Department of Law
Spring Semester 2016

Master’s Thesis in Competition and Intellectual Property Law
30 ECTS

Smartphone Wars: A New Hope?
SEP-based injunctions and abuse of dominance within the meaning of Art 102 TFEU

Author: Emma Kadri
Supervisor: Professor Bengt Domeij
"Google, you f***ing ripped off the iPhone, wholesale ripped us off. Grand theft. I will spend my last dying breath if I need to, and I will spend every penny of Apple’s $40 billion in the bank, to right this wrong. I’m going to destroy Android, because it’s a stolen product. I’m willing to go thermonuclear war on this. They are scared to death, because they know they are guilty."

- Steve Jobs
# Table of Content

1 Introduction .................................................................................................................. 7
   1.1 Background ............................................................................................................. 7
   1.2 Purpose and research questions ............................................................................. 8
   1.3 Method and sources .............................................................................................. 8
   1.4 Delimitations ......................................................................................................... 10
   1.5 Outline .................................................................................................................... 10

2 The Tension Between IP and Competition Law ........................................................... 10
   2.1 The protection of IPR ............................................................................................ 10
      2.1.1 The purpose of the protection ........................................................................ 10
      2.1.2 Enforcement of IPR ...................................................................................... 12
   2.2 The protection of competition .............................................................................. 13
   2.3 A balance between interests ............................................................................... 14

3 Standardisation .......................................................................................................... 15
   3.1 Interoperability and technical standards ............................................................. 15
   3.2 Competition concerns ......................................................................................... 17
   3.3 The balance between standardisation, IP law and competition law .................. 19

4 FRAND-Commitments .................................................................................................. 20
   4.1 FRAND in general .................................................................................................. 20
   4.2 The meaning of FRAND ...................................................................................... 21
   4.3 Models for calculating FRAND .......................................................................... 22
      4.3.1 Introductory remarks .................................................................................... 22
      4.3.2 The American hypothetical negotiations method ......................................... 23
      4.3.3 Comments and conclusions ......................................................................... 25

5 Abuse of Dominance ................................................................................................... 27
   5.1 Art 102 TFEU in general ...................................................................................... 27
   5.2 Dominance ........................................................................................................... 27
   5.3 The concept of abuse .......................................................................................... 29

6 SEP-Based Injunctions as Abuse ................................................................................. 30
   6.1 General considerations ......................................................................................... 30
   6.2 Closely related abusive practice of IPR ............................................................... 30
      6.2.1 Refusal to license ......................................................................................... 30
      6.2.2 Vexatious litigation ...................................................................................... 32
   6.3 Comments and conclusions ................................................................................. 33

Foreword .......................................................................................................................... 5
Abbreviations ..................................................................................................................... 6
Foreword

I decided to devote my master’s thesis to SEP-based injunctions and abuse of dominance because the endless tug-of-war between intellectual property law and competition law has fascinated me throughout my time in Uppsala and the Huawei case has been much discussed since its announcement last summer. Countless seminars and conferences have been devoted to the subject but little has been written about it as of yet. I therefore hope that this thesis will be of interest to those wishing to learn more.

Submitting this thesis concludes my four and a half years of academic studies at the faculty of law at Uppsala University and marks the start of my professional life. My time as a law student has been a truly wonderful experience. I have made friends for life, learned that anything is possible if you work hard and put your mind to it and found my calling in life. These past few years as a law student have truly been the amazing and I will cherish them always.

Firstly, I want to thank my supervisor Professor Bengt Domeij who introduced me to the complexity of SEP-based injunctions from a competition law perspective. His valuable insight and advice have given me needful guidance in my writing. Secondly, I want to express my gratitude to the competent and inspirational law departments at the Swedish law firms Lindahl and Mannheimer Swartling for giving me practical experience, inspiration and motivation. Thirdly, I want to thank Mikael Kadri and Sofie Otosson for proofreading and providing me with valuable input. Their help has been much appreciated. Fourthly, I would like to thank Sylvia Caspari-Kadri and Alexander Bergström for their constant support and encouragement throughout my education. I could not have done it without them. Finally, I would like to express my gratitude to my fellow law students and friends who have challenged me, inspired me and made the past few years into the best time of my life. This thesis is dedicated to you.

Emma Kadri
Brussels, June 2016
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3G</td>
<td>Third Generation</td>
</tr>
<tr>
<td>4G</td>
<td>Fourth Generation</td>
</tr>
<tr>
<td>AG</td>
<td>Advocate General</td>
</tr>
<tr>
<td>CJEU</td>
<td>Court of Justice of the European Union</td>
</tr>
<tr>
<td>Charter</td>
<td>Charter of Fundamental Rights of the European Union</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ECHR</td>
<td>European Convention of Human Rights</td>
</tr>
<tr>
<td>ETSI</td>
<td>European Telecommunication Standards Institute</td>
</tr>
<tr>
<td>FRAND</td>
<td>Fair, Reasonable and Non-Discriminatory</td>
</tr>
<tr>
<td>GC</td>
<td>General Court of the European Union</td>
</tr>
<tr>
<td>GPRS</td>
<td>General Packet Radio Service</td>
</tr>
<tr>
<td>GSM</td>
<td>Global System for Mobile Communications</td>
</tr>
<tr>
<td>IEEE-SA</td>
<td>Institute of Electrical and Electronics Engineers Standards Association</td>
</tr>
<tr>
<td>IPR</td>
<td>Intellectual Property Right</td>
</tr>
<tr>
<td>IPRED</td>
<td>Intellectual Property Rights Enforcement Directive</td>
</tr>
<tr>
<td>LTE</td>
<td>Long Term Evolution</td>
</tr>
<tr>
<td>NPE</td>
<td>Non-practicing entity</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SEP</td>
<td>Standard Essential Patent</td>
</tr>
<tr>
<td>SSO</td>
<td>Standard Setting Organisation</td>
</tr>
<tr>
<td>SSPPU</td>
<td>Smallest Saleable Patent-Practicing Unit</td>
</tr>
<tr>
<td>TEU</td>
<td>Treaty on European Union</td>
</tr>
<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
</tr>
<tr>
<td>TRIPS</td>
<td>Trade-Related Aspects of Intellectual Property Rights</td>
</tr>
<tr>
<td>UMTS</td>
<td>Universal Mobile Telecommunications System</td>
</tr>
</tbody>
</table>
1 Introduction

1.1 Background

Products such as personal computers, smartphones, tablets and televisions are made out of thousands of different components and technologies covered by intellectual property rights (“IPR”).1 The 3G-communication technology, for example, covers more than 6,000 individual patents belonging to around 70 different undertakings.2 Patents signify more than just tools to stop competitors from copying ideas. They are considered to be valuable economic assets,3 but beyond that, they are also prone to generate serious emotions in their holders. As can be gathered from the colourful Steve Jobs quote in the beginning of this thesis, even representatives of multibillion-dollar companies get seriously aggravated when their precious IPRs are infringed upon.

Without interoperability, communication between different products would be impossible. In order to enable technical devices to interoperate with each other, market players band together and agree on a common standard to be used. Alongside the advantage of interoperability, standardisation brings with it some anti-competitive risks. When patented technology is implemented into a standard, the patent holder becomes an unavoidable trading partner for undertakings wishing to implement that standard. Thus, the patent holder enters into a position of strength, which enables it to take unfair advantage of other market players. This is where competition law comes into the picture. According to Art 102 of the Treaty on the Functioning of the European Union (“TFEU”), any abuse by a dominant undertaking within the internal market shall be prohibited as incompatible with the internal market in so far as it may affect trade between member states.

