THE COMMISSION DECISIONS ON SAMSUNG AND MOTOROLA: THE ANTITRUST EFFECTS OF LICENSING “SEPs”

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1. INTRODUCTION

The fact that people are increasingly locked into their smartphones, tablets and other technological tools which put work, games and music at their fingertips has an impact not only on everyday life but also on competition issues. Indeed, in recent years, several courts and competition authorities have observed that patent holders may acquire a dominant position as their IP rights happen to be essential to implement a specific industry standard.

Firstly, in order to fully understand the extent to which standardisation has created a specific antitrust context, a definition of what an industry standard is must be provided. To this end, it is possible to use the guidance provided by the ISO (International Organization for Standardization) and ETSI (European Telecommunications Standards Institute), two of the most important standard-setting entities (or “standard bodies”), which define a de jure technical standard 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”.2

Commonly known models of technical standards include GSM™, 3G, 4G, DECT™, smart cards, Wireless, Wi-fi, Mpeg, DSL, telemetry and DVD. All of these standards are extensively implemented by manufacturers of technological products, and the final output (e.g. smartphones, modems, software) is widely used by final consumers worldwide.

Technical standards may include technologies that are protected by patents. If the technologies covered by the patents in question are essential to implement a standard (so-called “standard essential patents” or “SEPs”), the implementers of the standard cannot avoid using them to manufacture standard-compliant products. Hence, in order to legally implement the standard and not to infringe SEPs, manufacturers need to enter into a licence agreement with the patent holders. A SEP holder can

1 Italian Competition Authority.
therefore expect a substantial revenue stream, in particular for SEPs covering standards that are destined to be implemented in popular products sold to millions of consumers. Once a particular technology has been chosen and incorporated into a widespread standard, alternative competing technologies may also disappear from the market. Given the large degree of market power deriving from a SEP, the patent holder may adopt an exclusionary or an exploitative bargaining strategy, by refusing to license its technology rights, granting them upon the payment of excessive royalties, or seeking and enforcing injunctions against the illegal user of its technology.\(^3\) Although such conduct may be deemed legitimate in the absence of a dominant position, antitrust concerns may arise when a SEP is at issue, as recently happened in the “Motorola” and “Samsung” cases.

### 2. Commission Decisions on the “Motorola” and “Samsung” Cases

On 29 April 2014, the European Commission published its final decisions of two proceedings on abuse of dominant position, concerning Motorola and Samsung. Both cases concerned the seeking of preliminary and permanent injunctions against Apple Inc. before the courts of various Member States. The lawsuits were brought by Motorola and Samsung on the basis of some of their SEPs reading respectively on the GPRS and UMTS standards. The circumstance that the two firms had previously committed to the ETSI to license on fair, reasonable and non-discriminatory (FRAND) terms gave rise to questions regarding the compliance of the injunctions with the antitrust rules.

#### 2.1 The Motorola case

In the “Motorola” case,\(^4\) the European Commission found that Motorola’s seeking and enforcement of injunctions against Apple before the Mannheim District Court and the Dusseldorf District Court on

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the basis of a smartphone SEP constitutes an abuse of dominant position in view of the specific circumstances in which the injunctions were used.\(^5\)

The SEP in question held by Motorola relates 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 declared some of its patents to be essential and gave a commitment that it would license them on FRAND terms.

In accordance with its guidelines on the application of Article 101(3) TFEU to technology transfer agreements,\(^6\) the Commission identified the relevant market as the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola’s Cudak GPRS SEP reads.\(^7\) The market for the downstream products (mainly smartphones) on which GPRS standard-compliant products are sold was therefore considered not relevant to the case in question, as “the turnover achieved with the licensing of the GPRS SEPs is different from the turnover achieved with GPRS standard-compliant products in the output market”.\(^8\) The geographical scope was deemed to be EEA-wide.

After having defined the market in question, the Commission focused on the market power held by Motorola therein by analysing the demand-side and the supply-side substitutability of Motorola’s technology and coming to the conclusion that it has no substitutes.\(^9\) In its assessment of market dominance, the Commission firstly acknowledged that Motorola holds a 100% share of the market concerned, being the exclusive owner of the Cudak patent, which is essential for the implementation of the GPRS standard. However, the mere holding of a SEP does not confer dominance on its own, but “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”.\(^10\)

With reference to the first requirement, the Commission found that due to widespread adoption of the GPRS standard, it is indispensable for manufacturers of mobile devices to comply with that standard.\(^11\)

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\(^5\) The European patent in question was registered as EP 1010336 and was also known as "Cudak patent".

\(^6\) See European Commission, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (OJ C 89, 28.3.2014, p. 3–50, paragraphs 20 et seq.). See also the reference to the latter made by the Commission in its Motorola decision at para. 183.

\(^7\) See Motorola decision, paras. 190-192.

\(^8\) See Motorola decision, para. 185.

\(^9\) See Motorola decision, paras. 193, 210 and 212.

\(^10\) See Motorola decision, para. 226.

