission warned that under certain circumstances it would intervene against SEP-holders that would be tempted to breach their FRAND commitment and pursue injunctions against willing licensees. According to the Commission, the *threat, seeking and enforcement* of injunctions against a willing licensee may significantly impede competition, by imposing onerous licensing terms or even, if enforced, actual exclusion from the market to the detriment of consumers.

This clear warning was not taken into consideration by Samsung which aggressively pursued injunctions in major EU jurisdictions as discussed above. The Commission responded by initiating formal investigation against Samsung in February 2012. Although Samsung announced the withdrawal of all its requests for injunctions later this year, the Commission issued a Statement of Objections reaffirming its views that the mere seeking of injunctions against a willing licensee constitutes an abuse of dominance under Article 102. Finally, the Commission accepted Samsung’s commitments to refrain from seeking injunctions for mobile SEPs for five years and it issued an Article 9 of the Regulation 1/2003 Settlement Decision.<sup>90</sup>

In *Samsung* the Commission restated that, although seeking an injunction is a legitimate remedy, it could be an abuse of dominance under Article 102 TFEU, where SEPs are concerned and the potential licensee is willing to take a licence on FRAND terms. However, the Commission refrained from further elaborating on what a ‘willing licensee’ might actually be.

The next major Commission enforcement action was initiated in April 2012 against Motorola. In the previous part the facts that urged Commis-

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89 Commission Decision, *Google/Motorola Mobility* (Case COMP/M.6381)[2012].

90 Commission Decision, *Samsung* (Case Number AT.39939)[2014].

sion into action were discussed and in particular its enforcement of an injunction granted by the Mannheim District Court. In April 2014, the Commission finally issued its decision finding that Motorola had breached Article 102 TFEU by abusing its dominant position.<sup>91</sup>

In *Motorola* the Commission emphasised on Apple's conduct during the litigation before the German courts. According to the Commission, Apple's repeated offers to Motorola to enter into a licence on FRAND terms and on royalty rates set in the latter's discretion, subject to judicial review, were more than enough to establish that Apple was indeed a 'willing licensee'. The Commission further briefly identified the anticompetitive and exclusionary effects of Motorola's aggressive seeking and enforcement of injunctions. These included the temporary ban on Apple's online sales in Germany, the inclusion of disadvantageous licensing terms, and in particular the termination clause in case of validity challenge and the negative effects on the standard-setting process.

Of importance are the Commission's views on the anticompetitive effects of a non-challenge clause as well as on the applicability of *Orange Book* in cases involving FRAND-encumbered SEPs. In the view of the Commission "*it is in the public interest that potentially invalid patents can be challenged in court and that companies, and ultimately consumers, are not obliged to pay for patents that are not infringed*".<sup>92</sup> This is an implicit but clear rejection of the 'unconditional offer' requirement of the *Orange Book*, but the Commission went even further to expressly dismiss the application of the BGH's decision by lower German courts. According to the Commission, the "*German Federal Court of Justice's ruling did not specifically relate to SEPs and is therefore not directly applicable to the cases on which the Commission decided*", but even if deemed applicable the obligation not to challenge validity or infringement remains anticompetitive all the same.<sup>93</sup>

In its *Motorola* decision, the Commission provided some further hints on what businesses could do in order to be characterised as 'willing'. Although an evaluation of willingness should be assessed on a case-by-case

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91 Commission Decision, *Motorola* (Case Number AT.39985)[2014].

92 See EU Commission, *Antitrust decisions on standard essential patents (SEPs) – Motorola Mobility and Samsung Electronics – Frequently asked questions* (29 April 2014). Available at [http://europa.eu/rapid/press-release\\_MEMO-14-322\\_en.htm..](http://europa.eu/rapid/press-release_MEMO-14-322_en.htm..)

93 Ibid.

basis, the Commission noticed that in most circumstances potential licensees that declare themselves bound by a court or arbitration determination of FRAND terms, should be considered willing and enjoy the protection of a ‘safe harbour’ against injunctions. The Commission refrained from further elaboration of the concept of ‘willing licensee’ most probably in view of the preliminary reference of the Düsseldorf District Court to the ECJ on the *Huawei V. ZTE* case.