Over the past 30 years, the frequency of costly standard essential patent (“SEP”) related litigation has increased considerably in the telecommunications industry.4 This surge has commonly been known as the “smartphone wars”, and it has caused competi-

---

3 Davis p. 3.
tion authorities much concern.\textsuperscript{5} Based on these concerns, the action of launching injunctions in order to protect SEPs has been scrutinised. The European Commission ("EC") and national courts shared their opinions on the matter a few years ago already,\textsuperscript{6} but competition law practitioners have been waiting patiently to hear the view of the European Court of Justice ("ECJ"). On 16 July 2016, the judgment in the preliminary reference case \textit{Huawei} was finally announced.\textsuperscript{7} In it the ECJ adopted a uniform approach to SEP-based injunctions to be applied throughout the European Union.

\textbf{1.2 Purpose and research questions}

The aim of this thesis is to give an account of the circumstances under which the launching of an SEP-based injunction may be viewed as an abuse of dominance in violation of Art 102 TFEU. Within the broader context of the conflict between competition law and IP law, the analysis will touch upon the different approaches that have been suggested by the EC, national courts and the ECJ.

At the end of the thesis, I will attempt to provide answers to three questions:

(i) Is the law in force concerning SEP-based injunctions sufficiently clear?

(ii) Does it provide a balance between the interests behind competition law, IP law and standardisation?

(iii) Is there a better approach to managing SEP-based injunctions than by applying Art 102 TFEU?

\textbf{1.3 Method and sources}

In writing this thesis, I have applied the traditional legal dogmatic method, which is often used when writing legal texts. In doing so I have attempted to describe, methodise and interpret applicable law, adding together and analysing relevant sources of law with regards to their relative weight. This thesis contains a comparative element. To some extent, EU law has been compared to German and American law in order to give a more comprehensive picture of the issues at hand. I will give an account of how American courts have gone about calculating \textit{fair, reasonable and non-discriminatory} ("FRAND") terms since there is little European case law on the subject. The U.S. law system has had a great influence on the development of competition law in Europe and can therefore be

\textsuperscript{5} Ibid.


\textsuperscript{7} C-170/13 \textit{Huawei}.
a source of inspiration for European courts obliged to determine FRAND. As Germany is one of the most frequent fora for patent infringement disputes in Europe, I will also give an account of how SEP-based injunctions are handled there. This is particularly interesting since it was a German court that referred the Huawei case to the ECJ. However, since the thesis does not contain a comprehensive examination of German or American legislation and case law, the method itself cannot be considered comparative. Conclusions presented are therefore based on the legal dogmatic method.

Since the subject of the thesis concerns EU competition law, the main sources are the primary law in the treaty text and the case law of the ECJ. The ECJ’s judgments are especially important when determining an abuse of dominance according to Art 102 TFEU, since the meaning of the provision has evolved through the case law. References to ECJ statements therefore occur frequently throughout the thesis.

Given the EC’s powers to impose fines and obligations on undertakings violating the antitrust regulation, it has a central role in the development of EU competition law. Even though they are not legally binding, EC investigations, guidelines and decisions constitute some of the most important sources. Some account will therefore be given of such sources. Also Advocate General (“AG”) Wathelet’s opinion in Huawei will be accounted for in order to give a wider context to the ECJ’s ruling. Just like the EC’s decisions however, AG opinions are not legally binding.

In addition to the sources mentioned above, literature and articles have been consulted on a continuous basis. Some of the articles have only been published online. My opinion is that such sources should be viewed as part of the legal doctrine to the extent that they contain convincing arguments and statement regarding the applicable law. The reader should however keep in mind that such articles might not always be written from a completely objective perspective.

Elements of legal policy occur in this thesis, and are highlighted through locutions such as “should”, “in my opinion” or other similar expressions.

---

8 Bernitz p. 61.
10 Art 7 and 23 of Council regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty.
11 For a closer examination of the legal value of non-binding documents see Bastidas ”Tillkännagivanden och riktlinjer inom EU:s konkurrensrätt” [2011] 4 Europarättslig tidskrift p. 715-727.
1.4 Delimitations
As this thesis focuses on the specific issue of abuse of dominance through SEP-based injunctions, some of the criteria in Art 102 TFEU will only be mentioned briefly. Thus, I will not give a full account of how to determine the relevant market, whether the conduct has had an effect on trade between the member states or any objective justifications are at hand, even though those subjects are of importance. The reason for excluding these issues is that I cannot give them justice within the limitations of this thesis.

The thesis does not address legal standards or de facto standards but focuses on SSO-generated standards. This is due to the fact that SSO-generated standards raise the most interesting legal issues. Lastly, since the thesis does not aim to give a complete account of German and American law, basic details about the national legislations will be left unaddressed.

1.5 Outline
The outline of this thesis is aimed towards making it easier for the reader to understand the issues surrounding regarding SEP-based injunctions as abusive. The thesis is divided into 10 chapters and is outlined as follows. Chapters 2 and 3 address the relationship between IP law, competition law and standardisation and chapter 4 gives an account of the main difficulties with determining FRAND royalties. Chapters 5 and 6 turn the focus to abuse of dominance, and attempts to describe the phenomenon both in general and more specifically in relation to SEP-based injunctions. Chapters 7, 8 and 9 account for how competition authorities and courts have treated the issue in practice and chapter 10 attempts to answer the research questions and concludes the thesis.

2 The Tension Between IP and Competition Law
2.1 The protection of IPR
2.1.1 The purpose of the protection
Intellectual property refers to legal rights, which are the result of intellectual activity in scientific, industrial, artistic and literary fields. Patents, copyrights and trademarks are examples of such rights but there is no single universally accepted definition of what constitutes IP. An assessment must therefore be made in every case.

---

13 Torremans “Article 17(2)” p. 490.
IP law offers exclusive protection for creativity and intellectual achievements.\textsuperscript{14} Inventors, designers, musicians, authors and others who have invested in creating something are rewarded exclusive rights to use their works commercially and in other ways. A patent holder, for example, is granted the exclusive right to use his or her invention to manufacture industrial products, put them in circulation and oppose infringements.\textsuperscript{15} If anyone uses the invention without permission, the patent holder can bring an infringement action to stop the infringer and recover damages.\textsuperscript{16}

According to economists, IPRs need protection in order to create incentives for further innovation, which is desirable because it gives consumers access to better and more efficient products.\textsuperscript{17} If it were possible to freely exploit the results of innovative and creative efforts, no one would invest in creation or innovation.\textsuperscript{18} Instead, everyone would wait until someone else has made the investment in order to free ride and reap all the benefits without risking that the investment does not result in the breakthrough originally hoped for.\textsuperscript{19} Such a system would lead to less innovation and would not be desirable since creation and innovation are considered essential elements in a competitive free market economy.\textsuperscript{20}

In addition to the economic justification, IPR-protection can be justified on the basic principle that individuals should have the right to the fruits of their labour.\textsuperscript{21} Property rights are granted to those whose labour adds value to the goods that they take from the public domain, provided that their labour result in the public domain also increasing in value.\textsuperscript{22} In the long run IPR enriches the public domain since it encourages individuals to place their creations before the public.\textsuperscript{23} Once a creation becomes public it engenders new ideas and encourages further innovation.\textsuperscript{24} The fact that IPRs are time-limited also ensures that the IP returns to the public domain where others may use it to produce new IP when the period of protection is over.\textsuperscript{25}

\textsuperscript{14} Davis p. 2.  
\textsuperscript{15} C-15/74 Centrafarm para. 9.  
\textsuperscript{17} Anderman “The IP and Competition Interface: New Developments” p. 4.  
\textsuperscript{18} Torremans “Article 17(2)” p. 506.  
\textsuperscript{19} Ibid.  
\textsuperscript{20} Ibid.  
\textsuperscript{21} Davis p. 6.  
\textsuperscript{22} Ibid.  
\textsuperscript{23} Ibid. p. 7.  
\textsuperscript{24} Ibid.  
\textsuperscript{25} Ibid. p. 4.
In order to achieve the objectives of IPR, it has been considered necessary to have a rigorous and effective system to protect it. In the following I will attempt to outline the scope of the enforcement of IPR in the European Union.

