platforms; that only essential patents are encompassed by each single platform in consideration; that no biased tying of patents occurs and that competition in related or downstream markets is not foreclosed; that further R&D is not discouraged by the arrangement under scrutiny.[412]

Nonetheless, the scope of the administrative comfort that has been conceded, and the ensuing clearance, is inherently limited to the notified agreements, as applying to the 3G3P membership at that time, and in no way it encompasses any other industry initiatives, such as decisions of 3G standard setting organisms and working groups, taking into particular account the novelty of 3G technologies at the time they were developed and introduced into the marketplace and the subsequent unpredictability of related 3G downstream product markets.

VI. Philips and Sony's CD Disc Licensing Program

In August 2003, after years of heated debates, the European Commission finally cleared a set of bilateral arrangements between Philips and Sony, establishing the worldwide CD Disc Licensing Program and regulating the firms' reciprocal rights and obligations.[413] Moreover, the related third parties' Standard License Agreement (the SLA 2003), covering essential patents to manufacture different specifications of pre-recorded CD discs, also eventually got antitrust clearance, pursuing from the recommended adoption of amendments to make it fully compliant with EU competition rules. This clearance marks the end of the Commission's rigorous inspection of the Philips and Sony CD Disc Licensing Program.[414]

In fact, the two companies had already been closely involved in cooperative research and development on the cutting edge of optical data storage technology since the 1970s, which resulted in joint patented inventions, eventually reaching a global dimension. At a time when magnetic tapes and vinyl discs were the dominating audio storage media on the marketplace, in the early 1980s, both firms commonly implemented the CD system standard specification, as part of an innovation program concerning digital audio recording, which was actually launched by the Electronic Industry Association of Japan.[415]

Actually, the close cooperation between Philips and Sony was first institutionalized in 1979, when the two undertakings concluded a cross-licence agreement to collaborate in the design and development of optical audio disc players and their

412 Choumelova D., *supra*, fn. 411, p. 43.

413 Press release IP/03/1152 of 7 August 2003.

414 Pena Castellot M., "Commission Settles Allegations of Abuse and Clears Patent Pools in the CD Market", Competition Policy Newsletter, Autumn 2003, no. 3, p. 56 *et seq.,* also available at: http://ec.europa.eu/comm/competition/publications/cpn/cpn2003_3.pdf

415 At that time the CD system was just one among several different alternative solutions advanced by other participants in the program, even if eventually the former prevailed over time. Pena Castellot M., *supra*, fn. 414, p. 58.

connected record media. That initial arrangement was then extended in scope and superseded by a series of subsequent more comprehensive arrangements, widening the sphere of collaboration quite beyond the original CD field. Pursuant to the above-mentioned concerted practices, in 1982 the to firms launched their worldwide CD Disc Licensing Program, to be primarily managed by Philips. As anticipated in the premises, a Standard License Agreement (SLA) was set up, containing the conventional contractual terms for prospective licensees.[416] Over the years, many different versions of the SLA followed.[417]

The first format introduced by Philips and Sony was the highly fortunate CD-Audio, which was launched in 1982 and soon replaced the analogue sound reproduction system thanks to its higher audio standards, as well as higher storage capacity and durability. [418] Subsequently, in 1984, the two companies developed the CD-ROM disc, basically a read-only storage medium for personal computers, eventually substituting the floppy disk. The CD standards and the ensuing licences were consequently extended to newly developed formats, which nevertheless didn't share the same enormous success of the first two. Ultimately, the adoption of the newly introduced specifications by music companies and consumer electronic producers was greatly encouraged by the broad availability of Philips and Sony's combined patents, both under reasonable and non-discriminatory terms, thereby avoiding the additional burden of multiple and time-costly negotiations.

Now, considering that Philips and Sony enjoyed a dominant position in the CD technology market, the geographical scope of which would encompass at least the European Union, we should analyse the possible instances of abusive behaviour under Art. 81 and 82 of the EC Treaty. In fact, against the background of such provisions, a number of doubtful practices in the management of the joint licensing program were identified. In particular, at least until 2000, when a major revision of the agreement at issue finally took place, the inventory of patents annexed to the SLA curiously neither comprised a list of countries for which each patent was awarded, nor their respective expiry dates. It has emerged, nevertheless, that a far more exhaustive patent inventory was already internally available well before 2000, but had still not been made publicly accessible. Moreover, expired or non-essential patents had not been systematically deleted from external inventories; consequently, since the same document was left unchanged for several years, without consideration to the validity or relevance of the embedded patents, third party licensees were accordingly still paying their respective royalties even for IP rights that had eventually expired years before.[419] In fact, pursuant to a rigorous assessment of essentiality of

416 For an overview on the licensing terms under consideration, see i.a.: Smith G., "Internet Law and Regulation", Business & Economics, 2007, p. 1198.