\(^11\) “The widespread adoption of GPRS is mainly due to its inclusion in the GSM standards specifications in GSM Release 97 (and subsequent versions) and the wide implementation of that standard by network operators in their 2G networks”. See Motorola decision, paras. 227-228.
With regard to the second aspect, the Commission ascertained that industry players are locked in to the GPRS technology, “due to the wide adoption of GPRS in the EEA and the need of operators and device manufacturers to base their services and products on the same air interface technology, so that devices can communicate with the network.”\textsuperscript{12} Hence, the conclusion was that Motorola holds a dominant position in the market concerned.

The Commission, deeming Motorola’s judicial strategy to constitute conduct infringing article 102 TFEU, took into account either the binding commitments previously undertaken by Motorola with the ETSI,\textsuperscript{13} and the circumstance that Apple was willing to enter into a licence agreement on FRAND terms as determined by a court of competent jurisdiction.\textsuperscript{14}

More specifically, the Commission came to the conclusion that the seeking and enforcement of an injunction by a patent holder, including a SEP holder, is generally a legitimate course of action, but the context is different when a FRAND-encumbered SEP is under consideration. With regard to Apple’s willingness to enter into a licence agreement on FRAND terms, it was inferred by the circumstance that Apple’s offer “allowed Motorola to set the royalties according to its equitable discretion, [...] without any limitations other than FRAND and article 102 TFEU”. [...] Moreover, this proposal allowed for a full judicial review of the amount of FRAND royalties, whereby both Motorola and Apple could submit their own evaluations, calculations and reasoning for consideration to the competent court”.\textsuperscript{15}

Hence, according to the Commission, the assessment of Motorola’s conduct as an abuse of dominant position strikes a fair balance between the three interests at issue, which are the rights linked to IP, the right of access to a tribunal and the freedom to conduct business.\textsuperscript{16}

However, the Commission merely prohibited such conduct without imposing a fine on Motorola in view of the fact that there is no European case which deals with the legitimacy under Article 102 TFEU of SEP-based injunctions and that national courts have so far reached divergent conclusions on this question.

\textsuperscript{12} See Motorola decision, para. 231.

\textsuperscript{13} See Motorola decision, para. 294.

\textsuperscript{14} See Motorola decision, para. 437.

\textsuperscript{15} See Motorola decision, para. 303. For a broader overview of the issue, see M. ANGELI, \textit{Willing to Define Willingness: The (Almost) Final Word on SEP-Based Injunctions in light of Samsung and Motorola}, in Journal of European Competition Law & Practice, volume 6, issue 4, April 2015.

\textsuperscript{16} See Motorola decision, para. 500.
2.2 The Samsung case

The “Samsung” case is analogous to the Motorola case, insomuch as the two investigations were carried out simultaneously by the Commission and the decisions were issued on the same day. In this respect, the decisions taken by the Commission with regard to the relevant market, dominance and conduct are identical to the ones expressed in the Motorola case.

The case dates back to 1998, when Samsung committed to license on FRAND terms its SEPs related to the ETSI 3G UMTS standard, a key industry standard for mobile and wireless communications.

Nevertheless, in April 2011, Samsung sought preliminary and permanent injunctions against Apple before courts in France, Germany, Italy, the Netherlands and the United Kingdom, on the basis of certain of its UMTS SEPs, although Apple had shown its willingness to sign a licence agreement on FRAND terms. Samsung maintained these injunction actions until December 2012 when it unilaterally announced the withdrawal of the lawsuits.

In the end, Samsung undertook before the Commission not to seek injunctions in Europe on the basis of its SEPs for smartphones and tablets against licensees who sign up to a specified licensing framework. This framework provides for a negotiation period of up to 12 months, and if any agreement is reached, the 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” against SEP-based injunctions sought by Samsung for all potential licensees that sign up to the licensing framework. Lastly, the Commission has rendered commitments undertaken by Samsung legally binding for five years, under art. 9 of Regulation 1/2003.

3. THE CLASH BETWEEN GERMAN CASE LAW AND THE COMMISSION’S APPROACH: AWAITING THE HUAWEI JUDGMENT

The two cases in question gave the European Commission an opportunity to assess the anticompetitive effects of SEP holders’ unilateral conduct for the first time.

Before dealing with the Samsung and Motorola cases, the European Commission had already offered guidance concerning the matter at issue. Indeed, in its Guidelines on the applicability of Article 101 to

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17 EU Commission, Samsung – Enforcement of UMTS Standard Essential Patents, 39939, 29 April 2014, hereinafter “Samsung decision”.

