

## STANDARD-ESSENTIAL PATENTS: HUAWEI CASE, A NON-SOLUTION TO AN AVOIDABLE PROBLEM

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**Abstract:** *In light of the judgment of the Fifth Section of the Court of Justice of July 16, 2015 relating to the so called Huawei case (C-170/13), this paper intends to reconstruct the regulation of the standard-essential patents, the problems that such discipline causes, the manners in which these problems are solved, as well as the criticalities of the said solutions. In fact, the said judgment seems to be intended to operate as a Grundnorm because, for the first time in this field, it provides directions in order to identify when the owner of an intellectual property right embedded in a standard, is liable under art. 102 of the Treaty on the Functioning of the European Union (TFUE) in the event that such owner files for a prohibitory injunction against an “infringer”. Following this judgment, indeed, the conflicting domestic case-law that has been developing so far in different Member States on these issues will hopefully standardize.*

*Starting from these bases, this paper will first proceed to reconstruct the phenomenon of standardization and show what significance this has taken within the European Union. Subsequently, it will analyze the*

*European regulation of the standardization process and, in particular, how it is implemented in the telecommunications sector. Given the above, this paper will verify whether the regulatory framework is effective and will attempt to give account of how such regulation has been implemented in certain Member States, as well as of the critical issues that the solutions adopted by the case law have raised. Certain recent cases handled by the European Commission (EU Commission) relating to these issues and the positions that such institution has achieved will also be analyzed. Finally, the mentioned judgment of the Court of Justice relating to the case Huawei and the compromise solution that the Court has achieved will be analyzed. Lastly, in light of the results obtained, this paper will outline the overall criticalities of the current modalities of carrying out the standardization processes and will present some possible solutions.*

### 1. THE STANDARDIZATION

Over the last few years the topic of the technological standardization has raised several issues and has recently gained an increasing attention, especially from an *antitrust* law perspective. The standardization may have different origins<sup>2</sup>. It may, in fact, be the result

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<sup>2</sup> According to the definition of H. HOVENKAMP, M.D. JANIS, M.A. LEMLEY, C. R. LESLIE, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law*, 2nd Ed., Aspen Publishers, New York, last update in 2013, 35-3, a standard is “any set of technical specifications which either does, or is intended to, provide a common design for a

of a decision between the operators in a particular sector (the so-called *de jure standards*), or it may be a fact consequence of the way of operation of certain markets (the so-called *de facto standards*<sup>3</sup>). In both cases, however, the phenomenon of the standards can have different consequences for purposes of the application of competition law. Consequences relating to both the process of definition of the *standard*<sup>4</sup>, and the possible exploitation of the

market power that derives from the control of a *standard*<sup>5</sup>.

Specifically, a standard or “norm”<sup>6</sup> is “a technical specification approved by a recognized body for its

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*product or process*”. D.J. TEECE, E. F. SHERRY, *Standards Setting and Antitrust*, 87 *Minn.L.Rev.* 1913, 1914 (2003), while considering the definition suitable to capture most of the disputed standards, however, they believe that the reference to the mere “design” is improper. In fact, in many cases just few features of a product are standardized, while the others are left unspecified and not standardized, and the design of a product is often not standardized, but orders of magnitude relating to unmanufactured products are. In C. BUTTÀ, M.C. LONGO’s opinion, *Standard tecnologici e dinamiche competitive a confronto (Comparing technological standards and competitive dynamics)*, in *Synergies*, 2011, 261, a standard consists of a “set of technical specifications that determine or are designed to determine the compatibility among different products or processes”; “It is the result of innovations that have the characteristics of compatibility with previous technologies or determine the conditions for new compatibility systems, uniformity in the content and sharing and networking connection among products or processes”.

<sup>3</sup> For a complete picture of the possible categories of standard, with related examples, see M. DOLMANS, *Standard For Standards*, in *Fordham International Law Journal*, 2002, 163, 164, who identifies “a) single-firm *de facto standards*; b) multi-firm commercial standards, developed by trade associations or ad hoc standards organizations, often leading to a patent pool; c) formal commercial standards bodies with mixed membership; and d) government standard”.

<sup>4</sup> The EU Commission has already generally faced the issue of the relationship between standardization and intellectual property in the Communication about *Intellectual property rights and standardization*, COM (92), 445 final, Brussels, of October 27, 1992. The EU Commission has dealt with the standardization agreements in the Communication 2001/C 3/02, of January 6, 2001, Guidelines to the applicability of Article

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81 of the EC Treaty to the horizontal cooperation agreements, renewed in the Guidelines to the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements (2011/C 11/01), in which these agreements were given a considerably broader significance (about the limits and unsolved difficulties of the Commission’s indications, see J.T. LANG, *Eight Important Questions on Standards under European Competition Law*, in *Comp. Law Int’l*, 2011, 32). The topic has been addressed, with reference to technology pools, even in the Guidelines to the application of Article 81 of the EC Treaty to technology transfer agreements (2004/C 101/02), spec. par. 210-226 and in the Reg. (EU) no. 1025/2012 of the European Parliament and of the Council of October 25, 2012 on the European standardization.

<sup>5</sup> Regarding the possible exploitation of situations favored by the affirmation of the standard, if the problem arises with reference to both types of standards, it is with particular reference to the *de jure standards* that it has been more widely debated, in terms of the economic analysis before of the legal analysis. The economic literature relating to the topic is impressive and far from unanimous. See, among the contributions of the recent years, M. LEMLEY, C. SHAPIRO, *Patent Holdup and Royalty Stacking* in 85 *Texas L. Rev.* 1991 (2007); J. FARRELL, J. HAYES, C. SHAPIRO, T. SULLIVAN, *Standard Setting, Patents, and Hold-up*, 74 *Antitrust L.J.* 603 (2007); E. ELHAUGE, *Do Patent Holdup and Royalty Stacking Lead to Systematically Excessive Royalties?*, in *Journal of Competition Law and Economics*, 2008, 535; J.G. SIDAk, *Patent Holdup and Oligopsonistic Collusion in Standard-setting Organizations*, in *Journal of Competition Law & Economics*, 2009, 123; T.F. COTTER, *Patent Holdup, Patent Remedies, and Antitrust Responses*, in *The Journal of Corporation Law*, 2010, 1151; A.L. FARRAR, A.J. PADILLA, *Assessing the Link Between Standard Setting and Market Power*, 2010, available on the Internet at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1567026](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1567026); C. SHAPIRO, *Injunctions, Hold-Up, and Patent Royalties*, in *Am. Law and Economics Rev.*, 2010, 1.

repeated or continuous application, with which compliance is not mandatory”<sup>7</sup>.

In particular, the *de jure standardization*, that is the most interesting for the purposes of this paper, derives from a negotiation that cannot be neither bilateral nor occasional. On the one hand, in fact, a broad consensus is needed, given that the establishment of a standard can cover different technical specifications and aims at influencing an entire industry; on the other hand, every *standard* requires a specific negotiation. Note, however, that the choice of

the technologies, as well as the continuity in the evolution of the standards, require a stable organizational framework.

In order for such negotiation to meet these characteristics, it is necessary that it is run by specific entities: the Standard Setting Organizations (SSOs). The SSOs are voluntary organizations whose purpose is to research, select and establish standards in their respective areas of expertise.

The most important European SSOs are: the *European Committee for Standardization* (CEN), the *European Telecommunication Standards Institute* (ETSI)<sup>8</sup> and the *European Committee for Electrotechnical Standardization* (CENELEC). The most important US SSO is the *American Standards Institute* (ANSI). All SSOs are members of the *International Standard Organization* (ISO), which is the most important SSO in the world.

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<sup>6</sup> Under Article 2 of Regulation (EU) no. 1025/2012 of the European Parliament and of the Council of October 25, 2012, on the European standardization, amending Directives 89/686/EEC and 93/15/EEC of the Council, as well as Directives 94/9/EC, 94/25/EC, 95/16/EC, 97/23/EC, 98/34/EC, 2004/22/EC, 2007/23/EC, 2009/23/EC and 2009/105/EC of the European Parliament and of the Council and repealing Decision 87/95/EEC of the Council and Decision 1673/2006/EC of the European Parliament and of the Council (OJ L 316, p. 12), the term “standard”, means “*a technical specification adopted by a recognized standardization body, for its repeated or continuous application, to which compliance is not compulsory (...)*”.

<sup>7</sup> See art. 2, par. 1, Reg. (EU) no. 1025/2012 on the European standardization. According to the OECD a standard “*is a common set of characteristics of a particular good or service*” (OECD (2010), Standard Setting, available at: <https://www.oecd.org/daf/competition/47381304.pdf> ). Furthermore, OECD has specified that “*Technical standards concern the establishment of norms and requirements for technical systems, specifying standard engineering criteria, methodologies or processes*”. Within this broader category, there are interoperability standards, which determine “*how technologies such as a mobile phone and a mobile network, or a compact disc and a compact disc player, interact with one another and work together successfully*” (OECD (2014), Intellectual Property and Standard Setting, Background note, available at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP\(2014\)27&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP(2014)27&doclanguage=en)).

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<sup>8</sup> Under Article 3, paragraph 1, of the ETSI policy on intellectual property, the purpose of this standardization body is to create appropriate rules for the technical objectives of the European telecommunications sector and to reduce the risk for the ETSI, for its members and for third parties who apply the ETSI standards to loose investments dedicated for the preparation, adoption and application of the standards, because of the unavailability of the intellectual property essential for the application of those rules. For such purpose, the ETSI policy on intellectual property aims at achieving a balance between the needs of standardization for purposes of public use in the telecommunications sector and the rights of the owners of intellectual property rights. Article 3, paragraph 2, of the ETSI policy on Intellectual Property provides that, upon application of the rules, the owners of intellectual property rights shall be adequately and equitably compensated in case of use of their intellectual property.

Specifically, the outlined above problems of the standardization occur when the subjects of the standardization processes become certain intellectual property rights, so called closed or proprietary *standards* or *Standard-Essential Patents* (SEPs).

A SEP occurs when a patent ensures to its owner the control of the essential technologies<sup>9</sup> for the compliance with the standard. In other words, a SEP occurs when it is impossible to manufacture and/or market products compliant with the *standard* without using technologies covered by one or more intellectual property rights, generally patents.