417 Pena Castellot M., *supra*, fn. 414, p. 56-57.

418 Pena Castellot M., *supra*, fn. 414, p. 56. A CD-Audio is a disc comprising audio information encoded in digital form, which is optically readable y a CD-Audio player.

419 This situation lasted until June 2001, when finally, following the expiration of the two main patents for that format in most of the countries where rights were granted, Philips and Sony

patents annexed to the SLA, that was finally conduced by an independent expert, it was found that merely four patents for CD-Audio, out of 44 included in the 1996 list, for example, were actually essential for the production of those discs.[420]

At last, an inquiry was launched after the European Commission received several complaints from manufactures of pre-recorded CD discs[421] asserting that both the bilateral arrangement between Philips and Sony and the various versions in use of the standard licence agreement (SLA) addressing third party licensees were in breach of Art.81 and 82 of the EC Treaty, having allegedly set up a patent pool that encompassed non-essential and expired IP rights and, consequently, fixed royalties at an unfair level. Actually, three complaints were raised, bringing together a total of twenty charging firms, representing a non-negligible quote close to 20% of all licensees within the territory of the European Union; nevertheless, the Commission's Competition Directorate General carried out a common assessment of all claims under examination.[422]

After discussing available options with the two firms' representatives and taking into consideration the cooperative attitude of the parties, a two-step solution was eventually contemplated: as a first stage, a limited window of opportunity for a satisfactory settlement was left open for both sides; then, once an acceptable bargain could be reached, subsequently to which complaints were withdrawn in June 2003, the second, final stage involved the removal of any unfair restriction contained in the SLA. Accordingly, Philips and Sony officially announced their new joint CD Disc Licensing Program, together with the amended "SLA 2003" to be offered to third parties for the remaining enforceable portions of Philips and Sony's patents.[423]

The content of the SLA 2003 may be summarized as follows:

- Licensees shall be left free to choose between the different kinds of CD discs available under the SLA and the essential patents required for the manufacture of each single type shall be specified;
- Only essential technologies, in respect to each sort of CD discs, shall be included in the patent lists annexed to the SLA, following a rigorous assessment to be carried out by an independent expert; any patents that can not pass the essentiality-test shall be promptly deleted from the relevant list of reference;
- Under the terms of the grant-back provision, licensees shall be only required to license back exclusively such patents that are deemed to be essential for the sorts of CD discs they have selected, both to the benefit of the consortium and the other licensees having opted for the same type of CD disc;

ceased charging royalties in respect of any remaining CD-Audio patents for those territories. Pena Castellot M., *supra*, fn. 414, p. 57.

420 Pena Castellot M., *supra*, fn. 414, p. 57-58.

421 Which are discs that include already content, such as music or software, provided by content-owners. Said manufacturers are in fact known in the business under the generic term of "replicators".

422 Pena Castellot M., *supra*, fn. 414, p. 58.

423 Pena Castellot M., *supra*, fn. 414, p. 56.

- Royalty payment obligations shall properly reflect both the territorial scope and duration of the patented technologies;
- All existing licensees shall be able to enter into the SLA 2003, which shall consequently govern all their forthcoming rights and obligations towards the pool, while substituting their prior standard license agreement; such switching shall not entail any further costs for the concerned licensees;
- The SLA 2003 shall terminate at the date of expiration of the last essential patent in the territory of reference and for the types of CD discs selected by the licensee.

Pursuant to the stipulation of the SLA 2003, Philips, which as already mentioned, is officially managing the joint licensing program, communicated to the Commission its intention to inform each licensee in the European Union in writing about the content of the new standard agreement; besides, as part of the same letter, the same licensees will be granted a one-time credit of 10.000 USD each for due royalties due.[424]

The Commission's competition services reviewed these new drafted agreements and finally reached the following conclusions:

- First, as far as the formal side is concerned, not only the SLA 2003, which is eventually concluded with each licensee in the form of an ordinary, although partly pre-defined, bilateral arrangement, but also Sony and Philips' joint CD Disc Licensing Program were deemed to be covered by the Block Exemption Regulation Concerning Certain Categories of Technology Transfer Agreements (TTBER 1996)[425] that was in force at that time before the advent of the new TTBER on May 2004.[426] In fact, the same conclusions would have been reached under the current TTBER, since, as rightly observed by the Commission, although agreements between the members of a patent pool are typically excluded from the block exemption, arrangements that have the pooling of technologies as their object, but are concluded between no more than two parties, on the contrary, may well be covered by the Regulation, as in the case under consideration;
- Second, as far as the substantial side is concerned, the SLA 2003, in the form that we have just analysed, was not regarded as appreciably restricting competition within the meaning of Art.81 (1) of the EC Treaty.