2.1.2 Enforcement of IPR

According to Art 17.2 of the Charter of Fundamental Rights of the European Union (Charter) “intellectual property shall be protected”. The right to IP is thus secured within the union, and limitations to it can only be made in the public interest and subject to the principle of proportionality. Accordingly, they may not go beyond what is necessary to achieve their purpose.

Society has a strong interest in having access to information, which can be impeded by the private interests of the IPR holder. To protect the public domain, limits on the protection of IPR have been imbedded in the IP-legislation. There are different time-limitations and rules regarding what can and cannot be rewarded protection. For example, it is not possible to copyright ideas or patent discoveries. Furthermore, there are possibilities to make use of other individual’s IPR for certain purposes without committing infringement. Exceptions to the exclusivity are made when the purpose of the utilization serves the public interest. The right to patents, for example, often needs to be balanced against the right to health, research and study, which all constitute public interests.

The EU legislation does not provide exhaustive rules on enforcement of IPR. Details are largely left to the national procedural autonomy of the member states. The EU Directive on Intellectual Property Rights Enforcement (IPRED) provides a general framework and sets minimum standards by imposing an obligation to make certain measures, procedures and remedies available in order to secure effective IPR enforcement. Member states are free to provide more favourable means for the protection of right-

---

26 COM(2008) 466 final Green paper Copyright in the Knowledge Economy p. 4.
27 Art 17(1) and Art 52(1) of the Charter.
28 C-92/09 and C-93/09 Volker para. 74, C-539/10 and C-550/10 Sticting Al-Aqsa para. 122.
29 Torremans “Article 17(2)” p. 509.
30 Davis p. 4.
31 Ibid.
32 Ibid.
34 Torremans “Article 17(2)” p. 505.
holders.\textsuperscript{36} This minimum harmonisation approach can be problematic since the absence of uniformity between member states can lead to inconsistency and forum shopping.\textsuperscript{37}

In the EU, the right to seek injunctive relief is recognised both under IPRED and international trade law. According to Art 11 of IPRED, member states shall ensure that their judicial authorities are able to issue injunctions aimed at prohibiting the continuation of infringements against infringers, and according to Art 44.1 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”), the judicial authorities shall have the authority to order a party to desist from an infringement. Countries that have signed the TRIPS Agreement shall ensure that the enforcement procedures as specified in TRIPS are available under their law so as to permit effective action against any act of infringement of IPR.\textsuperscript{38}

2.2 The protection of competition

According to Art 3.3 of the Treaty on the European Union (“TEU”), the EU shall contain a competitive social market economy. The market shall be based on a system that secures competition from being distorted,\textsuperscript{39} and according to Art 3.1.b of the TFEU, the EU has an exclusive competence when it comes to the establishment and legislation of rules that are necessary for the functioning of the internal market.

Competition law protects the process of competition and deals with problems that arise in a free market economy.\textsuperscript{40} It prevents the negative effects resulting from monopolies and restrictive practices, mainly high prices, low production and smaller ranges of products. An undertaking exposed to competition is forced to compete for consumers’ favour. This creates incentive for increased efficiency and research and development, thereby generating an ideal breeding ground for innovation.

There are differing opinions regarding what the main aim of competition law is.\textsuperscript{41} Since there is no definition provided in the EU treaties, different suggestions have been proposed. Recently, the Commission has pronounced the main aim of competition law to be the enhancement of consumer welfare.\textsuperscript{42} However this view has not been consistently upheld by the ECJ. In the \textit{Intel} case, for example, the General Court of the Euro-

\begin{flushright}
\textsuperscript{36} Art 2.1 IPRED.  \\
\textsuperscript{37} Larouche & Zingales “\textit{Injunctive Relief in Disputes Related to Standard-Essential Patents: Time for the CJEU to Set Fair and Reasonable Presumptions}” [2014] 10:3 European Competition Journal p. 559.  \\
\textsuperscript{38} Art 41.1 TRIPS.  \\
\textsuperscript{39} Protocol No. 27 on the internal market and competition.  \\
\textsuperscript{40} Jones & Townley “\textit{Competition law}” p. 505.  \\
\textsuperscript{41} Chalmers, Davies & Monti p. 944.  \\
\textsuperscript{42} Commission guidelines on the application of Article 81(3) of the Treaty OJ 2004 C 101/08 para. 33.
\end{flushright}
pean Union (“GC”) emphasised that the basic function of Art 102 TFEU is to ensure that competitors’ “access to the market” is not made “more difficult”. 43 This statement strays from the Commission’s effects-based philosophy, and rather expresses the aim of protecting the economic freedom of action for smaller undertakings. The ambiguity of the underlying purpose creates a legal uncertainty that has made some authors question the legitimacy of enforcing the competition rules. 44

2.3 A balance between interests
At first glance it might appear as if IP law and competition law are directly incompatible. IPRs may have social and economic costs since their enforcement can be viewed as anti-competitive. 45 They restrict the holders’ competitors’ capacity for action in a way that counteracts competition law’s effect of preventing negative consequences of monopolies. Patents, for example, lead to forms of monopolies, which allow the patent holders to raise their prices beyond what the majority of the public is able to pay. 46

Thus, there is an inherent tension between IPRs and free competition. 47

Competition law can be used to regulate the use that is made of IPRs. 48 In the Microsoft case the GC made it clear that the mere existence of an IPR does not create immunity to competition law considerations. 49 When IPRs are used as tools of abuse, or means of restricting competition, competition rules apply. 50 The advantages of IPR, that do not serve to achieve public interest aims, are seen as breaches of competition law. 51 The antitrust regulation is meant to work like an emergency brake that only intervenes when the market is not working as it is supposed to. 52

Despite their obvious contradictions the two areas of law both serve the purpose of enabling and rewarding innovation. 53 IPRs encourage companies to invest in development and innovation by awarding them protection, and competition law does the same by promoting a system where companies are pressured to keep up with their competitors. However, in order for these shared effects to be achieved, a fair balance must be

43 T-286/09 Intel para. 93.
44 Akman p. 11.
45 Davis p. 5.
46 Ibid. p. 6.
47 Ibid.
48 Torremans “Article 17(2)” p. 507.
49 T-201/04 Microsoft para. 690.
51 Torremans “Article 17(2)” p. 507.
53 Ibid.
struck between the two areas. Too strong IPR protection can complicate for weaker competitors to contribute to technical development and an over implementation of competition law can eliminate the incentive for undertakings to do so in the first place. In the worst-case scenario, competition law can deplete the value of IPR and even counteract the purposes of competition law itself.

In order to create an innovation-friendly climate one framework cannot be allowed to trump the others. As will be outlined later in this thesis though, equilibrium is seldom easy to achieve. The difficulties in predicting the effects of decisions create a heavy burden on competition authorities and generate risk for misjudgement.

3 Standardisation

3.1 Interoperability and technical standards

In today’s technology driven world we owe much of our daily routines to interoperability. Interoperability is the ability of two systems to operate with one another using the same communication protocol.** Various software products in a system “interoperate” when they exchange information and mutually use that information.** When you text a friend or e-mail a colleague, interoperability ensures that your message will be received regardless of which company developed your friend and colleague’s mobile devices.