Clearly, the value of a patent grows significantly if it becomes essential for the compliance with the standard. For this exact reason, the presence of one or more SEP increases the risks that may occur, as mentioned, both during the phase of the standardization process, and

following the adoption of the standard. Such risks occur when: (i) the owner of patents intended to become SEP does not disclose them until the standard is adopted (so called *Patent Ambush*)<sup>10</sup>; (ii) the owner of SEP patents refuses to grant the different SEP *users* the license or requires excessive *royalties* or adopts discriminatory conducts (so-called *Patent hold-up*)<sup>11</sup>.

To avoid such situations, as illustrated below, several measures have been adopted, including the so called FRAND commitments<sup>12</sup>,

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<sup>10</sup> As illustrated below certain rules have been adopted in order to prevent such conducts, although their effectiveness is relative because they are based on the "good faith" of the SSOs members.

<sup>11</sup> Among the Italian doctrine on the topic, see G. GHIDINI, V. FALCE, *Intellectual Property on Communications Standards: Balancing Innovation and Competition Through the Essential Facilities Doctrine*, in *Dir. Autore*, 2001, 315; M. GRANIERI, *Attività di standardizzazione, diritti di proprietà intellettuale e antitrust (Standardization activities, intellectual property rights and antitrust)*, in *Riv. dir. ind.*, 2004, I, 138; R. PARDOLESI, M. GRANIERI, *Di regolazione, antitrust e diritti di proprietà intellettuale (Regulation, antitrust and intellectual property rights)*, in *Mercato Concorrenza Regole*, 2004, 7; M. CALDERINI, A. GIANNACCARI, M. GRANIERI, *Standard, proprietà intellettuale e logica antitrust nell'industria dell'informazione (Standard, intellectual property and antitrust logic in the information industry)*, Il Mulino, Bologna, 2005; G. COLANGELO, *Regole e comportamenti strategici negli organismi di standard setting: quale ruolo per l'antitrust? (Rules and strategic behavior in standard setting bodies: which role for the antitrust?)*, in *Giur. comm.*, 2010, I, 33; S. VEZZOSO, *The Use of Standard Essential Patents: Competition Policy Issues*, A.C. SILVA SCALQUETTE, J.F. SIQUEIRA NETO, in *60 Desafios do direito: Economia, Direito e Desenvolvimento*, Atlas, Sao Paulo, 2013, 43; M. LO BUE, *The Commission Decision on Samsung and Motorola: The Antitrust Effects of Licensing "Seps"*, in *Italian Antitrust Review*, 2015, Vol. 2, n. 1.

<sup>12</sup> For an overview on the topic of FRAND commitments, see, most recently, T.F. COTTER, *The Comparative Law and Economics of Standard-Essential Patents and FRAND royalties*, Minnesota Legal Studies Research

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<sup>9</sup> According to Article 15, paragraph 6, of the ETSI policy on intellectual property, intellectual property is considered to be "essential", in particular when it is not possible, for technical reasons, to manufacture products in compliance with the standard without infringing such intellectual property. In fact, the ETSI rules of procedures provide as follows: "‘ESSENTIAL’ as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL". However, the ETSI does not control neither the validity nor the essential character of the intellectual property of which it has been informed by one of its members.

consisting in the commitment assumed by the owner of a SEP, according to which the latter undertakes to grant third parties access to his intellectual property right to comply with the *standard* at *Fair, Reasonable and Non-Discriminatory* conditions (FRAND/RAND commitments).

## 2. THE STANDARDIZATION IN THE EUROPEAN UNION

The European Union favors the standardization as the "*Standards are the best tool to promote interoperability of devices or to define safety or quality benchmarks. In the communications technologies, standards are key for a universal interconnection and seamless communication*"<sup>13</sup>. In this perspective, the *standards* are aimed at increasing competition, reducing the costs of manufacture/sale and improving the quality of the services/products, ensuring interoperability and compatibility of systems/devices (thus increasing the value for the consumers)<sup>14</sup>. For

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Paper No. 13-40, 2013, available on the webpage [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2318050](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2318050). Regarding the RAND commitments, see J.S. MILLER, *Standard Setting, Patents, and Access Lock-In: RAND licensing and the Theory of the Firm*, 40 *Ind. L. Rev.* 351 (2007); D. LICHTMAN, *Understanding the RAND Commitment*, in 47 *Hous. L. Rev.* 102 (2010); C. TAPIA, *Industrial Property Rights, Technical Standards and Licensing Practices (FRAND) in the Telecommunications Industry*, Heymann Verlag, Cologne, 2010.

<sup>13</sup> See J. ALMUNIA, *Industrial Policy and Competition Policy: Quo vadis Europe?*, Paris, February 10, 2012.

<sup>14</sup> According to the EU Commission (Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements (2011/C 11/01), par. 263), in

reasons of interoperability, standards have always assumed a broad significance in the telecommunication industry. In fact, not by chance, in this field, the need of implementing a uniform policy of standardization was perceived already in the Eighties<sup>15</sup>.

However, as partially anticipated above, the standardization entails some risks, both with reference to the process of adoption of standards, and with reference to potential conducts that may occur as a result of their adoption. In both cases, these risks would lead to the creation of some barriers for the competing parties in accessing the relevant markets (so-called *lock-in* effect).

Having introduced the topic of the standardization in light of the great importance that it plays in the field of telecommunications,

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fact, "*Standardization agreements typically have significant positive economic effects because, for example, they promote economic interpenetration in the internal market and promote the development of new and improved products/markets, as well as improved supply conditions. Therefore, normally the rules strengthen the competition and reduce the production and sales costs, benefiting the whole economy. Standards may maintain and enhance quality, provide information and ensure interoperability and compatibility (thus increasing value for consumers)*".

<sup>15</sup> See Council Decision 87/95/EEC on standardization in the field of information technology and telecommunications (OJ L36, 21.7.1998, p. 37). Since then, the EU has developed an active standardization policy that promotes standardization as a tool for European competitiveness. In this sense see *Communication from the Commission of 11.3.2008, to the Council, the European Parliament, and the European Economic and Social Committee, towards an increased contribution from standardization to innovation in Europe*, COM (2008) 133 final; and more recently, the *Communication from the Commission of 1.6.2011, to the European Parliament and the European Economic and Social Committee: "A strategic vision for European standards: Moving forward to Enhance and accelerate the sustainable growth of the European economy by 2020"*, COM (2011) 311 final.

especially as a result of the global dispute arisen among the major companies in the field (so-called *smartphone wars*<sup>16</sup>), this paper will now proceed to identify the European regulation of the processes of adoption of the standards and how the ETSI has implemented such regulation.

### 3. THE PROCESS OF STANDARDIZATION AND ETSI INTELLECTUAL PROPERTY RIGHT POLICY

With reference to the standardization process, the risks that can occur are either the lack of transparency in the implementation of that process or the unjustified exclusion of one or more stakeholders from it. If either one of these conditions is not met, according to the Commission, the subsequent abuse would be punishable under art. 101, par. 1 TFEU<sup>17</sup>. Therefore, in order for a standard to be legitimately set up, according to the *Commission Guidelines on the applicability of Article 101 TFEU to horizontal co-operation agreements* (hereinafter the *Horizontal Guidelines*)<sup>18</sup>, the following must occur: (i) there must be no restrictions on the participation in the standardization process, (ii)

the process must be carried on in a transparent manner, (iii) no mandatory compliance with the standard must be provided, and, finally, (iv) the owners of the patents embedded in a standard must execute certain undertakings according to which such owners grant third parties their intellectual property rights under fair, reasonable and non-discriminatory conditions (so-called *FRAND commitments*). Further, the Horizontal Guidelines specify that such FRAND commitments must be executed before a certain proprietary patent is incorporated in a standard.

This legislation was implemented by ETSI. In fact, article 4, paragraph 1, of the ETSI policy on intellectual property provides that each of its members during the process of development of a standard to which the member participates, shall take the necessary steps to inform ETSI as soon as possible of his/her/its intellectual property rights deemed "essential" for the application of the standard. A member who submits a technical proposal concerning a standard shall then inform ETSI of any intellectual property rights that he/she/it owns and that may be essential for the application of the standard in the case of adoption of the proposal. It should be noted, however, that ETSI is not required to verify the validity of the patent disclosed. Over the years this lack of control has contributed to the phenomenon of the so called over-declaration of the intellectual property rights<sup>19</sup>.

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<sup>16</sup> See, T. CHIA, *Fighting the Smartphone Patent War with RAND-Encumbered Patents*, in 27 *Berkeley Tech. L.J.* 209 (2012).

<sup>17</sup> Regarding this aspect, see the Communication on the application of Article 101 TFEU to the horizontal cooperation agreements [2011 / C 11/01, par. 280].

<sup>18</sup> *Commission Communication, Guidelines on the applicability of Article 101 of the TFEU to horizontal co-operation agreements* (OJ C 11, 14.1.2011).

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<sup>19</sup> The over-declaration is not only a problem of ETSI, but affects almost all SSOs involved in telecommunications. On this aspect see a study of 2011,

In turn, article 6, paragraph 1, of the ETSI policy on Intellectual Property provides that, when ETSI is informed of an intellectual property right that is essential for the application of a standard, its general director immediately invites the owner of that right to take, within three months, the irrevocable commitment to be available to grant licenses under FRAND conditions concerning that right. In the event that no FRAND commitment is executed, ETSI considers whether suspending the works on the relevant parts of the rule until the dispute is defined and/or whether submitting the relevant rule for approval<sup>20</sup>. If the owner of an intellectual property rights refuses to execute a FRAND commitment in accordance with the article 6, paragraph 1, of that policy, ETSI shall check whether an alternative technology exists and in the event it does not exist the works on the relevant provision are interrupted<sup>21</sup>. Under article 14 of the ETSI policy on intellectual property, the breach of that rule by a member

constitutes a violation of its obligations towards ETSI.

This way, indeed, should, on the one hand, ensure that the industry takes conscious technological choices and on the other hand, achieve the target of ensuring effective freedom of access to the standards.

However, the *Horizontal Guidelines* set forth that the compliance of the standardization processes with article 101 TFEU does not require that the SSOs define exactly what is meant by FRAND licensing terms. Therefore, it shall be on the owner and user of the patent to negotiate the terms and conditions of use. In turn, article 4, paragraph 1, of the ETSI guide on intellectual property of September 19, 2013, referencing in whole the content of the Guidelines, provides that “*the specific conditions for granting licenses and the relating negotiations constitute trade issues among companies*”. Subsequently, it is not an ETSI’s task to rule them.