424 The points raised are outlined in: Press release IP/03/1152 of 7 August 2003.

425 Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85 (3) [now Art.81 (3)] of the Treaty to certain categories of technology transfer agreements (TTBER 1996), OJ L 31, 9.2.1996, p. 2-13, as amended by the 2003 Act of Accession, and available at:
http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=en&numdoc=31996R0240&model=guichett

426 Commission regulation (EC) No. 772/2004 of 27 April 2004 on the application of Art.81(3) of the Treaty to categories of technology transfer agreements, (TTBER), OJ 2004 L 123/11, available at:
http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=en&model=guicheti&numdoc=32004R0772

Consequently, a comfort letter was sent to Philips and Sony by the end of July 2003 definitely clearing their submitted agreements in view of the improvements introduced to the structure, administration and overall transparency of the program under consideration.

The case at issue illustrates how the Commission proved able to maintain an open and even proactive attitude towards the parties involved, being ready to accept and propose pragmatic solutions, as long as the final outcome can be regarded as equivalent to the likely result of a formal proceeding. Certainly, the chances of success of such an approach greatly depend on the nature of the infringement in question, on the respective positions of the firms involved and, ultimately, on the parties' cooperative attitude, adding to the European Commission's significant corpus of inquiries conducted in respect of patent pools.[427]

Interestingly, Philips' rights related to the CD's pool, as its consequent dominant position in the relevant market, have been recently challenged from an antitrust perspective, i.a. under Art. 82 EC, pursuant to an infringement lawsuit eventually brought up to the German Federal Supreme Court.[428] On the 6 of May 2009 a final judgement was rendered[429] upholding the decision of the lower instances[430] and eventually dismissing the defendant's "antitrust objections", which is basically the defence against a patent infringement allegation based on the asserted right holder's refusal to grant a license under fair, reasonable and non-discriminatory (FRAND) terms.[431]

In fact, while in principle the Court reaffirmed the admissibility of an antitrust defence for abuse of dominant position in case the holder of a standard-related patent refused to grant access to its technology under FRAND conditions[432], in the case at

427 Press release IP/03/1152 of 7 August 2003.

428 See: Bundesgerichtshof (BGH) – Mitteilung der Pressestelle, "Zwangslizenzeinwand im Patentverletzungsprozess grundsaetzlich zulaessig", Pressestelle des Bundesgerichtshof, 6 May 2009, n. 95, also available at: http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&Datum=2009&Sort=3&Seite=8&nr=47897&linked=pm&Blank=1

429 Bundesgerichtshof, Decision of 6 May 2009, full text of the judgement available at: http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&Datum=2009&Sort=3&Seite=8&nr=48134&pos=269&anz=1424&Blank=1.pdf

430 The case at issue was discussed at first instance in Mannheim, on 12 September 2002 (7 O 35/02), and in appeal in Karlsruhe, on 13 December 2006 (6 U 174/02).

431 For a legal analysis of said "antitrust objection" or "competion law defence" see i.a.: Schoeler K., "Patents and Standards: The Antitrust Objection as a Defense in Patent Infringement Proceeding", In: MPI Studies on Intellectual Property, Competition and Tax Law – Patents and Technological Progress in a Globalized World – Liber Amicorum Joseph Straus, 2008, vol. 6, Springer ed., p. 177 *et seq.*

432 Thereby the German Federal Supreme Court is also reaffirming its earlier approach in its *Standard-Spundfass* decision of 13 July 2004, IIC 2005, vol. 36, 741, available at: http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&sid=1495bd745da66fbaf34feee7906eeb28&client=12&nr=30406&pos=7&anz=9&Blank=1.pdf.

instance said defence was declined on the ground that the applying licensee shall make an unconditional offer to the patent holder, to which the former shall feel bound, thereby acting as a "true licensee".[433]

Therefore, the patents encompassed by Sony and Philips' CD Disc Licensing Program, related to the CD technology that after the German Federal Supreme Court's decision became more widely known as "Orange-Book Standard",[434] were finally upheld, provided that licenses shall be granted under FRAND terms, a notion that nevertheless, still missing a clear statement of the courts as of its actual content, is still grossly left at the reasonable discretion of the right holder.

For an analysis of the legal implications of the decision, i.a.: Conde Gallego B., "Die Anwendung des kartellrechtlichen Missbrauchsverbots auf ‚unerlässliche' Immaterialgüterrechte im Lichte der IMS Health- und Standard-Spundfass-Urteile". In: GRUR Int., 2006, p. 16 *et seq*. For a wider, general approach on the issue see i.a.: Conde Gallego B., Mackenrodt M., Enchelmeier S. (Ed.), "Abuse of Dominant Position: New Interpretation, New Enforcement Mechanisms?", Berlin, Springer, 2008.

433 Bundesgerichtshof, Decision of 6 May 2009, *supra*, fn. 429, para. 29.

434 For a clear definition and a contextual analysis, see i.a.: Harrison R., "The Orange Book: The Relationship Between Patents and Standards", Tangible IP, Online Magazine, 11 June 2009, available at:
http://www.tangible-ip.com/2009/the-orange-book-the-relationship-between-patents-and-standards.htm