In order to achieve interoperability, it is necessary that market players agree on a standard to be used. Standards are technical specifications, which seek to provide a common design for products or processes.** They are common platforms that allow products to work together.** One example of a widely used standard is the QWERTY system, which constitutes the layout of letters or keys on computer keyboards, and another is the A4 size sheet of paper. In network-effects markets like the telecommunications market, in which users benefit from an increase in the number of other users in the system, standards are especially valuable.** Technological devices connect to the Internet via standardised wireless technologies such as Wi-Fi, and 3G and 4G are examples

55 T-201/04 Microsoft v. Commission para 158.
58 Ibid.
of telecommunication standards that allow mobile phones to communicate with each other.

There are three different types of standards; *de facto standards* which are technologies so widely used that they have been labelled standards without any official nomination; *legal standards* which are issued by public authorities and; *SSO-generated standards* which are adopted by private standard setting organisations (SSOs). SSOs consist of undertakings, active on the relevant market, cooperating to agree on a common standard. The European Telecommunications Standards Institute (“ETSI”) for example, has over 800 members from more than 60 countries inside and outside of Europe. SSO members can be upstream-only companies, which solely develop and market technologies; downstream-only companies, which solely manufacture products or offer services based on technologies developed by others, or; vertically integrated companies that engage in both activities.

The benefits of standardisation are obvious. Standards increase consumer choice and convenience, and reduce costs by allowing products from different manufacturers to be combined or used together. They contribute to a greater realization of network effects and prevent buyers from being stranded with a product that loses the standards war. Furthermore, they maintain and enhance product quality by allowing SSOs to collect information related to safety and performance records. They also ensure that undertakings can invest in developing technologies knowing that they will work together with other devices.

---

Standardisation has contributed to the growth in innovation and product differentiation in the information and communications technology sector. Due to their vast positive effects, interoperability standards are considered to enhance competition in the market place and lower output and sales costs benefiting the economy as a whole. However, they also give rise to certain competition concerns.

3.2 Competition concerns

Competition authorities have traditionally viewed the process of standard setting with suspicion. From an antitrust perspective, SSO-generated standards are the most interesting since they involve industry rivals banding together, discussing sensitive information such as price and agreeing on technologies that will be used by all to ensure interoperability between products. SSOs bring competitors together and make it easier for them to exchange information and monitor each other’s activity, providing an ideal breeding ground for collusion. SSO-generated standards also provide undertakings with opportunities to act in other non-competitive ways. When a patented technology is necessary to have access to in order to produce products compliant with a standard that patent is called standard-essential. Patents are considered essential to a standard when it is impossible on technical grounds to make, sell, lease, otherwise dispose of, repair, use or operate equipment or methods, which comply with that standard, without infringing them. SEPs have been considered problematic since they give their holders opportunities to charge higher royalties than the value of their patented technology and take advantage of the value of the standard itself, thereby blocking their competitors from the technology market. Lemley and Shapiro have considered this risk of “hold-up” especially menacing when

---

70 Ibid.
74 ETSI IPR Policy 15.6.
implementers of the patented technology have invested significantly in bringing their product to market, the patent only relates to a small part of the final product and the cost of designing around the SEP is significant.\textsuperscript{76} Hold-up discourages innovation and hurts consumers by increasing product prices.\textsuperscript{77} It also harms licensees by reducing the overall demand for standard compliant products.\textsuperscript{78}

Even though patent hold-up has been well defined in the literature, some authors have found the fear of it to be unfounded since there is no empirical evidence that it actually occurs.\textsuperscript{79} As Harkrider has expressed it, if hold-up was prevalent in the industry, one would expect that the SEP-holders’ profits would significantly exceed those of the implementers, yet the opposite is true.\textsuperscript{80} For example, while Apple, which has relatively few network protocol SEPs, earns up to 80\% of the profits in the smartphone sector, Motorola Mobility and Nokia who are two of the largest holders of SEPs in the world have suffered substantial profit drops.\textsuperscript{81}

Some authors have even suggested that there is a risk of reverse hold-up absent the possibility of injunctions.\textsuperscript{82} Reverse hold-up is the situation where potential licensees, without risking facing injunctions, are able to delay licensing negotiations and propose non-FRAND licensing rates in order to pay as little as possible for implementing the SEP.\textsuperscript{83} Since patent infringement suits can take several years, and the likely worst case scenario is that the infringer has to pay some fraction of the FRAND royalty for the patents that it has infringed upon, it might be preferable for the implementer to hold out instead of negotiate.\textsuperscript{84}

\textsuperscript{80} Harkrider “Seeing the Forest through the SEPs” [2013] 27:3 Antitrust p. 26.
\textsuperscript{81} Ibid.
\textsuperscript{84} Harkrider “Seeing the Forest through the SEPs” [2013] 27:3 Antitrust p. 24.
3.3 The balance between standardisation, IP law and competition law

Achieving a technical standard comprises choosing to favour some technologies over others. To some extent, this means reducing competition between rival technologies.\textsuperscript{85} Thereby, the basic principles of standardisation can be said to go against the nature of competition law. At the same time, standardisation can seem to be clashing with IP law. Where patent law for example, protects the patent holder’s right to exclude others from utilising its technology, standardisation aims to achieve as wide a spread and utilisation of the standardised technology as possible.

Because of these divergences there is a danger that the three systems in different ways may obstruct one another. The foreclosure effects that come with IPR might, for example, through standardisation be enhanced to a degree that is harmful for competition. On the other hand, standardisation together with competition law might undermine IP law, and competition law coupled with IP law might inhibit standardisation. Consequently, a balance needs to be struck between the areas in order to make sure that all of them are realised. In attempting this balancing act, one has to tread carefully not to do more harm than good.

4 FRAND-Commitments

4.1 FRAND in general

In order to lessen the anti-competitive risks, the EC has stated that the SSOs’ IPR-policies should require participants, wishing to have their IPR included in a standard, to provide an irrevocable commitment in writing, to licence their essential IPR to all third parties on FRAND-terms. SSOs generally do require patent holders to make such commitments before allowing their patents to become a part of the standard. As an example, Art 6.1 of ETSI’s IPR policy provides that when an SEP is brought to ETSI’s attention, ETSI shall immediately request the owner to, within three months, give an irrevocable undertaking in writing that it is prepared to grant licenses on fair, reasonable and non-discriminatory terms and conditions. Similarly, in the Institute of Electrical and Electronics Engineers Standards Association’s (“IEEE-SA”) IPR policy Art 6.2, it is required that the SEP-holder submits a “Letter of Assurance” stating that a license for a compliant implementation of the standard will be made available to an unrestricted number of applicants without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination.

The FRAND-commitment ensures that the SEP-holder forgoes its right not to license its IPR and take unfair advantage of the standard setting. It serves two main purposes by guaranteeing that the technology incorporated in the standard is open to all, while at the same time making sure that the SEP-holder receives adequate financial rewards for its invention.

FRAND-commitments are contractual in nature as they are private agreements between SEP-holder and SSOs. An SEP-holder’s failure to act in accordance with its FRAND-commitment represents a breach of contract. Whether third parties have a right to seek enforcement of FRAND-commitments depends on the applicable contract

---

86 Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements OJ 2011 C 11/1 para 285. In the US, the concept is known as RAND. There is no difference in the meaning of the terms.
90 Ibid.
law principles. The American courts have held that FRAND-commitments create binding obligations under U.S. law and that third party beneficiaries of those commitments have the right to seek enforcement, and the ECJ seems to have the same idea. As will be further discussed later in this thesis, the Huawei judgment expresses the view that an SEP-holder’s FRAND-commitment creates legitimate expectations on the part of third parties that the SEP-holder will in fact grant licenses on such terms.

4.2 The meaning of FRAND
As mentioned above, the first part of the FRAND-commitment requires that the licensing terms be fair and reasonable. The terms must be understood in the context of the underlying purpose of FRAND, to keep the market open to all. There is a fairly strong consensus in literature that the requirements of fairness and reasonableness mean that the SEP-holder should not be able to charge royalties that are disproportionate to what they would have been under the competitive conditions that applied before (ex ante) the adoption of the standard. According to this view, SEP-holders should not be allowed to exploit the power gained from participating in the standard setting process.