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*Interplay between Standards and Intellectual Property Rights*, available at the following link: [http://ec.europa.eu/enterprise/policies/european-standards/files/standards\\_policy/ipr\\_workshops/ipr\\_study\\_final\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/european-standards/files/standards_policy/ipr_workshops/ipr_study_final_report_en.pdf).

<sup>20</sup> See Article 6, paragraph 3, of the ETSI policy on intellectual property. The procedure for approval of a standard ETSI varies depending on the type of standards and is established by the directives of the ETSI. In this regard, ETSI provides, *inter alia*, the European Standards (EN), the ETSI Standards (ES) and the ETSI Technical Specifications (TS) whose approval procedure varies considerably.

<sup>21</sup> See article 8 of the ETSI policy on intellectual property.

#### 4. EFFECTIVENESS OF THE REGULATORY FRAMEWORK AND DOMESTIC CASE LAWS

Such regulatory framework, as described, in theory might seem to be effective, however it actually turns out not to be immune from problems. Indeed, due to the failure of the negotiations for the grant of the license, the said regulatory system gave rise to a gigantic

dispute, especially in the recent years<sup>22</sup>. Disputes that have all the same recurring pattern: the SEPs owners take legal actions to prevent the allegedly unauthorized use of their proprietary rights and the claimees respond, as a defense, by pointing out that the SEPs owners' conduct constitutes a violation of FRAND commitments (such practice of the claimees is often accompanied by a report to the competent *antitrust* authorities).

Besides such problems, some authors have also questioned the solutions adopted by the case law, which attributed these topics to the applicability of the rules relating to the abuse of dominant position. According to this doctrine, in fact, the mentioned issues should be addressed only in terms of contractual protection<sup>23</sup> rather than in terms of antitrust

law<sup>24</sup>. According to another doctrine, still, the problem that causes the huge above-mentioned litigation would lie in letting the parties negotiate the content of the FRAND undertakings after the adoption of the standard. From these authors's point of view,

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equals to an undertaking not to take legal action against the SEP users, until the execution of a license agreement; others courts held that the FRAND undertakings constitute a real obligation to grant a license. Regarding the scholarship, it should be mentioned also the view according to which the "FRAND declaration" is irrelevant as obligation, as well as the one according to which it stands as a contract in favor of a third party (see T. KÖRBER, *Standardessentielle Patente. FRAND-Verpflichtungen und Kartellrecht - Standard Essential Patents, FRAND Commitments and Competition Law*, Nomos Verlag, Berlin, 2013, 38 ff., (188 ff.)). In Italy, the topic was dealt by M. LIBERTINI, *Autonomia individuale e autonomia d'impresa (Individual autonomy and business independence)*, M. MAUGERI, G. GITTI, M. NOTARI (eds), *I contratti per l'impresa. I. Produzione, circolazione, gestione, garanzia (Business contracts. I. Production, circulation, management, security)*, Il Mulino, Bologna, 2013, 57 and following, who, referring to an opinion that believes that in the negotiation among companies the requirement of determinability of the subject of the contract is to be interpreted in broader terms, believes that FRAND undertakings shall be given the nature of contractual obligations. In scholarship further solutions have been proposed some of which, however, are absolutely impracticable as able to block the whole standardization process, or even to excessively involve the SSOs. Among the various solutions proposed, let us consider the patent misuse, the estoppel or the unclean hands defense.

<sup>24</sup> Among the authors who have emphasized the irrelevance of the arguments raised for the resolution of the conflict in question to antitrust law, see G. BRUZZONE, *Standard-essential patents and assertion of IPRs: defining the boundaries of abusive use of court injunctions*, slides of the Lecture held at the V Intertic Conference on Antitrust Policy, Rome, 16th May 2013, "The issue of the conditions under which the SEP holder should obtain an injunction in court proceedings is different from the issue of the application of art. 102". Substantially similar conclusions reached T. KÖRBER, *Kartellrechtlicher Zwangslizenzienwand und standardessentielle Patente*, in *NZKart*, 2013, 87.

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<sup>22</sup> A picture of the amount of litigation occurred in this area in the recent years, see the report: *Patents and Standards: A modern framework for IPR-based standardization*, p. 126: [http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/intellectual-property-rights/patents-standards/index\\_en.htm](http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/intellectual-property-rights/patents-standards/index_en.htm).

<sup>23</sup> On this aspect see the heated debate between P. CHAPPATTE, *Frاند Commitments - The Case for Antitrust Intervention in European Competition Journal*, 2009, 319 and *Frاند Commitments and EC Competition Law. A Rejoinder*, *ibid*, 2012, 175 and D. GERADIN, M. RATO, *Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-up, Royalty Stacking and the Meaning of FRAND in European Competition Journal*, 2007, 101 and *Frاند Commitments and EC Competition Law: A Reply to Philippe Chappatte*, *ibid*, 2010, 129 ff.

The solution to this problem, however, depends on the prior resolution of the issue relating to the legal nature of the FRAND undertakings. Said issue is, not surprisingly, subject to a broad debate in Europe, in particular in Germany, where scholarship and case law appear internally divided. Certain court held that the "FRAND declaration" amounts to a "pactum de non petendo", which

in fact, the only way to avoid such a dispute would be to force the IPR owner, even before the adoption of the standard, to indicate the “specific conditions” under which he/she/it intends to grant his/her/its license. In this way, as such authors point out, it would be avoided that the SEPs owners earns the increased economic value that IPRs gain once they are incorporated into a standard<sup>25</sup>.

Once described the complexity of the topic, the various domestic court decisions that have been rendered on the subject should be explained. From a comparative reading key of such case law, it is clear that in view of the common subject approached, the choice to subject it to antitrust law appears to be a minority choice<sup>26</sup>. In particular, this solution

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<sup>25</sup> This solution was proposed by the economists Lerner & Tirole. In fact, they believe that the only way to avoid the problems arising from the FRAND commitments is to ensure that the owner of the patents take price commitments ex ante, that is, before the standard is set up. In scholarship further solutions have been proposed some of which, however, are absolutely impracticable as able to block the whole standardization process, or even to excessively involve the SSOs. Among the various solutions proposed, let us consider the patent misuse, the estoppel or the unclean hands defense.

<sup>26</sup> For example, see: in the Netherlands, the District Court of The Hague, March 17, 2010, Joined Cases nos. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524, and March 14, 2012, 400367/HA ZA 11-2212, 400376/HA ZA 11-2213 and 400385/HA ZA 11-2215, *Samsung/Apple*; in the United Kingdom, High Court of Justice May 18, 2012 (2012 EWHC 1446 (Ch), Case No. C01233 HC10, 18.05.2012, *Nokia/IPCom*); in France, the *Tribunal de Grande Instance*, Paris, December 8, 2011, No. 11/58301, *Samsung Electronics Co. and Samsung Electronics France v. S.A.R.L. Apple France*. Similar topics have been dealt with by the recent case law of non-EU countries, see L.B. GREENFIELD, H. SCHNEIDER, J. MUELLER, *SEP Enforcement Disputes Beyond the Water's Edge: A Survey of*

has been adopted in Italy and more broadly in Germany.

With regard to the domestic framework, in Italy the decisions taken by the Court of Genoa and Milan are relevant. With regard to the first decision, in 2004, the Court of Genoa was called to rule about the IPRs embedded in the so called *Orange-Book Standard*<sup>27</sup>. According to the already described model, the alleged infringers defended themselves by claiming that the legal action brought against them constituted abuse of dominant position, in this case the refusal to grant the IPRs licenses in question. The Genoa court excluded that the action for prohibitory injunction filed by the owner of the patents constituted an infringement of Article 3 law no. 287 of 1990, as the infringer had never requested any license. Therefore, the basic requirement for the rejection was lacking. Instead, with respect

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*Recent Non-US Decisions in Antitrust*, 2013. 50. Outside the scope of application of antitrust law stand also Court of Milan, order of October 18/November 2, 2011, which is explained in the report by M. TAVASSI in *Information Technology, Innovation and Competition Law: the Role of the Courts, Workshop Assonime - Casrip - Luiss*, Rome, July 15, 2013, Note e Studi Assonime, no. 9/2013.

<sup>27</sup> The *Orange-Book Standard* consists of a package of patents owned by Philips and by Sony, relating to the technology of CD-R and CD-RW. Court of Genoa, ord. May 8, 2004, in *Il diritto industriale*, 2005, 500, with a note of M. GRANIERI. A summary of the decision and of the two similar decisions of October 14, 2004 and November 15, 2004 is included in M. SCUFFI, M. TAVASSI, *Le sezioni specializzate italiane della proprietà industriale e intellettuale. Rassegna di giurisprudenza. Italian IP Courts Case Law Report (The Italian specialized Sections of industrial and intellectual property. Review of case law. Italian IP Courts Case Law Report)*, 2004, nos. 219, 223, 224.

to the second case before the Court of Milan<sup>28</sup>, Samsung filed an action for a prohibitory injunction against Apple to prohibit the use of a patent on the technology of 3G transmission by Apple. As shown, Apple opposed the FRAND defense, claiming, among other things, that Samsung's action constituted an abuse of dominant position. The Court rejected Samsung's claim, considering, on the one hand, that the parties had already been seriously attempting to negotiate the grant of a license; on the other hand, that a "logic 'case by case' rule should have applied (...), resulting in a balance of interests between the protection of competition and the legitimate exercise of the patent exclusive right"<sup>29</sup>. On this basis, the Court assessed that the consequences that granting the injunction could have caused to the claimee looked to be more serious than the prejudice that its refusal might have caused to the claimant<sup>30</sup>.

<sup>28</sup> Court of Milan, orders of December 16, 2011 (filed on Jan. 5, 2012), extensively explained in M. TAVASSI, G. BELLOMO, *Rassegna di giurisprudenza civile in materia antitrust (anno 2011) (Review of civil case law on antitrust law (year 2011))*, in *Concorrenza e mercato*, 2012.

<sup>29</sup> Court of Milan, order of December 16, 2011.