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horizontal co-operation agreements, the Commission had underlined the need for the patent holders to licence their technology rights on FRAND terms.\textsuperscript{18}

Accordingly, the main European standard-setting bodies have changed their policy in order to take account of the Commission’s Guidelines, as they oblige SEP holders to license their essential patents on FRAND terms.\textsuperscript{19}

In recent decisions, the Commission has upheld the strict policy disclosed in the aforementioned Guidelines, setting considerable limits on the SEP holder’s right of access to a tribunal.\textsuperscript{20} The approach adopted by the Commission in April 2014 seems rather favourable to the potential licensee and reversed the trend previously established by the German courts. Specifically, in the judgement issued on the \textit{Orange-Book-Standard} case,\textsuperscript{21} the German Federal Court of Justice had adopted a more favourable approach to patent owners.\textsuperscript{22} On that occasion, the Bundesgerichtshof stated that in order to avoid an injunction, the licence seeker should meet two specific conditions not mentioned by the European Commission in its decisions: \textit{i}) making an unconditional binding offer for the conclusion of a licence that the patent owner cannot refuse without being in breach of its obligations; \textit{ii}) satisfying in advance the obligations ensuing from the licence agreement that is being concluded. These criteria have been further specified by the German lower courts, which generally set very strict conditions on the licence seeker.\textsuperscript{23}

\textsuperscript{18} 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, 2011/C 11/01, para. 287: “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 fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees”. For a more detailed analysis of FRAND terms, see. H. J. Hovenkamp, Competition in Information Technologies: Standards-Essential Patents, Non-Practicing Entities and FRAND Bidding, in U Iowa Legal Studies Research Paper No. 12-32, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154203.

\textsuperscript{19} See ETSI IPR Policy, Clauses 6.3 and 8. As an SEP is not available on FRAND terms, the setting of the standard at issue shall be interrupted and alternative technology shall be found. On the matter in question, see M. Carrier, A Roadmap to the Smartphone Patent Wars and FRAND Licensing, in CPI Antitrust Chronicle, Vol. 2, April 2012, available on SSRN: http://ssrn.com/abstract=2050743.

\textsuperscript{20} See Motorola decision, para. 278: “the seeking and enforcement of injunctions cannot therefore, in itself, constitute an abuse of a dominant position. The exercise of an exclusive right by its owner may, however, in exceptional circumstances and absent any objective justification involve abusive conduct. The list of exceptional circumstances is not exhaustive”.

\textsuperscript{21} See Bundesgerichtshof, Orange-Book-Standard (KZR 39/06), 6 May 2009.

\textsuperscript{22} See Bundesgerichtshof, Orange-Book-Standard (KZR 39/06), 6 May 2009.

\textsuperscript{23} For a thorough survey of recent Italian case law on the question at issue, see the note submitted by the Italian Competition Authority at the OECD meeting on Competition, Intellectual Property and Standard Setting held in Paris on 17-18 December 2014. The document is available at http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%29127&doclanguage=en.
Taking cognisance of the different approaches followed by the Commission and the German Courts, the District Court of Düsseldorf on 21 March 2013 submitted a request for a preliminary ruling to the EU Court of Justice. On 20 November 2014, Advocate General Melchior Wathelet submitted its Opinion to the Court. The Opinion envisages specific obligations on SEP holders and willing licensees and, if followed by the ECJ, could serve to provide competition authorities and national courts with more detailed guidance in dealing with SEP holders’ unilateral conduct.

More specifically, the Advocate General observed that a FRAND-encumbered SEP holder is likely to abuse its dominant position when it seeks an injunction against an infringer that had shown itself to be objectively ready, willing and able to enter into such a licensing agreement.

The Advocate General warns that before seeking an injunction the SEP holder should alert the infringer in writing, specify the way in which the SEP has been infringed by that company and present the alleged infringer with a written offer of a licence on FRAND terms. Such an offer must contain all the terms normally included in a licence in the sector in question, including the exact amount of the royalties and the way in which that amount is calculated.

In turn, the infringer shall respond to that offer in a diligent and serious manner, and if it does not accept the offer, it must promptly present a reasonable counter-offer in writing. However, an application for corrective measures or for an injunction does not constitute an abuse of a dominant position if the conduct of the infringer is purely dilatory. If negotiations are not commenced or are unsuccessful, the conduct of the alleged infringer cannot be regarded as dilatory or as not serious if it requests that FRAND terms be fixed either by a court or by an arbitration tribunal. In that event, it is legitimate for the SEP holder to ask the infringer either to provide a bank guarantee for the payment of royalties or to deposit a provisional sum at the court or arbitration tribunal in respect of its past and future use of the patent. In any case, the infringer can reserve the right, after entering into an agreement for such a licence, to challenge before a court or arbitration tribunal the validity, use and essential nature of that patent.

The Advocate General has therefore offered a third alternative approach to the case law issued over the years by the German Courts, which is more favourable to patent holders, and the licensee-friendly decisions recently adopted by the European Commission.

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4. CONCLUSIONS

Although the Commission’s findings in the “Samsung” and “Motorola” cases seem unquestionable with regard to the assessment of the companies’ conduct, it would be desirable to provide national competition authorities and judges with general guidance which allows them in the future to strike a balance between rights linked to IP, the right of access to a tribunal and the freedom to conduct business.

Meanwhile, Advocate General Wathelet tried to go beyond the “case by case” attitude displayed by the Commission in its assessment of SEP holders’ conduct,25 and established detailed guidance aimed at 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.

That being said, the antitrust community awaits the ECJ’s preliminary ruling on Huawei Technologies/ZTE to find out if there will be more legal certainty about the entity of the obligations bearing upon FRAND-encumbered SEP holders.

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25 See Motorola decision, para. 534.