The second part of FRAND demands the terms to be non-discriminatory. Discrimination between similarly situated competitors active in the market for the product incorporating the standardised IPR hinders the competitive process. The non-discriminatory requirement is meant to lessen this risk through forcing SEP-holders who have made FRAND-commitments to license similarly situated licensees on the same terms. This further guarantees that access to the market is effective. The terms do not necessarily have to be identical, comparable treatment fulfils the condition of non-discriminatory.

---

93 C-170/13 Huawei para. 53.
94 Anderman & Kallaugher p. 254.
96 Glader & Kokkoris "Excessive Pricing" p. 654.
98 Ibid. p. 114.
99 Anderman & Kallaugher p. 254.
100 Ibid.
### 4.3 Models for calculating FRAND

#### 4.3.1 Introductory remarks

A plethora of suggestions of different calculation models for FRAND royalties has been proposed in literature. However, none of the suggestions appear to have gained any wider recognition. Judges, academics and economists have all contributed to the discussion and it seems as if the only consensus is that there is no generally accepted method for determining whether or not certain royalties comply with a specific FRAND-commitment.\(^1\) In addition to the fact that there is no common calculation method, a one-size-fits-all solution does not seem to be available.\(^2\) As the GC held in *Microsoft*, FRAND-terms are not necessarily the same for all patents or for all companies, not even for the same technology.\(^3\)

The exact meaning of FRAND thus has to be established in the context of each individual situation,\(^4\) and the method might vary depending on the circumstances. This uncertainty has a negative affect on predictability, and, as will be discussed further below, lays a heavy burden on the courts.

The EC has given some examples of how FRAND-terms may be determined. It has stated that the assessment of whether royalty fees are compliant with FRAND should be based on whether the fees correspond with the economic value of an IPR.\(^5\) According to the EC, cost-based methods are not well suited for this because of the difficulty in assessing the costs attributable to the development of the patent. Instead, it may be possible to compare the licensing fees charged by the company in question for the relevant patents in a competitive environment before the industry had been locked into the standard with those charged after.\(^6\) Another method could be to obtain an independent expert assessment of the IPR’s objective centrality and essentiality to the standard at issue.\(^7\) It might also be possible to refer to *ex-ante* disclosures of licensing terms in the context of a specific standard-setting process.\(^8\) The royalty rates charged for the same

---

3. T-201/04 Microsoft para 811.
6. Ibid.
7. Ibid. para 290.
8. Ibid.
IPR in other comparable standards might also provide an indication for FRAND royalty rates.\textsuperscript{109} All of these statements are theoretical however. How a calculation is performed in practice has yet to be determined by the Court of Justice of the European Union (“CJEU”). American courts have however made some attempts at calculating FRAND. In the following I will discuss their approaches and the methods that have arisen through their discussions.

4.3.2 The American hypothetical negotiations method

\textit{Microsoft v. Motorola} was the first judgment where an American court was tasked with determining a FRAND royalty rate.\textsuperscript{110} The case concerned Motorola, which had made Microsoft an offer to license its patents embodying video coding and wireless local network standards for a fee of 2.25% of the final price of the product. Microsoft believed the offer to be in breach of Motorola’s FRAND-commitment and therefore sued the company.

In its ruling, the court identified basic principles for establishing FRAND. Firstly, it stated that FRAND royalties should be consistent with the SSOs’ goals of promoting widespread adoption of their standards,\textsuperscript{111} and that a proper method to determine what FRAND is recognises and seeks to mitigate the risk of patent hold-up.\textsuperscript{112} Secondly, it underlined that the aggregate royalties that would apply if other SEP-holders made royalty demands of the implementer need to be considered in order to avoid royalty stacking.\textsuperscript{113} Thirdly, it reasoned that even though an SEP-holder should be guaranteed reasonable royalties for its IP, the royalties have to be limited to the economic value of the patented technology itself, apart from the value associated with incorporation of the technology into the standard.\textsuperscript{114}

In order to calculate a reasonable royalty rate, the court recreated a “hypothetical negotiation” between the parties.\textsuperscript{115} Basing its assessment on the conditions at the time of the FRAND-commitment, before the standards were adopted, it listed a number of circumstances to take into account when determining FRAND royalty.\textsuperscript{116}

\begin{flushleft}
\textsuperscript{109} Ibid.
\textsuperscript{110} Microsoft Corp. v. Motorola, Inc. C10-1823JLR 2013 WL 2111217.
\textsuperscript{111} Ibid. p. 12 para. 70.
\textsuperscript{112} Ibid. p. 12 para. 71.
\textsuperscript{113} Ibid. p. 12 para 72.
\textsuperscript{114} Ibid. p. 12 paras. 73-74.
\textsuperscript{115} Ibid. p. 16 section 3.D.
\textsuperscript{116} Ibid. p. 18-20 paras. 100-113.
\end{flushleft}
<table>
<thead>
<tr>
<th>Microsoft v. Motorola Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The royalties received by the patentee for the licensing of the patent in suit in other circumstances comparable to FRAND-licensing circumstances.</td>
</tr>
<tr>
<td>2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.</td>
</tr>
<tr>
<td>3. The nature and scope of the license.</td>
</tr>
<tr>
<td>4. The effect of the patented invention in promoting sales of other products of the licensee and the licensor, taking into account only the value of the patented technology and not the value associated with incorporating the patent into the standard.</td>
</tr>
<tr>
<td>5. The established profitability of the product made under the patent, its commercial success, and its current popularity, taking into account only the value of the patented technology and not the value associated with incorporating the patented technology into the standard.</td>
</tr>
<tr>
<td>6. The utility and advantages of the patented technology over alternatives that could have been written into the standard instead of the patented technology in the period before the standard was adopted.</td>
</tr>
<tr>
<td>7. The contribution of the patent to the technical capabilities of the standard and also the contribution of those relevant technical capabilities to the licensee and the licensee’s products, taking into account only the value of the patented technology and not the value associated with incorporating the patented technology into the standard.</td>
</tr>
<tr>
<td>8. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous.</td>
</tr>
<tr>
<td>9. The portion of the realisable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, the significant features or improvements added by the infringer.</td>
</tr>
<tr>
<td>10. The opinion testimony of qualified experts.</td>
</tr>
<tr>
<td>11. The amount that a licensor and a licensee would have agreed upon (at the time the infringement began) if both were considering the FRAND-commitment and its purposes, and had been reasonably and voluntarily trying to reach an agreement.</td>
</tr>
</tbody>
</table>

The court paid extra attention to the nature of the patented invention and the character of its commercial embodiment (number 7), and concluded that the importance of the SEPs to the standard, and the importance of the standard and the SEPs to the product at issue were crucial.\(^{117}\) Since several of Motorola’s patents only provided minimal contribution to the standard and only had minor importance in the overall functionality of the products, the court favoured Microsoft.\(^{118}\) The FRAND royalty was announced to the amount of USD 560,000 per year over Microsoft’s proposal, but about USD 4 billion below

\(^{117}\) Ibid. p. 19 para. 107.  
\(^{118}\) Ibid. p. 56 para. 359 and p. 97 606.
what Motorola had asked for. The methodology for calculating FRAND that was adopted in the Microsoft v. Motorola case has been accepted in subsequent cases. However, it has also raised a number of new questions, a few of which will be discussed below.

4.3.3 Comments and conclusions

As I have mentioned above, EU law does not give much direction on how one should go about making FRAND-calculation. It is therefore justified to seek guidance on the other side of the Atlantic. The American hypothetical negotiations method seems to be the most established approach, but one should be mindful of two things when applying it.