<sup>30</sup> In *Ibidem*, a sort of authentic interpretation of the difference between the order of Milan of November 2011 (cited in the previous note) and those, of different approach, of December is provided, explaining that "The different solutions of the cases (...) are justified by the existence or non-existence of a previous approach by the company interested in implementing the standard patent towards the patent owner to obtain a licence right at "frand" conditions. When this approach is done seriously and is able to demonstrate the good faith of the party, the Courts generally decide to grant injunctive relief towards the owner if the refusal to grant a license appears unreasonable. At the contrary, if this approach does not exist or was not serious, the Courts decide to grant injunctive relief towards the company that has exploited the patent without seeking a license of the latter. At

Once completed the Italian case law, the German case law is far more copious<sup>31</sup>. In particular, also the *Bundesgerichtshof* (hereinafter BGH), following the *Standard-Spundfass* decision<sup>32</sup>, rendered a judgment in 2009 relating to the *Orange-Book Standard*<sup>33</sup>. In such ruling, true leading case, subject of widespread interest among scholars<sup>34</sup>, the BGH ruled that a patent

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*the end of this examination we can say it is a matter of good faith or bad faith that can be assessed by the case by case rule".*

<sup>31</sup> The proposed explanations for this trend to locate especially in Germany this type of litigation make reference to the following: 1) the size of that market; 2) the experience gained by the courts of that country in patent matters; 3) the speed of proceedings, in part due to their being in writing and to the lack of 4) the wide use of injunctions, given the failure to include in that phase the damage remedy 5) the separation among the proceedings for infringement and those concerning the validity of the patent and the fact that the injunction is granted if there is at least a 20% chance that the patent is valid (see M.A. CARRIER, *A Roadmap to the Smartphone Patent Wars and FRAND Licensing in CPI Antitrust Chronicle*, April 2012, website <http://ssrn.com/abstract=2050743>).

<sup>32</sup> BGH 13.07.2004, KZR 40/02. In that judgment, the BGH ruled that abuses its dominant position the owner of a patent incorporated in a standard, who, using the power conferred by the fact that the access to a downstream market depends on the use of that patent, assigns licenses in order to restrict access to that market.

<sup>33</sup> BGH 06.05.2009, KZR 39/06. Following the BGH decision, see also *LG Mannheim* 02.05.2012, 2 O 240/11 and 2 O 376/11, *BeckRS* 2012, 11804 and 11805; *OLG Karlsruhe* 23.01.2012, 6 U 136/11.

<sup>34</sup> Among the many comments, see D. JESTAED, *Der Lizenzerteilungsanspruch nach der BGH-Entscheidung "Orange-Book-Standard"*, in *GRUR*, 2009, 801; V. GÄRTNER, *Der kartellrechtliche Zwangslizenzienwand im Patentverletzungsstreit - "Orange Book-Standard" und seine Folgen für die Praxis*, in *Mitteilungen der deutschen Patentanwälte*, 2009, 440; P. MAUME, C. TAPIA, *Der Zwangslizenzienwand ein Jahr nach Orange Book Standard - mehr Fragen als Antworten* in *GRUR-Int*, 2010, 923; G.K. DE BRONETT, *Gemeinschaftsrechtliche Anmerkungen zum "Orange-Book-*

owner who filed for a prohibitory action against infringement abuses its dominant position only if the defendant succeeds to demonstrate: (i) to have previously made to the patent owner an unconditional and irrevocable offer of license agreement under FRAND terms, such that the owner could have not rejected it without thereby acting in discriminatory and anti-competitive terms; (ii) to have fulfilled his/its obligations under the license agreement that he/it would have entered into. This implies, in particular, that the defendant should take into account the acts of exploitation that he/it carried out and that he/it fulfills the payment obligations arising therefrom. The said judgment further specified that in fulfilling his/its obligation to pay, *"the defendant is not required to pay directly the royalties to the plaintiff. In fact it can deposit the amount of the fees at an Amtsgericht (District Court)"*<sup>35</sup>.

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*Standard" -Urteil des BGH, in WuW, 2009, 899; H. ULLRICH, Patents and Standards - A Comment on the German Federal Supreme Court Decision in IIC 2010, 337 (particularly critical on the judgment). For recent comments on that case-law, see H. DEICHFUSS, Die Rechtsprechung der Instanzgerichte zum kartellrechtlichen Zwangslizenzverbot nach "Orange-Book-Standard", in WuW, 2012, 1156; S. BARTHELMESS, R. LARS-PETER, Die "Unbedingtheit" eines Lizenzangebotes als Voraussetzung des kartellrechtlichen Zwangslizenzverbots im patentrechtlichen Unterlassungsverfahren, in WuW, 2013, 116; T. KÖRBER, Machtmissbrauch durch Erhebung patentrechtlicher Unterlassungsklagen, in WRP 2013, 734 and Kartellrechtlicher Zwangslizenzverbot (nt. 12); A. VERHAUWEN, "Goldener Orange-Book-Standard" am Ende?, in GRUR, 2013, 558; A. WALZ, Patentverletzungsklagen Im Lichte des Kartellrechts. In Sachen Europäische Kommission gegen Orange-Book, in GRUR Int., 2013, 718.*

<sup>35</sup> According to the following case law, it must be pointed out that the decision of the BGH has caused a drastic reduction of the claims filed by SEPs owners, in

It is interesting to note how, on a similar ongoing dispute between the same parties, the Hague District Court<sup>36</sup> has reached completely divergent conclusions. In fact, such court found that the legal action aimed at causing the infringement of the patent to cease cannot be paralyzed, on the basis of the statement that the infringer would have been entitled to a license on FRAND terms. The Dutch Court has explicitly deviated from the position expressed by the BGH considering that such position, first, conflicts with the Dutch patent law; second, creates legal uncertainty and, lastly, it is not necessary to support the legitimate interests of the defendant.

## 5. (CONTINUED) EFFECTIVENESS OF THE REGULATORY FRAMEWORK AND THE POSITION OF THE EUROPEAN COMMISSION

Over the recent years, the fact that the attempt to obtain an injunction from a SEPs owner against an alleged infringer may be subject to competition law, in particular to art. 102 TFEU, has also been applied by the EU Commission. In fact, the Commission, mainly because of the conflicting atmosphere

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which the *defender* prevailed: the grant of *Zwangslizenzverteidigung* occurred, in fact, in very few cases, out of hundreds in which it was attempted. On this aspect, see A. VERHAUWEN, "Goldener Orange-Book-Standard" am Ende?, cited.

<sup>36</sup> See District Court of The Hague, March 17, 2010, Joined Cases nos. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524.

generated by the smartphone wars, was very sensitive in preventing and countering possible abuses by the IPRs owners. In particular, it has recently expressed its opinion on two cases that saw facing each other, respectively, Motorola vs. Apple (the first) and Samsung vs. Apple (the second)<sup>37</sup>. As it often happens, both cases

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<sup>37</sup> For the proceedings initiated in 2012 against Motorola and Samsung, see the press releases of January 31, 2012, IP/12/89 ([http://europa.eu/rapid/press-release\\_IP-12-89\\_en.htm](http://europa.eu/rapid/press-release_IP-12-89_en.htm)); December 21, 2012, IP/12/1448 ([http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm)); April 3, 2012, IP /12/345 ([http://europa.eu/rapid/press-release\\_IP-12-345\\_en.htm](http://europa.eu/rapid/press-release_IP-12-345_en.htm)). For the proceedings of 2013, see press release IP/13/406, at the website [http://europa.eu/rapid/press-release\\_IP-13-406\\_en.htm](http://europa.eu/rapid/press-release_IP-13-406_en.htm). See also the memo (MEMO/13/403, available at the website [http://europa.eu/rapid/press-release\\_MEMO-13-403\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-403_en.htm)) that, in form of questions and answers, illustrates the general position of the Commission on the matter. In the proceeding announced with the IP/12/1448, on October 17, 2013 Samsung submitted commitments aimed at closing the preliminary stage without reaching the ascertainment of any possible infringement (see IP/13/971 at the website [http://europa.eu/rapid/press-release\\_IP-13-971\\_en.htm? locale = en](http://europa.eu/rapid/press-release_IP-13-971_en.htm?locale=en)). These commitments will be discussed later, it is only revealed that they were accepted and made binding by the Commission on April 29, 2014 (IP/14/490).

Previously, the Commission had initiated certain proceedings, none of which has concluded with a decision. In particular, it dropped for lack of evidence and vis-à-vis the withdrawal of the complaints, an investigation for abuse of dominant position, commenced on October 1, 2007 against *Qualcomm*, US producer of circuits for mobile phones, relating to the level of *royalties* required by that company for licensing its technologies adopted as standard by ETSI (see MEMO/09/516 of November 24, 2009); the Commission concluded with undertakings the proceedings commenced on a similar basis, against *Rambus*, a US company manufacturer of semiconductor memory products for PC (see MEMO/09/544 of 9 December 2009); it has finally concluded, due to the withdrawal of the complaint and the undertaking of

have arisen in the United States<sup>38</sup> and only afterwards have spread to Europe and other countries<sup>39</sup>. Further, it must be noted that when the Commission commenced the mentioned proceedings at the beginning of 2012, the parties had filed many lawsuits before the national courts of various Member States. In 2011, in fact, Samsung had already filed for an injunction against Apple to protect certain patents declared essential to comply with the UMTS *standard* in France, The Netherlands, United Kingdom and, as seen, in Germany and Italy. In the same month, Motorola also commenced similar proceedings against Apple in different German courts (Düsseldorf District Court and Mannheim District Court), in order to protect some of its patents declared essential

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commitments to grant licenses based upon FRAND terms, a proceedings against *IPCom*, reported by Nokia, for not having taken these commitments in relation to SEPs in the telecommunications sector that *IPCom* had acquired from *Bosch*, which, instead, had undertaken) (see MEMO/09/549 of December 10, 2009).

<sup>38</sup> In fact, on April 15, 2011, *Apple* sued *Samsung* before the Northern District of California claiming the infringement of some of its non-SEPs by Samsung. In turn, Samsung has commenced similar proceedings in defense of some of his SEPs before the District Court of Delaware, as well as before the International Trade Commission (ITC). Motorola began a similar conflict against Apple before the ITC on October 6, 2010, and before the district courts of the Northern District of Illinois and the Southern District of Florida. On October 29, 2010, Apple responded alleging a breach of six of its non-SEPs before the District Court in the Western District of Wisconsin and three before the ITC.

<sup>39</sup> Among the countries not parties to the EEA Agreement, Apple and Samsung have commenced lawsuits in Japan (in the Tokyo District Court), Korea (Seoul Central District Court) and Australia.

to comply with the UMTS and GPRS standards.

While all the injunctions sought by Samsung were rejected, Motorola was granted one injunction in December 2012 before the Mannheim District Court. During such proceeding, Apple has presented to Motorola six subsequent offer to license. In the second offer, in particular, dating back to October 2011, Apple proposed Motorola a license agreement under which Apple would leave Motorola the power to determine the royalties "*according to its equitable discretion ("billiges Ermessen") and according to FRAND industry standard, without any limitations"*. Further, the offer provided for a "*full judicial review of the amount of FRAND royalties, whereby Motorola and Apple could submit their own evaluations, calculations and reasoning for consideration to the court*"<sup>40</sup>.