### C. *Huawei V. ZTE*

The recent landmark *Huawei V. ZTE* case was the first case in which the European Court of Justice (ECJ) adjudicated the issue of SEPs enforcement.<sup>94</sup> The case concerns an alleged infringement by ZTE’s base stations of Huawei’s LTE SEPs. Huawei brought an action for infringement and injunctive relief before the District Court of Düsseldorf (Landgericht Düsseldorf). In its request for preliminary reference the LG Düsseldorf essentially asked the ECJ which standard applies for finding a breach of Article 102 TFEU in cases of injunction for a FRAND-committed SEP: the one introduced by BGH in *Orange Book* or the one proposed by the Commission in its Statement of Objection to Samsung.<sup>95</sup>

Although the Court’s ruling is remarkably brief, its practical implications cannot be overstated. In *Huawei*, the ECJ essentially set out a comprehensive set of rules regulating the overall negotiating behaviour that the parties to a dispute should follow in order to comply with competition rules, and in particular with Article 102 TFEU. The ECJ distinguished the

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<sup>94</sup> Case C170/13, *Huawei V. ZTE* [2015].

<sup>95</sup> Of particular interest is the analysis of the Attorney General Wathelet in his Opinion in respect of the diverging legal standards by the Commission and the German courts. The AG identified the legal tests introduced by *Orange Book* and the Commission’s Statement of Objections as ‘two extremes’, the former leading to over-protection and the latter to under-protection of SEPs-holders. According to the AG the *Orange Book* standard cannot be transposed to the facts of the present case. The significant factual differences between cooperative standards-setting and de facto standardisation argue against the application of the *Orange Book*. On the other, hand the AG expressed criticism at the Commission’s vague and ill-defined concept of ‘willing licensee’. See Case C170/13, *Huawei V. ZTE* [2014], Opinion of the AG Wathelet, para. 48, 50, 51, 83-86 and 88.

case from previous IP-related cases.<sup>96</sup> The Court stressed the market power conferred upon holders of SEPs, without licence of which implementation of standards is impossible.<sup>97</sup> Moreover, the ECJ identified the FRAND commitment by holders of SEPs as another exceptional circumstance that could limit the right to injunctive relief.<sup>98</sup>

In such circumstances, otherwise legitimate requests for injunctions could breach Article 102 TFEU, unless certain steps are followed by the parties to the dispute and in particular by owners of SEPs. According to the ECJ, the SEP-holder must, as a first step, notify in writing the implementer of his alleged infringement and must further identify the specific SEPs that have been infringed and the way they has been infringed.<sup>99</sup> As a second step, “...it is for the proprietor of the SEP to present to that alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated”.<sup>100</sup>

By fulfilling the above preconditions the SEP-holder discharges his duties from his FRAND commitment and the burden shifts to the licensee. According to the ECJ, it is for the licensee “diligently to respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics”<sup>101</sup>. In the event that the licensee finds the terms proposed by the SEP owner as too onerous, he should submit a formal, written counter-offer on terms he views as FRAND.<sup>102</sup>

The *Huawei* ruling represents an unambiguous departure from the line of reasoning applied by national German courts following the *Orange Book*. Although the Court was careful not to openly criticise the application of the *Orange Book* by lower courts, it nonetheless clearly distinguished the case on the basis of the coordinated standards-setting context, and in particular on the FRAND commitment and the legitimate expecta-

96 *Supra* n. 95, *Huawei V. ZTE*, at para. 48.

97 *Ibid*, at para. 49.

98 *Ibid*, at para. 51-53.

99 *Ibid*, at para. 59-64.

100 *Ibid*, para. 63.

101 *Ibid*, para. 65.

102 *Ibid*, para. 66.

tions it creates to standard implementers that access to standard-contributed technologies would be on FRAND terms. The practical application of the negotiations framework envisaged in *Huawei* remains to be seen. However, the ECJ, in setting strict rules in the assertion of SEPs, raises the bar for granting injunctions against willing licensees and provides some valuable guidance to both SEP owners and to standard implementers in their licensing negotiations.