Firstly, the factors to be taken into account are vague and do not always fit the situation. This makes the list unpredictable and difficult to apply, making it unsuitable as a mandatory checklist. Since the list covers relevant elements however, it should be used as guidance as long as it is not applied to strictly.

Secondly, the ex-ante approach in itself can be problematic. Only taking into account the circumstances before the standardisation risks encouraging alleged infringers to hold-off on negotiations in order to reap the awards of delaying. If the value of a standard reduces over time the infringer who postpones entering into a licensing agreement will be able to get a better price, and if the value increases, the infringer has the option of asking for the original price. An ex-ante approach also risks undercompensating SEP-owners since it does not take into account the costs of their “sunken investments”. Investments that are made ex-post should also be considered in the calculation.

The approach adopted by the U.S. courts has also left some unanswered questions. For example, which licenses should be considered comparable in the meaning of factors 1 and 2? Comparing royalties that the SEP-holders have charged for the same patent in other circumstances has generally been considered to be a good approach in order to de-
termine what is to be considered FRAND. The 2011 Horizontal Guidelines, for example, state that if the patent holder has licensed its SEP ex-ante, the rates that were charged might constitute good benchmarks. If no licensing has taken place ex-ante the royalty rates charged by the competitor with the next best alternative technology might be considered instead. Comparisons might also be made with prices of similar products, for example the royalties that the same SEP-holder charges for comparable technologies under competitive market conditions or royalties other SEP-holders charge for complementary SEPs in the same standard.

It is also unclear what the appropriate base for the FRAND royalty determination should be. In the infringement case Versata v. SAP, the Federal Circuit stated that a patent holder might assess damages based on the entire market value of the accused product only where the patented feature creates the basis for the customer demand or substantially creates the value of the component parts. Similarly, in LaserDynamic v. Quanta Computer USA, it was held that where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product. Consequently, the court found that it is generally required that royalties are based on the smallest saleable patent-practicing unit (the “SSPPU”). Only if it can be shown that the patented feature drives the demand for an entire multi-component product, a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire product.

Basing the royalty on the SSPPU is a reasonable approach but in some cases it risks undervaluing the technology. A technology implemented by a single component might have more value than the component itself. Basing the royalty on the end product might in such cases be fairer. This implies that courts have to be careful to take the particular circumstances of each case into account, and cannot automatically apply the

128 Ibid.
129 Versata Software, Inc. v. SAP Am., Inc. 717 F.3d 1255 p. 1267.
130 LaserDynamic Inc., v. Quanta Computer USA, Inc. 694 F.3d 51 p. 67.
131 Ibid.
132 Ibid.
134 Ibid.
SSPPU approach.\textsuperscript{135} Also, it is common practice in high-tech markets to negotiate licenses on patent portfolios using the end-user product as the royalty base.\textsuperscript{136} In order to avoid creating tension between real-world practice and court decisions, courts should identify the royalty base as the one that the parties most likely would have chosen in a hypothetical negotiation.\textsuperscript{137}

Overall, the hypothetical negotiations method, which has been applied in American courts, appears to be a reasonable starting point for FRAND-calculation. As has been discussed however, the approach is far from straightforward and there are many questions regarding its application that have been left open.

5 Abuse of Dominance

5.1 Art 102 TFEU in general

As has been mentioned above, Art 102 TFEU states that a dominant undertaking is forbidden from abusing its position within the internal market or in a substantial part of it, in so far as it may affect trade between member states. Dominant companies have a special responsibility not to allow their conduct to impair undistorted competition on the internal market.\textsuperscript{138} Failure to act in accordance with that responsibility may result in injunctions, structural remedies and substantial fines.\textsuperscript{139} In Intel, breaching Art 102 TFEU cost a single undertaking over 1 billion euros.\textsuperscript{140}

Whereas Art 101 TFEU focuses on agreements and concerted practices between two or more parties that are harmful to competition, Art 102 TFEU is concerned with abusive unilateral conduct of dominant firms. Art 102 TFEU is controversial since it requires competition authorities and courts to make the difficult assessment of whether or not a certain conduct deviates from what can be considered “normal.”\textsuperscript{141}

5.2 Dominance

Only an undertaking in a dominant position in the relevant market is granted the special responsibility not to abuse its position. It is not the dominant position itself, but abuse of

\textsuperscript{135} Ibid.
\textsuperscript{136} Ibid.
\textsuperscript{137} Ibid.
\textsuperscript{138} 322/81 Michelin para. 57, C-202/07 France Télécom para. 105, C-52/09 Konkurrensverket v TeliaSonera Sverige para. 24.
\textsuperscript{139} Jones & Sufrin p. 273.
\textsuperscript{140} COMP/C-3/37.990 Intel para 1803.
\textsuperscript{141} Jones & Sufrin p. 273.
the position that is prohibited.\footnote{Whish and Bailey p. 192.} A company is considered dominant when it is in a position of economic strength, which enables it to prevent effective competition from being maintained in the relevant market by affording it the power to behave independently of its competitors, customers and ultimately of the consumers.\footnote{C-27/76 United Brands para. 65, C-85/76 Hoffmann-La Roche para. 38.} Dominance entails that an undertaking enjoys substantial market power over a period of time because of insufficient competitive constraints.\footnote{Commission Guidance on Art 102 Enforcement Priorities OJ 2009 C-45/7 para. 10.} Companies, which profitably are capable of increasing prices above the competition level over a significant period of time do not face sufficient competitive constraints and can therefore generally be considered dominant.\footnote{Ibid. para. 11.}

There is a general presumption that companies with a market share of 50 per cent or more of the relevant market are in a dominant position.\footnote{C-62/86 AKZO para. 60.} This presumption means that an undertaking that falls within the presumption bears the evidential burden of establishing that it is not dominant.\footnote{C-78/80 Deutsche Grammophon para. 7, C-258/78 Nungesser para. 28.} However, an analysis of the market shares is not enough to establish dominance. The finding of high market shares is to be examined together with other relevant economic factors.\footnote{Whish and Baily p. 182.} The Commission, for example, takes into account the market shares of competitors, whether or not there is a credible threat of future expansion or entry by competitors and the bargaining strength of the undertaking’s customers.\footnote{T-30/89 Hilti para. 19.}

Ownership of IPR can make an undertaking seem dominant and IPRs are often found to be associated with dominance in the market.\footnote{Dufey “Patents and Standardisation: Competition Concerns in New Technology Markets” [2013] Global Antitrust Review p. 23, see 3.2 Competition concerns.} This is due to the fact that they, depending on their strength and duration, can work as legal barriers that prevent competitors from entering the market.\footnote{Anderman “The IP and Competition Interface: New Developments” p. 9.} SEP$s$ are particularly powerful and provide their owners opportunities to block access to markets or license their patents under unfair terms.\footnote{Anderman “The IP and Competition Interface: New Developments” p. 9.} Despite their inherent power, the Court has made it clear that IPRs are not in themselves enough to establish dominance,\footnote{Ibid. para. 11.} neither does the establishment of a standard create a presumption that the holding nor exercising of an SEP equates to being
dominant.\textsuperscript{154} In each case an overall assessment has to be made where attention is given to all relevant circumstances.\textsuperscript{155} One should especially consider the structure of the market, the nature and the number of competitors and the importance of the patent compared to others that may be used in the standard.\textsuperscript{156}

5.3 The concept of abuse

What is forbidden according to Art 102 TFEU is not being dominant, but the act of abusing one’s dominance. The rule embodies the understanding that a system, which encourages and protects legitimate competition, should not punish its winners.\textsuperscript{157} The article exemplifies some behaviour, like imposing unfair prices and limiting productions, as conduct that can constitute abuse but the list is not exhaustive.\textsuperscript{158}