Nevertheless, Motorola refused the mentioned offer, arguing that the offer did not comply with the conditions set forth in the *Orange-Book* decision and, in January 2012, decided to enforce the injunction obtained the previous month. Following certain intricate events, Apple presented its sixth offer in order to overcome the impasse that has occurred. In such offer Apple: (i) accepted a clause under which Motorola could terminate the agreement if Apple had dared to question the validity of any of the SEPs covered by the agreement (so-

called Termination clause); (ii) explicitly acknowledged the infringement by part of all its devices of the SEPs subject of agreement. By way of such offer, Apple was able to obtain from the *Karlsruhe Appellate Court* a temporary suspension of the injunction and a Settlement Agreement with Motorola that concluded the legal dispute.

So rebuilt the complex historical events behind the two proceedings of the EU Commission, it is now possible to analyze such proceedings. On January 30, 2012 the EU Commission commenced ex officio the first proceeding against Samsung and, shortly after, on April 3, 2012, following a report from Apple, commenced the second against Motorola. As partially anticipated, both proceedings were intended to determine whether Samsung and Motorola had committed an abuse of dominant position by offering, and obtaining in the Motorola case, an injunction to protect their SEPs.

Anticipating the outcome of these proceedings, the first concluded with an assumption of commitments by Samsung pursuant to art. 9 of Council Regulation (EC) No. 1 of 2003; while the second concluded with a conviction for abuse of dominant position of Motorola Mobility Holding. Inc (MMH).

These results has been reached because the Commission, differently from what suggested by many scholars according to whom the filing of an injunction must be considered legitimate

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<sup>40</sup> For a complete view of *Apple's Second Orange Book offer* see the Commission Decision of 04.29.2014 available at the following link:  
[http://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39985/39985\\_928\\_16.pdf](http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf), paragraphs 125 to 127.

in itself in light of the case *ITT Promedia*<sup>41</sup>, has decided to apply the case law of the Court of Justice rendered for the first time in the *Consten and Grundig* case in the context of art. 101 TFEU and then extended to art. 102 TFEU in the *Volvo* case<sup>42</sup>. According to that judgment, in order for the filing of an injunction for the protection of IPR to be regarded as an abuse of dominant position, certain "exceptional circumstances" must occur<sup>43</sup>. In particular, in order for the refusal of an IPR owner to grant a license to exploit that property essential for carrying on a particular activity to be considered abusive and, subsequently, in order for the action for injunction filed by the same

owner to be also considered abusive, it is sufficient that three conditions are cumulatively met: (i) such refusal prevents a new product for which there is potential consumer demand to emerge; (ii) it is unjustified; (iii) is likely to exclude all competition on a secondary market<sup>44</sup>. Although that case law did not concern patents incorporated in one or more standards, according to the Commission, it would still be applicable to these cases. What is relevant for purposes of analogical application of such case law is, in fact, the presence, on the one hand, of a relationship of dependence between the owner of an intellectual property right in a dominant position and other companies, and, on the other hand, the abuse of such position by that owner by means other than those which regulate the normal competition.

Given the above, according to the Commission, in these cases both the "preliminary circumstances" for application by analogy, and the "exceptional circumstances" recalled by the mentioned case law occur. This

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<sup>41</sup> See case T-111/96 *ITT Promedia v. Commission* (1998) ECR II-2937, paragraph 55, and Case T-119/09 *Protégé International v. Commission* (2012) ECR 421, paragraph 49. According to these cases, an enterprise that has a dominant position commits an abuse by means of abuse of the judicial protection only in the presence of specific and exceptional circumstances: *where (i) it cannot reasonably be considered as an attempt to establish the rights of the undertaking and therefore only serves to harass the opposite party; and (ii) has been conceived in the framework of a plan whose goal is to eliminate competition.* The reason why this case law is not applicable to this cases is motivated by the Commission in paragraphs 531 to 534 of the *Motorola* decision.

<sup>42</sup> See case 56 and Case 58/64 *Consten and Grundig v. Commission* (1966) ECR 229 and case 238/87 *AB Volvo v. Erik Veng* (1988) ECR 6211, paragraphs 8 and 9.

<sup>43</sup> Regarding this aspect, see also the judgments in *RTE and ITP/Commission* (EU:C:1995:98, paragraphs 50 and 53 to 56) (refusal to grant a license relating to copyright), and *IMS Health* (EU:C:2004:257, paragraphs 35 and 36) (refusal to grant a license for a brick structure protected by an intellectual property right). See also the *Bronner* decision (C 7/97, EU:C:1998:569, paragraphs 39 and 40) (refusal by a company in the printing industry to include the distribution of a competing daily newspaper in its own newspapers domicile delivery system).

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<sup>44</sup> See case 238/87, *Volvo v. Veng* (1988) ECR 6211, paragraph 9, which states "the exercise of the exclusive right by the company which has patented a design relating to components of a car body may be prohibited by Article [102 TFEU] when it gives rise, from a company in a dominant position, to certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, fixing prices for spare parts at an unfair level or the decision to no longer produce spare parts for a particular model even though many cars of that model are still being driven, provided that such conducts may affect the trade between Member States"; Case C-7/97 *Bronner* (1998) ECR I-7791, paragraph 40; case C-418/01 *IMS Health* (2004) ECR I-5039, paragraphs 36-38; case T-201/04 *Microsoft v. Commission* (2007) ECR II-3601, paragraphs 331 and 332.

is due, on the one hand, to the lock-in effect derived from the high implementation which has affected the SEPs owners as a result of the standardization process, and on the other hand, to the FRAND commitments that both Samsung and Motorola have taken towards the ETSI. In other words, such circumstances would be sufficient, according to the Commission, to deem these cases different than those in which any patent holder acts to protect its IPR.

The Commission, by this reasoning, drew the conclusion that the action for an injunction brought by a SEP holder shall be subject to competition law, in particular to art. 102 TFEU. It now remains to be assessed whether such conduct constitutes an abuse.

In order to assess the anticompetitive effects of the conducts under scrutiny, in both cases, the Commission has been inspired by the findings of the *Astra Zeneca* case<sup>45</sup>. It follows that, first, if the possible decision of a court jurisdiction may produce anticompetitive effects, this fact does not entail that the conduct of those who request this legal protection is itself abusive. Second, the qualification of a conduct as abusive does not fail if the pursued restrictive effects are not achieved (this statement is particularly important in the *Samsung* case that, as seen, has never obtained an injunction).

With respect to the *Samsung* case, the Commission considered that *Samsung's*

conduct was likely: (i) to exclude Apple, its direct competitor, from the market of the UMTS-compliant mobile devices and (ii) to induce Apple to accept more burdensome license terms.

In the second case, instead, the Commission took action only after Motorola refused the second offer made by Apple (offer that, as seen, was quite generous) and after its subsequent decision to enforce the injunction obtained by the *Mannheim District Court*. In fact, according to the Commission, such MMH's conducts were capable of producing the following anti-competitive effects: (i) a temporary exclusion from online sales of all Apple products compatible with the GPRS standard; (ii) inclusion in the Settlement Agreement of clauses unfavorable for Apple (see the mentioned Termination clause<sup>46,47</sup>); (iii)

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<sup>46</sup> According to the Commission, that clause constitutes a *de facto* obligation not to put into question the validity of the IPRs that would cause a series of anticompetitive effects. Firstly, it would limit Apple's ability and incentives to bring an invalidity action. Secondly, it could limit Apple's negotiating capacity in influencing the amount of royalties due by Apple to MMH. Third, as evidenced by *Technology Transfer Guidelines*, that type of clauses might induce further potential licensees to pay royalties on an invalid IPR, thus increasing the costs of production of certain products, as well as their sales prices (so damaging also the final consumers). On this aspect, in this regard, see also the case 193/83 *Windsurfing International* (1986) ECR 611, paragraphs 92-93. On this aspect see also a study conducted in 2011, *Interplay between Standards and Intellectual Property Rights*, available at the following link: [http://ec.europa.eu/enterprise/policies/european-standards/files/standards\\_policy/ipr\\_workshops/ipr\\_study\\_final\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/european-standards/files/standards_policy/ipr_workshops/ipr_study_final_report_en.pdf). The negative assessment of the termination clause by the Commission from a competitive standpoint, indirectly, helps to

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<sup>45</sup> See case T-321/05 *AstraZeneca v. Commission* (2010) ECR II-2805, paragraph 347, judgment upheld on appeal in case C-457/10 P *AstraZeneca v. Commission* (2012) ECR 770, paragraphs 109 to 111.

a negative impact on the standardization processes<sup>48</sup>.

So assessed the anticompetitive extent of the actions for injunction brought by Samsung and Motorola, the Commission found their conduct abusive ex art. 102 TFEU on the basis of the case law of the Microsoft case<sup>49</sup>. In this case, indeed, the Court ruled that the pursuit of an injunction to protect its IPR by a SEP holder constitutes abuse of a dominant position if it does not show the unwillingness to negotiate of the infringer. In other words, according to the conclusion adopted by the Commission, the filing of an injunction action by Motorola and Samsung is unlawful under article 102 TFEU as, given the occurrence of the before mentioned "exceptional circumstances" (the case concerned, in fact, some SEPs and their

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mitigate the negative effects of the phenomenon of the over-declaration of SEPs described above.

<sup>47</sup> According to the Commission, along with the one previously mentioned, also the other clauses in the Settlement Agreement of MMH have an anticompetitive scope, such as: the inclusion of the iPhone 4s in the list of infringing products (because Apple would have entered into a supply agreement with Qualcomm under which Motorola would not be entitled to the payment of royalties for the use of its SEPs in the iPhone 4s); the acknowledgment by Apple of the committed infringements and of the damages caused to all the SEPs falling within the scope of the Agreement (so Apple would have had to admit its liability even hypothetically, as in the case of the iPhone 4s, where the judicial assessment was still in progress); etc.

<sup>48</sup> On this aspect, in paragraph 418 of the Motorola decision, the Commission states, not surprisingly, that its decision "promotes the proper functioning of standard-setting by ensuring the accessibility of the technology included in the GPRS standard and by preventing hold-up".

<sup>49</sup> See case T-201/04 *Microsoft v. Commission* (2007) ECR II-3601, paragraph 690.

owners had reported to a ruling body their willingness to grant licenses under FRAND terms), the infringer was itself willing to negotiate such license<sup>50</sup>.

However, the Commission does not explain under which conditions an infringer can be qualified as "willing to negotiate"<sup>51</sup>. Moreover, the fact that the Commission does not mention any of the criteria set out by the *Bundesgerichtshof* in the *Orange Book Standard* decision in order to determine when the conduct of a licensee shall be classified as "willing to negotiate", would lead to conclude that the Commission intends to deviate from the conclusions reached by the German courts.

In light of the foregoing, the diversity of solutions proposed by the domestic case-law (especially the German one) on the one hand, and by the Commission on the other hand, is clear.

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<sup>50</sup> According to the Commission, in these cases, because everything fits into the dynamics of the standardization processes and the SEP holders have undertaken to grant their patents under FRAND terms, a potential licensee cannot be considered unavailable to negotiate the SEPs that it needs under FRAND terms. According to the Commission, in light of case C-209/10 *Post Danmark A/S v. Konkurrenceradet* (2012) ECR 172, paragraphs 41-42, such conclusion could be contradicted only in the case in which the parties can demonstrate that the application of the action for injunction, in addition to the described anti-competitive effects, entails also advantages in terms of efficiency and benefits for the consumers.

<sup>51</sup> In particular, the decision of the Samsung case does not mention Apple's conducts during the negotiations that allows to assess whether Apple can be considered as "willing to negotiate".

## 5.1 The Samsung's commitments

In the proceedings commenced by the Commission against Samsung, following the Statement of Objections of December 21, 2012, on September 27, 2013 Samsung submitted a proposal for commitments (so called *Initial Commitments*<sup>52</sup>). In this document, Samsung proposed to undertake not to bring an injunction for infringement of its existing and future SEPs, used in smartphones and tablets (Mobile SEPs) against a potential licensee who has adhered to the particular system of licensing (so called *Licensing Framework*) in order to establish the conditions of a FRAND license agreement. This Licensing Framework provides, on the one hand, (i) a negotiation period lasting up to 12 months and, on the other hand, (ii) the definition of the FRAND terms by a third party if a license agreement is not reached or an alternative method to define the FRAND conditions at the end of the negotiation period is not agreed upon. The definition of the FRAND terms by a third party will consist of the deferment of the dispute to an arbitral tribunal or to a Judge in order to determine the FRAND terms of the license agreement or of the cross-licensing agreement.

Exceptionally, according to the commitments, Samsung shall be entitled to bring an action for injunction if: (i) a potential licensee has proposed an injunction against Samsung on the

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<sup>52</sup> The full text of the Initial Commitments is available at the following link: [http://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39939/39939\\_1301\\_5.pdf](http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1301_5.pdf).

basis of some of its Mobile SEPs; and (ii) Samsung has consequently executed and issued the invitations to negotiate the license agreement/agreements under FRAND terms relating to its Mobile SEPs and to certain Mobile SEPs of the potential licensee.

The core of these commitments is, therefore, the fact that Samsung shall not be entitled to bring an action for injunction if the licensee demonstrates its "willingness to negotiate" in adherence to the Licensing Framework.

On February 3, 2014 Samsung has resubmitted a new proposal for commitments taking into account the comments received from the market following the publication of the first proposal (so called Final Commitments<sup>53</sup>). Such commitments have been made binding by the Commission on April 29, 2014.

The underlying structure of the final commitments remained the same of the initial ones. The main differences proposed by Samsung are the following: (i) if the value of the FRAND conditions is to be established by third parties, the default option is the judge instead of the arbitration panel; (ii) Samsung will send in advance, along with its invitation to negotiate, certain minimal information<sup>54</sup>; (iii)

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<sup>53</sup> The full text of the Final Commitments is available at the following link: [http://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39939/39939\\_1502\\_5.pdf](http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1502_5.pdf).

<sup>54</sup> According to the provisions of paragraph 100 of the Samsung decision: "*Samsung will include with its invitation to negotiate: (i) a "proud list", meaning a reasonable number of representative Mobile SEPs, together with claim charts; (ii) a list of the Mobile Standards that Samsung believes are implemented by*

Samsung has clarified that, following the expiration of such commitments, it will be contractually bound to all the obligations arisen during the validity of the commitments; (iv) Samsung will make the decisions of the arbitration panels for the determination of the FRAND conditions public, in accordance with the applicable procedural rules.

It should be noted that, as pointed out by eminent doctrine, although the way in which the Commission has concluded the Samsung case does not constitute a binding precedent, as it is a mere undertaking of commitments, it represents a model of negotiation procedure by which assessing the disputes arisen regarding the definition of the FRAND terms<sup>55</sup>.

## 5.2 Outcome of the Motorola case

As in part anticipated, on April 29, 2014 the Commission concluded the Motorola case with a conviction under Article 7 of Regulation (EC) No. 1/2003. By that decision, the Commission ruled that Motorola, by requesting and enforcing an injunction against *Apple Inc.*, *Apple Sales International* and *Apple Retail Germany GmbH* before the courts of the Federal Republic of Germany has infringed article 102 TFEU, committing an abuse of a dominant position starting from the second Apple's offer of license.

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*the potential licensee; and (iii) a proposed duration for the licensing agreement which will not be less than five years*".

<sup>55</sup> On this aspect, see R. WHISH, *Motorola and Samsung: An Effective Use of Article 7 and 9 of Regulation 1/2003*, in the *Journal of European Competition Law & Practice*, 2014.

Beyond the reasons that have led to this decision, which have been widely discussed, two additional choices made by the Commission must be highlighted. Firstly, the Commission has outlined certain circumstances under which Motorola is entitled to bring an action for an injunction. In particular, this is possible when: (i) the potential licensee is in financial difficulties and is unable to pay its debts; (ii) the assets of the potential licensee are located in jurisdictions that do not provide adequate means of enforcement of the compensation of damages or, finally, (iii) the potential licensee is not willing to enter into a license agreement under FRAND terms, with the result that the SEP holder will not be adequately remunerated for their use.

Secondly, the Commission has significantly decided not to impose any sanction on Motorola in view of the fact that there is no case law of the Court of Justice of the European Union concerning the lawfulness, under Article 102 TFEU, of injunctions relating to SEP patents and that domestic courts have so far reached conflicting conclusions on the matter<sup>56</sup>.

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<sup>56</sup> See the Memo-14-332 which provides that: "*The Commission can, in exceptional cases, exercise its discretion not to impose a fine. It has chosen not to impose a fine in this case, because: (i) there is no Commission Decisional practices or EU court case law regarding injunctions based on SEPs; and (ii) national courts within the EU have reached different conclusions on this question*".

## 6. THE HUAWEI CASE AND THE JUDGMENT OF THE COURT OF JUSTICE OF JULY 16, 2015

As mentioned in the introduction, on July 16, 2015 the Court of Justice has rendered a preliminary ruling on a case brought to its attention on March 21, 2013 by the *Landergericht Dusseldorf*. This is the Huawei case.

Such request for a preliminary ruling takes origin from the difference of positions that the German courts on the one hand, and the Commission on the other have reached. Indeed, the referring court, dealing with a case in which he was asked to assess whether the request of an injunction by a SEP holder constituted an abuse of dominant position, given the differences between case law and the Commission regarding the criteria according to which performing such evaluation, referred the matter to the Court of Justice to clarify the point.

Specifically, the opposing parties of this dispute were *Huawei Technologies*<sup>57</sup>, owner of an essential for the purposes of the application of the technical standard "Long Term Evolution" (LTE) set forth by ETSI, against *ZTE Corp.*, based in Shenzhen, and *ZTE Deutschland GmbH* (hereinafter also ZTE), based in Dusseldorf.

The patent at issue was notified to ETSI by Huawei on March 4, 2009, that undertook towards ETSI to grant licenses to third parties

on Fair, Reasonable and Non-Discriminatory conditions. Following the failure of the negotiations<sup>58</sup> for the execution of a license agreement under FRAND terms, Huawei has brought an infringement action against ZTE before the District Court of Dusseldorf claiming the ceasing of the infringement<sup>59</sup>, the disclosure of accounting data, the recall of the products, as well as the determination of the compensation. Consequently ZTE filed its opposition before the European Patent Office (EPO), to the issuance of the disputed patent, on the grounds that this would have not been valid. By decision of April 25, 2013, the European Patent Office has confirmed the validity of the patent and dismissed ZTE's claim<sup>60</sup>.

It should be noted, however, how the referring judge, almost skipping a logical step, asks the Court of Justice the mere determination of the conditions under which an action for infringement may be considered an abuse of a dominant position, taking for granted the presence of a dominant position. In fact, that Judge states that it must be verified whether the license to reject the action for injunction on the basis of Article 102 TFEU is mandatory, if it

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<sup>57</sup> This is a worldwide company, active in the telecommunications fields and having offices in Shenzhen, China.

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<sup>58</sup> In particular, Huawei required a specific monetary amount considered reasonable by the same for the purpose of the license agreement and, on the other hand, the ZTE proposed a cross licensing.

<sup>59</sup> In fact, although no agreement between the parties was reached, the ZTE marketed products in compliance with the Huawei's proprietary SEP, without providing Huawei with any payment and without disclosing the performed acts of exploitation.

<sup>60</sup> This decision is currently subject to appeal.

could be considered that, by bringing the action for injunction, Huawei abuses of the “*dominant position indisputably held*”<sup>61</sup>.

Given the above, since in the referring judge’s opinion there are two criteria to determine the moment starting from which a SEP owner results in violation of Article 102 TFEU by abusing its dominant position against an infringer, the referring judge asks the Court which one of the two criteria must be adopted. In other words, the referring judge asks whether, for the purposes of the assessment in question, he must follow the reconstruction of the *Bundesgerichtshof* in its *Orange-Book* judgment or the one adopted by the Commission in the Samsung or Motorola cases. The judge, in fact, notes that if the criteria set out by the *Bundesgerichtshof* were to apply to this case, the ZTE could not validly invoke the compulsory license, so that the action for infringement should be accepted while, on the contrary, if the thesis advocated by the Commission was to apply, the Huawei’s action for injunction should be rejected as abusive. Accordingly, the *Landgericht Düsseldorf* decided to stay the proceedings and to refer the issue to the Court to clarify it.