The concept of abuse is an objective notion that encompasses all situations where an undertaking in a dominant position uses methods different from those that condition normal competition that have the effect of hindering maintenance of the degree of competition still existing in the market or the growth of that competition.\textsuperscript{159} The relevant question is therefore whether the dominant undertaking has made use of the opportunities arising out of its dominance in such a way so as to reap trading benefits, which it would not have been able to reap if there would have been normal and sufficiently effective competition.\textsuperscript{160} There is no need to show actual competition limiting effects. It is sufficient that there is a risk that the conduct can damage the effective competition structure.\textsuperscript{161}

Abuse can either be exploitative, where the undertaking uses its’ market power to take advantage of customers, or exclusionary, where the undertaking prevents competitors from entering the market.\textsuperscript{162} Exclusionary abuse indirectly damages consumers through its impact on effective competition structure.\textsuperscript{163} When competitors are prevented from market entry as a result of abusive conduct, consumers have fewer options and become more dependent on the dominant undertaking.

\begin{flushleft}
\textsuperscript{154} Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements OJ 2011 C 11/1 para. 269.
\textsuperscript{155} Anderman “\textit{The IP and Competition Interface: New Developments}” p. 5.
\textsuperscript{157} Anderman “\textit{The IP and Competition Interface: New Developments}” p. 16.
\textsuperscript{158} C-6/72 Continental Can para. 26.
\textsuperscript{159} C-85/76 Hoffman-La Roche para. 91.
\textsuperscript{160} C-27/76 United Brands para. 249.
\textsuperscript{161} C-6/72 Continental Can para. 26.
\textsuperscript{162} Jones and Sufrin p. 367.
\textsuperscript{163} C-6/72 Continental Can para. 26.
\end{flushleft}
The wide varieties of conduct that can be considered abusive make it difficult to anticipate which situations are covered by the legislation. This is problematic, not only for dominant undertakings that risks facing severe penalties if they violate the law, but also for competition authorities and courts, which by wrongful application, risk damaging competition rather than protecting it. The danger is that too aggressive of an application of the law will lead to undertakings refraining from conduct that is actually pro-competitive.\textsuperscript{164}

6 SEP-Based Injunctions as Abuse

6.1 General considerations
When someone unlawfully infringes a patent right it is generally legitimate for the patent holder to launch an injunction.\textsuperscript{165} This is also true for SEP-holders, but SEP-based injunctions can have more far-reaching anti-competitive consequences than regular injunctions. Successful SEP-based injunctions lead to competitors becoming unable to operate in the market (exclusionary effect), and the threat of injunctions may pressure licensees to accept disadvantageous licensing terms that they would not have accepted under other circumstances (exploitative effect). In order to protect the competitive climate in standardised markets, there need to be some limitations on SEP-holders’ possibilities to launch injunctions.

The question is how such limitations should be constructed in order to serve its purpose without encroaching too much on the SEP-holders’ rights. What is the most appropriate test of abuse and how do we balance the SEP-holder’s and the public’s interests? Is it possible to categorise SEP-based injunctions as a form of refusal to license or vexatious litigation or would it be better to treat them as an independent type of abuse? These questions will be explored further in this chapter.

6.2 Closely related abusive practice of IPR
6.2.1 Refusal to license
Since the act of seeking injunctions means that the SEP-holder has not concluded a license with the defendant, it might be possible to see it as an indirect refusal to license.\textsuperscript{166} The ECJ has elaborated on the extent to which refusal to license can constitute abuse

\textsuperscript{164} Whish and Bailey p. 193.
\textsuperscript{165} Art 44 TRIPS Agreement.
\textsuperscript{166} Petit "Injunctions for FRAND-Pledged SEPS: The Quest for an Appropriate Test of Abuse Under Article 102 TFEU" [2013] 9:3 European Competition Journal p. 682.
under Art 102 TFEU. The *Magill* case concerned three television broadcasters that refused to license copyright on TV listings to Mr Magill, who wanted to produce a comprehensive TV guide. The TV listings were indispensable to Magill since he would not be able to publish a TV guide without them. The ECJ declared that the exercise of an exclusive right might only in “exceptional circumstances” involve abusive conduct.\(^\text{167}\) According to the Court such circumstances were at hand when; (i) a refusal to license IP prevents the emergence of a “*new product*” for which there is a consumer demand,\(^\text{168}\) (ii) there is “*no objective justification*” for such refusal,\(^\text{169}\) and (iii) the IP owner, through the refusal, reserves the secondary market to itself by “*excluding all competition*” on that market.\(^\text{170}\)

The “*exceptional circumstances*” test was later confirmed in the *IMS Health* case.\(^\text{171}\) That case concerned the German undertaking IMS Health, which had developed a copyright protected database structure for the marketing of pharmaceuticals that had become the industry standard to which clients had adapted their information and distribution systems.\(^\text{172}\) IMS Health refused to license the structure to competitors and tried to prohibit them from using it through launching injunctions. The question was if the refusal to license constituted an abuse of the company’s dominance. The ECJ referred to the *Magill* case and stated that a refusal to license IPR can only constitute abuse under “*exceptional circumstances*”.\(^\text{173}\) Such circumstances were only considered to be at hand when all the Magill criteria were fulfilled.\(^\text{174}\)

Regarding the “*new product*” requirement, the Court held that refusal to allow access to a product protected by an IPR, where that product is indispensable for operating on a secondary market may be regarded as abusive only where the undertaking which requests the licence “*does not intend to limit itself essentially to duplicating the goods or services already offered*” by the owner of the IPR, “*but intends to produce new goods or services not offered by the owner and for which there is a potential consumer demand*”.\(^\text{175}\) Thus, a mere duplication of an already existing product was not enough for a

\(^{167}\) C-241/91 and C-242/91 *Magill* para. 50.  
^{168}\) Ibid. para. 54.  
^{169}\) Ibid. para. 55.  
^{170}\) Ibid. para. 56.  
^{171}\) C-418/01 *IMS Health*.  
^{172}\) Ibid. para. 6.  
^{173}\) Ibid. para. 35.  
^{174}\) Ibid. para. 38.  
^{175}\) Ibid. para. 49.
compulsory license, but it was left unclear exactly how different from existing products a product needs to be to be considered “new”.

6.2.2 Vexatious litigation

The act of seeking an injunction might be an attempt at harassing a competitor and can thereby be categorised as vexatious litigation. The courts have been careful with equating judicial proceedings with abuse, but there is case law clarifying under which circumstances litigation falls under Art 102 TFEU. In the *ITT Promedia* case, the exclusive publisher of commercial telephone directories in Belgium accused Belgacom, the leading supplier of voice telephony services, of abusing its dominance.\textsuperscript{176} Belgacom had launched a series of lawsuits and counter-claims against ITT Promedia regarding the renewal of ITT Promedia’s exclusive right to publish directories using Belgacom’s subscriber data.

The GC declared that the ability to assert one’s rights through the court system constitutes the expression of a general principle of law, which underlies the constitutional traditions common to the member states and follows from Art 6 and 13 of the European Convention of Human Rights (“ECHR”).\textsuperscript{177} Litigation can therefore only be found abusive in “wholly exceptional circumstances”.\textsuperscript{178} According to the court, such circumstances are present if the litigation; (i) cannot reasonably be considered as an attempt to establish the dominant undertakings rights and can therefore only serve to harass the opposite party; and (ii) is conceived in the framework of a plan of which the goal is to eliminate competition.\textsuperscript{179} The conditions are cumulative, and shall, since they constitute exceptions to the general principle of access to the courts, be construed and applied strictly.\textsuperscript{180} In order for the first condition to be fulfilled, there must be evidence that the request is either manifestly objectively unreasonable or devoid of any basis in law.\textsuperscript{181} This is a fairly high threshold.