The Court, based on the assumptions that there are significant factual differences between the *Orange Book Standards* and this case, considered that this judgment is not applicable by analogy to the present proceedings. Indeed, while in this case the disputed patent consists of an essential patent for the application of the

standard LTE deriving from an agreement executed among the companies (including Huawei and ZTE) participating in the standardization process within the ETSI, in the *Orange Book Standard* case the standard was a *de facto* standard<sup>62</sup>. Therefore, in that case, there was no commitment on the owner of the patent to grant licenses under FRAND conditions. Therefore, it is normal that in this case the negotiating power that the owner of the patent is granted is broader than in the case of an SEP, whose owner is a member of a European standards body and that an action for injunction on his part is considered, in the end, abusive only if the rights requested are manifestly excessive.

However, according to the Court, neither the Commission's approach may be applied to the present case, although the proceedings that the Commission dealt with concerned a SEP, whose owner had made a commitment to a standards body, to grant licenses to FRAND conditions. As the remitting judge provided, in fact, mere “willingness to negotiate” is a statement that “can be made very easily and in a non binding way, being understood that the same may be modified, revoked, and possibly renewed, at any time” .

<sup>61</sup> In German language “*unstreitig gegebenen marktbeherrschenden Stellung*”.

<sup>62</sup> A *de facto* standard is a specification recognized in the market, usually following widespread acceptance of this specification. See in this regard, article 1, paragraph 2, of the opinion of the European Economic and Social Committee about the “*Communication of the Commission to the Council and the European Parliament on “Standardization and the global information society: the European approach”*” (COM-1996-359 def.).

Following that argumentative process, in the opinion of the Court it is instead necessary to find a balance because, depending upon the full application to this case of the *Orange Book Standard* case law of the *Bundesgerichtshof* or of the Commission's approach, certain situations of over protection or under protection, respectively, of the owner of a SEP, of the users of the patent method or of the consumers arise.

The intermediate solution identified by the Court in the decision at issue consists in an interpretation of article 102 TFEU in the sense that the holder of a SEP, that has irrevocably committed to a standard body to grant third parties a license under FRAND terms, does not abuse its dominant position when it takes an action against infringement aimed at obtaining the ceasing of the prejudice caused to his/its patent or at the recall of the products for the manufacturing of which this patent has been used, if: (i) prior to filing such claim, on the one hand, he/it has given the alleged infringer notice of the alleged infringement, indicating the said patent, and specifying the manner in which it was infringed<sup>63</sup>, and, on the other

hand, after the alleged infringer has confirmed its will to enter into a license agreement under FRAND terms, he/it has then sent to such infringer a concrete and written license proposal under the above conditions, specifying, in particular, the compensation and its calculation methods; and (ii) the abovementioned infringer, by continuing to exploit the patent in question, does not diligently give any feedback to this proposal, in compliance with recognized business practices and in good faith, a circumstance that must be determined on the basis of objective elements and implies in particular the lack of any delaying strategy.

These limitations, according to the Court, do not apply if the SEP owner proposes an infringement action aimed at the mere disclosure of accounting data relating to the previous acts of exploitation of any patent or relating to any damages resulting from such acts. This *sub-specie* infringement action would be freely feasible, in the opinion of the Court,

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*to apply a standard, the said user must submit a proposal on its own initiative. However, in the field of the telecommunications industry such solution does not seem realistic due to the high number of essential patents and of the holders of these patents, as well as to the uncertainty about the validity and the infringement of (alleged) essential patents. Similarly, it is unrealistic to require the user of a standard, before engaging in any use whatsoever, to start negotiations in order to enter into a license agreement for each patent declared essential. It is impossible to expect the user of a standard in the telecommunications industry (and this is after all unusual in this field), before starting to use the standard, to evaluate each patent declared essential, to engage in negotiations to enter into a license agreement relating to such patent, and to render a legally binding declaration for each basic patent and in respect of any patent holder. This would constitute a very heavy administrative and financial burden, as well as a huge financial time investment, so that the use of the standard would be, in practice, impossible".*

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<sup>63</sup> This informative obligation has been provided by the Court because it is uncertain whether the infringer of a SEP is necessarily aware to exploit the method of a patent that is, at the same time, successful and essential for the application of a rule. Regarding the LTE standard, for example, it seems that over 4,700 patents have been notified to ETSI as essential and that, for a high percentage, such patents may be invalid or essential for purposes of the application of the standard. In fact, Huawei itself noted that "*the user of an essential patent should act within a reasonable time when submitting a FRAND licensing proposal or when undertaking to accept the conditions provided by a judge or by an arbitrator. Some also maintain that, before starting*

as it has no direct consequences on the entry or on the stability on the market of products that comply with the technical standard, manufactured by competitors and, therefore, this type of action cannot be regarded abusive under article 102 TFEU.

## 7. CONCLUSIONS

Despite the effort of clarity made by the recent judgment of the Court of Justice, that must be viewed with great enthusiasm, the standardization processes are not free from major problems, in part mentioned in the opening paragraphs of this paper, some of which highlighted also in the conclusions of the Attorney General (hereinafter AG) Melchior Wathelet.

There are, in fact, two major problems.

Firstly, it is not obvious that the conduct of a SEP owner, which has undertaken to grant third parties licenses under FRAND conditions, in the event he/it decides to bring an action for injunction, is interpreted in accordance with antitrust law. Indeed, A.G. Wathelet emphasizes that it is possible that this matter "*can be properly solved, or even better, in other areas of law or by mechanisms other than those of competition law*". Actually, the disputes that arise and concern a SEP essentially depend on the lack of clarity both of the notion and of the content of "FRAND conditions". In this perspective, extensive guarantees may also be offered by the tools offered on the level of

contractual protection<sup>64</sup>. The choice of which tools to use in practice will depend on the prior resolution of the issue of the legal nature of the FRAND commitments<sup>65</sup>.

Secondly, if these issues are interpreted under antitrust law, this must be done without twisting antitrust law. Indeed, in the examined case law the structural elements required to find an abuse are not proven, but rather they are taken for granted. Even A.G., in his conclusions, points out that the remitting judge takes the position of dominance of Huawei for granted, without providing any element about which the relevant market is<sup>66</sup> and whether there is actually a position of dominance<sup>67</sup>.

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<sup>64</sup> See footnote no. 22.

<sup>65</sup> Said topic is, not surprisingly, itself the subject of a broad debate in Europe, particularly in Germany, where scholarship and case law appear internally divided. Certain courts have held that the "FRAND declaration" amounts to a "*pactum de non petendo*", meaning a commitment not to take legal action against the SEP users until a license agreement is entered into; other courts have identified in the FRAND declaration an obligation to grant a license. Regarding the scholarship, the opinion according to which the "FRAND declaration" has no relevance as obligation, as well as the one according to which it stands as contract in favor of a third party are also represented (see T. KÖRBER, *Standardessentielle Patente. FRAND-Verpflichtungen und Kartellrecht - Standard Essential Patents, FRAND Commitments and Competition Law*, cit.). In Italy, M. LIBERTINI dealt with the matter, *Individual autonomy and independence of enterprise*, cit., who, referring to an opinion that believes that in the negotiation among companies the requirement of determinability of the subject of the contract is to be interpreted in broader terms, believes that FRAND undertakings shall be given the nature of contractual obligations.

<sup>66</sup> According to stable case law of the Court of Justice, the delimitation of the relevant market is of essential importance for the assessment of dominance. In this

With regard to the identification of the relevant market, although, as seen, the case law identifies it superficially, slightly more accurate is the work of the Commission. In fact, the Commission has defined the relevant market and, on the basis of the *Commission Notice on market definition*<sup>68</sup>, has identified it in the one of the licenses relating to each standard-essential patent incorporated in a standard, as specified in the *GPRS standard technical specifications*. This is also confirmed in the decision by which the Commission approved the merger between Google and Motorola Mobility<sup>69</sup>. Indeed, in this decision the Commission states that “each SEP can be considered as a separate market in itself as it is necessary to comply with standards and thus cannot be designed around, i.e. there is by definition no alternative or substitute for each such patent. The relevant market in this case is thus the (at least) EEA-wide market for the licensing of each of the relevant SEPs that Google will acquire from Motorola Mobility following the transaction”. The problem of the reconstruction

of the relevant market applied by the Commission is that the Commission no longer refers exclusively to this market when it comes to determining the dominance and abuse. This is confirmed, with reference to the abuse, by the fact that, as seen in paragraph 6, when the Commission assesses the anticompetitive effects of the abuse it also considers the effects caused by the inhibitory action in the downstream market<sup>70</sup>.

With regard to the position of dominance, the *Horizontal Guidelines* of the Commission explicitly exclude the option of omitting its proof, thereby taking it for granted. Such guidelines, indeed, expressly deny that the ownership of a SEP is itself sufficient to grant a market power on its owner, as they set forth that “although the definition of a standard can create or increase the market power of the owners of IPRs essential for the standard, it cannot be assumed that the fact of possessing or exercising IPRs essential for a standard is equivalent to the possession or exercise of a market power. The matter of the market power can only be examined case by case”. Unlike the case law, the Commission does not omit this assessment and states, in the *Motorola decision*, that two factors are particularly important in this respect. Two elements should be verified: firstly, the indispensability of the GPRS standard for the

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sense see *Europemballage and Continental Can v. Commission* (6/72, EU:C:1973:22, paragraph 32).

<sup>67</sup> About this aspect see judgments *United Brands and United Brands Continental v. Commission* (27/76 EU:C:1978:22, paragraphs 65 and 66); *Hoffmann La Roche v. Commission* (85/76 EU:C:1979:36, paragraphs 38 and 39), and, more recently, *AstraZeneca v. Commission* (C 457/10 P, EU:C:2012:770, paragraph 175), that define the dominant position as “a position of economic strength held by an enterprise, that enables it to hinder the maintenance of an effective competition on the relevant market, providing it with the possibility of holding significantly independent conducts towards its competitors, its clients and, ultimately, towards consumers”.

<sup>68</sup> See *Commission Notice on the definition of relevant market for the purposes of Community competition law* (OJ C 372, 09.12.1997, p. 5, *Commission Notice on Market Definition*).

<sup>69</sup> See Case COMP / M.6381-Google/Motorola Mobility.

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<sup>70</sup> The Commission, in fact, among the possible anticompetitive effects takes into consideration: (i) the temporary exclusion from online sales of all Apple products compatible with the GPRS standard; (ii) the negative impact that an inhibitory action causes on the standardization processes, as it negatively affects the vision that consumers would have of such processes.

manufacture of conforming products<sup>71</sup> (because within a market different concurring standards may) and, secondly, whether the field industry is lock-in to the standard. Consequently, the indispensability of a standard will occur only with a "single or dominant standard", meaning the one that can provide the holder of a SEP, incorporated in the same standard, a market power that can affect the competition in one or more of the downstream markets<sup>72</sup>. Therefore, since the assessment of the indispensability of a standard cannot be separated from the effects that the ownership of a SEP embedded in such standard causes in the downstream market(s), once again, the Commission uses partially different markets to assess the elements of the "relevant market" and of the "dominant position". This entails an additional concern. If the dominant position exists only where there is control of the downstream market, in cases where such control is lacking, how would the Commission act if the risk of abuse is present in the only upstream market (so-called *hold-up*)? Would it apply article 102 TFEU or would such option be irrelevant?

In fact, the described irregular application of art. 102 TFEU can be explained as, in these

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<sup>71</sup> See paragraphs from 227 to 230 of the decision.

<sup>72</sup> The fact that more standards, competing with each other, can exist within a market has been argued in the scholarship. The dominant standard "*provides specifications that define the architecture of a product, the dominant standard is the technology that has achieved a market share of over 50% for a significant period of time in a category of products or service*" (see C. BUTTA, M.C. LONGO, *Standard tecnologici e dinamiche competitive a confronto (Comparing Technological Standards and competitive dynamics)*, cit.).

cases, the antitrust law is used as an extrema ratio/remedy for issues that may arise from the standardization processes, which are not otherwise resolvable by recourse to article 101 TFEU although, theoretically, this would be the natural solution to these problems.

In fact, the doctrine has excluded the possibility to sanction the interested SSO under art. 101 TFEU for failure to perform the FRAND obligations by its members. This would, indeed, render the entire standardization agreement void. Such an outcome would be, on the one hand, unjust, because the actions and investments of all would be frustrated by the conducts of individual members and, on the other hand, disproportionate, as a standard already implemented in the market would be eliminated and all the subsequent lock-in effects should be faced. However, certain authors, in light of those reasons, instead of reaching the solution adopted by the Commission to lead such issues to art. 102 TFEU, have proposed to apply article 101 TFEU directly to the individual SEP holder. This does not entail the nullity of the standard, instead the obligation on the SEP holder of a mandatory license under FRAND terms. This solution, however, was properly excluded since the application of article 101 TFEU is prevented from the lack of aware collaboration between at least two parties, required by the European Union case law<sup>73</sup>.

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<sup>73</sup> Among the supporters of this proposal, see S. BARTHELMESS, N. GAUB, *Die Lizenzierung standardessentieller license im Kontext branchenweit vereinbarter*

Given the above, the reason why a so distorted application of the regulation under art. 102 TFEU is accepted is clear and, above all, the reason of the different regime applied, as seen during the examination of the judgment of the Court of Justice in the Huawei case, to the standards *de facto* rather than to the standards *de jure* is explained. Although, in fact, such standards have different origins, from an exquisitely competitive perspective they give rise to the same issues, which, in theory, should be treated equally.

Therefore, since the application of antitrust law seems more oriented to ensure the smooth progress of the negotiations following the adoption of standards assisted by FRAND commitments, rather than to protect the competition in those markets in which the standards become essential for the access, it is worthy to wonder whether, for the hypothesis under consideration, is more appropriate to require a greater regulation of these dynamics from the SSOs. In this sense, even A.G. Wathelet pointed out that “*the risk of bad faith of the parties or of breakdown of negotiations in this field can be, at least in part, avoided or mitigated, if the standard bodies establish certain minimum conditions or a framework or certain “rules of good conduct” for the negotiation of FRAND licensing terms*”.

Therefore, the only appropriate solution to such issues would be to force the holder of the IPR, even before the adoption of the standard, to indicate the “specific conditions” under

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*Standards unter dem Aspekt des Art. 101 AEUV in WuW, 626 and T. KÖRBER, Kartellrechtlicher Zwangslizenzverweh und standardessentielle Patente, cit.*

which he/it intends to grant the license<sup>74</sup>. “*Patentee’s royalty must be premised on the value of the patented feature, not any value added by the standard’s adoption of the patented technology*”<sup>75</sup>.

In lack of the above, the action for injunctions but also the rules on the abuse of dominant position, that should constitute the last resort, would be distorted and used either as a negotiating argument or as a mean of pressure by the holder of a SEP or by the enterprise that uses it to make its products compliant with the standard.

Therefore, it is believed that a policy of *ex ante* disclosure, prior to the identification of the standard, represents the best solution to the issues examined here. This conclusion, on the other hand, stands up to the criticisms that *ex ante* licensing would be used as an instrument to facilitate price-fixing phenomena<sup>76</sup>. According to

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<sup>74</sup> Among the various authors on this aspect J. LERNER, J. TIROLE, *Standard-Essential Patents*, in *Journal of Political Economy*, No. 3, V.123, June 2015, p. 547-586. On this aspect, in the same direction, see also the statement made by Judge Richard Posner in the case *Apple Inc. and Next Software Inc. v. Motorola Inc. and Motorola Mobility Inc.*, who states that “*The proper method of computing FRAND royalty starts with what the cost to the licensee would have been of obtaining, just before the patented invention was declared essential to compliance with the industry standard, a license for the function performed by the patent. That cost would be a measure of the value of the patent. But once a patent becomes essential to a standard, the patentee’s bargaining power surges because a prospective licensee has no alternative to licensing the patent; he is at the patentee’s mercy*”.

<sup>75</sup> See. U.S. DOJ, *Response to Institute of Electrical and Electronics Engineers, Incorporated*, February 2, 2015.

<sup>76</sup> For further information on this point, see G. COLANGELO, *Aspettando Huawei Technologies: brevetti essenziali ed impegni F/Rand*, in *Mercato Concorrenza Regole*, File no. 3, December 2014, pp. 435-487.

the US Authorities, in fact, based on a competition risk/benefit analysis performed in accordance with the rule of reason, *ex ante* licensing stands up to such accusations<sup>77</sup>. This is because the benefits of *ex ante* disclosure of the license conditions, in terms of reducing hold up phenomena that could arise *ex post*, outweigh the competition risks presented by such *ex ante* licensing in terms of encouraging

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<sup>77</sup> Representatives of both the Doj and the Ftc have commented in this regard: including, among others, D.P. MAJORAS, *Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting*, presented at the conference on the theme of «*Standardization and the Law: Developing the Golden Mean for Global Trade*», Stanford University, 23 September 2005, in [www.ftc.gov/speeches/majoras/050923stanford.pdf](http://www.ftc.gov/speeches/majoras/050923stanford.pdf).

Also in this regard, see J.L. CONTRERAS, *Technical Standards and Ex Ante Disclosure: Results and Analysis of an Empirical Study*, in «*Jurimetrics J.*», vol. 53, 2013, pp. 163-211, according to which the criticisms levelled at *ex ante* policies, with regard to the anti-competitive effects that would be favored by their adoption, are not currently supported by empirical evidence: indeed, a study conducted on behalf of the National Institute of Standards and Technology on three SSOs suggested that there were significant benefits to participants in terms of openness and transparency of the standards development process. For a partially divergent perspective see R.J. GILBERT, *Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations*, in «*Antitrust L. J.*», vol. 77, 2011, who notes that «*[t]he tolerance for coordinated conduct by members of an Sso that may exercise buyer market power should depend on the likelihood and magnitude of ex post hold up. If ex post hold up is unlikely, coordinated conduct to establish licensing terms ex ante has little benefit and may distort incentives for innovation by shifting the terms of patent licenses to favor technology adopters. If standard-related hold up is likely and substantial, joint negotiation of licensing terms by the members of an Sso before a standard issues can help fill the void left by vague F/Rand commitments to limit possible opportunistic conducts*». According to the author, furthermore, an alternative that is less restrictive in terms of competition exists and is represented by independent bilateral negotiations among potential licensees and patent holders based on a clear non-discrimination requirement.

price collusion. This is confirmed by the opinions of the US Department of Justice (Doj) regarding the first experiences of *ex ante* licensing introduced by the Institute of Electrical and Electronics Engineers (IEEE)<sup>78</sup> and the Vita Standard Organization (VSO)<sup>79</sup>. In the aforementioned opinions, in fact, the DOJ, contradicting those who claim that such policies risk facilitating the creation of collusive agreements, highlighted that the *ex ante* joint negotiation of license conditions should be analyzed in accordance with the rule of reason and, in the case in question, the reporting obligations set out should be considered legitimate from an antitrust perspective, as they do not translate into price fixing practices but are simply intended to prevent hold up risks and to enable more informed decisions with regard to the technologies to be included in a standard and, therefore, in whose development to invest. In fact, *ex ante* licensing does not necessarily relate to the determination of royalties due to the SEP holder<sup>80</sup>. On the

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<sup>78</sup> Department of Justice, Antitrust Division, Business Review Letter, 30 April 2007, available on the website: [www.usdoj.gov/atr/public/busreview/](http://www.usdoj.gov/atr/public/busreview/).

<sup>79</sup> Department of Justice, Antitrust Division, Business Review Letter, 30 October 2006, available on the website: [www.usdoj.gov/atr/public/busreview/219380.htm](http://www.usdoj.gov/atr/public/busreview/219380.htm).

<sup>80</sup> Indeed, for example, in order to prevent the risk of opportunistic conduct among associates, the above mentioned SSOs (IEEE and VSO) in their “*ex ante* licensing experiences” required, among other things: *i*) disclosure of patents – or requests for patents – that may be essential for the purposes of implementing the future standard (this communication must take place before the working group is established, and violation thereof gives rise to the obligation to grant a free license for the patents in question); *ii*) disclosure of the maximum

contrary, and more in line with the principle of proportionality, it might simply involve identifying, on the one hand, a maximum threshold for royalties that cannot subsequently be exceeded following the bilateral negotiations phase and, on the other, certain specific rules of conduct to guide the aforementioned negotiations. From this perspective, therefore, both the instructions provided by the Court of Justice in the Huawei judgment (even if this related to bilateral negotiations), and the licensing framework produced by the Commission in the Samsung case, could serve as inspiration for the SSOs for future *ex ante* licensing and, in light of the foregoing reflections, the latter should fall within the scope of art. 101, paragraph 3 of the TFUE.

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royalty and other more restrictive conditions that the individual participants can impose for their essential patents once the standard is developed; *(iii)* an undertaking not to negotiate the terms of the license with the other participants in the working group or with third parties. The only significant difference between the two cases lies in the fact that the patent policy introduced by IEEE does not consider specific enforcement mechanisms, such as, for example, the granting of free licenses for non-declared patents.

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