The conditions were not considered to be fulfilled since Belgacom’s actions were regarded as assertions of what the undertaking, at the moment it brought the actions, could reasonably consider being its rights.\textsuperscript{182} To determine, as ITT Promedia advocated, the existence of abuse on the basis of how sound Belgacom’s claims were legally, was not

\textsuperscript{176} T-111/96 *ITT Promedia v. EC Commission*.
\textsuperscript{177} Ibid. para. 60.
\textsuperscript{178} Ibid.
\textsuperscript{179} Ibid. paras. 55-57 and 72.
\textsuperscript{180} Ibid. para 61.
\textsuperscript{181} Ibid. para 57.
\textsuperscript{182} Ibid. para 93.
considered appropriate.\textsuperscript{183} Such an approach risked dissuading dominating undertakings from exercising their rights based on fear that the national legislation they based their claims on would not be compatible with EU law.\textsuperscript{184} The \textit{ITT Promedia} criteria were later confirmed in \textit{Protége}.\textsuperscript{185}

The case law expresses the view that competition law, as a main rule, should not be used to prevent an undertaking from enforcing their legal rights in courts. Only where legal proceedings are pursued in order to achieve anti-competitive aims to the detriment of public interest should one be allowed to intervene. The opposite conclusion would diminish the undertaking’s incentive to innovate and jeopardise the fundamental right of access to courts, without which all other rights are ineffective.\textsuperscript{186}

\textbf{6.3 Comments and conclusions}

The refusal to license case law is not entirely suitable with regards to SEP-based injunctions. If no licensing negotiation has been initiated and no offers have been declined, it is far fetched to say that the act of launching an injunction is a form of refusal to license. In order to make that claim, the alleged infringer would at least have to have approached the SEP-holder regarding licensing, and that might not always be the case. In fact, it is possible that the reason behind an injunction is to reach an agreement with the infringer. Injunctions are valuable in order to get an infringer to start negotiating a license. If the alleged infringer intentionally fails to seek a license which it knows that it needs, or engages in systematic patent infringement and only accepts to take licenses in respect of patents that it has been legally found to infringe, injunctions can be used to bring the infringement to an end and force the infringer to the negotiations table.\textsuperscript{187} Thus, it is incorrect to merely see injunctions as instruments to shut competitors out of the market.

Also, the \textit{Magill/IMS Health} case law was designed to catch undertakings refusing to license in order to leverage their dominant positions into a secondary, adjacent market.\textsuperscript{188} Thus, applying the case law to SEP-based injunctions would outlaw injunctions only where vertically integrated firms, which supply products implementing their tech-

\begin{itemize}
\item \textsuperscript{183} Ibid, para 95.
\item \textsuperscript{184} Ibid, para 95.
\item \textsuperscript{185} T-119/09 \textit{Protége International Ltd v European Commission}.
\item \textsuperscript{186} Petit "\textit{Injunctions for FRAND-Pledged SEPS: The Quest for an Appropriate Test of Abuse Under Article 102 TFEU}" [2013] 9:3 European Competition Journal p. 711.
\item \textsuperscript{187} Rato & English "\textit{An Assessment of Injunctions, Patents and Standards Following the Court of Justice’s Huawei/ZTE Ruling}" [2016] 7:2 Journal of European Competition Law & Practice p. 106.
\item \textsuperscript{188} Ibid. p. 683.
\end{itemize}
nology, launch them.\textsuperscript{189} Pure licensors with no activity in a secondary market (non-practicing entities) would not be covered and this might be inconsequent since their injunctions might have effects that are just as negative on competition as injunctions by vertically integrated firms.

If one wishes to outlaw SEP-based injunctions, the vexatious litigation case law is not ideal either. It would be difficult to prove that the only reason for launching an SEP-based injunction is to harass the defendant. If there has been a patent infringement, commencing judicial proceedings at least partly has to be seen as an attempt to establish the SEP-holder’s rights. In such a case the harassment aspect might only be a potential plus side for the SEP-holder, not its only purpose. Furthermore, the condition that the conduct must form part of a larger plan with the goal of eliminating competition is problematic. Since the purpose of the plan must be exclusionary, the use of injunctions in order to extort onerous licensing terms would not be considered abusive.\textsuperscript{190} Also, just as concerning refusal to license, it would be impossible to hold non-practicing entities (“NPE”s) guilty of abuse when launching injunctions against implementers if SEP-based injunctions were treated as a form of vexatious litigation. As an SEP-holder cannot be considered to be in a competitive relationship with its implementers, injunctions against implementers cannot be considered to be part of a plan to eliminate competition.

Since the concept of SEP-based injunctions does not easily fit within the case law of refusal to license or vexatious litigation, it might be easier to treat it as an independent type of abuse instead. As will be further accounted for later in this thesis, this is the approach that the ECJ chose in the \textit{Huawei} case.\textsuperscript{191} It claimed that a FRAND-commitment, by its very nature, gives rise to \textit{“particular circumstances”} that can make launching an injunction against a patent infringer constitute an abuse of dominance.\textsuperscript{192} How appropriate and consistent this conclusion is will be discussed further below. Before that, however, a short account will be made of the legal views on SEP-based injunction that dominated before the \textit{Huawei} ruling was announced.

\textsuperscript{189} Ibid.
\textsuperscript{190} Ibid. p. 686.
\textsuperscript{191} C-170/13 \textit{Huawei}.
\textsuperscript{192} Ibid. para. 53.
7 Legal Position Pre-Huawei

7.1 The German approach

Since Germany in general is considered patent holder friendly, it has become one of the most frequent fora for patent infringement disputes in Europe.\(^{193}\) This has lead to a strong case law on SEP-based injunctions being developed. In the *Orange Book Standard* case, the German Federal Supreme Court set out a framework for how to approach injunctions for SEPs where the SEP-holders have not made any FRAND-commitments.\(^{194}\) The case concerned a patent infringement suit regarding a patent implemented in the *de facto* standard for CD-R and CD-RW and the question was whether the SEP-holder could get injunctive relief despite the fact that the infringer had tried to obtain a license on commercial grounds.

The German court declared that an alleged infringer can escape injunctions by pleading that the SEP-holder has abused its dominance by refusing to grant the infringer a license on non-discriminatory and non-restrictive terms and conditions.\(^{195}\) In order for such a claim to be successful however, the infringer has to be a willing licensee. Willingness was considered to be at hand when; (i) the infringer has made an unconditional offer to conclude a licensing agreement which the SEP-holder cannot reasonably refuse without infringing competition law; and (ii) has complied with the obligations on which the use of the licensed subject matter depends.\(^{196}\)

The first requirement has been referred to as the “godfather” condition because the threshold at which an offer cannot be rejected is so high.\(^{197}\) In order to be sure that the offer fulfills the condition, the infringer might have to propose that the royalty size later be determined by the SEP-holder.\(^{198}\) The fact that the offer has to be “unconditional” also contributes to the high threshold. It means that the infringer cannot make an offer conditional on the infringement, or the validity or essentiality of the patent.\(^{199}\) The second requirement means that the infringer must act as if it already is a licensee from the

---


\(^{194}\) Case No. KZR 39/06 *Orange Book Standard*, see supranote 6.

\(^{195}\) Ibid. p. 11.

\(^{196}\) Ibid. p. 13-14.

\(^{197}\) Petit "*Injunctions for FRAND-Pledged SEPs: The Quest for an Appropriate Test of Abuse Under Article 102 TFEU*" [2013] 9:3 European Competition Journal p. 690.

\(^{198}\) Ibid.

\(^{199}\) Case No. KZR 39/06 *Orange Book Standard* p. 15.
moment it makes the offer. This entails paying royalties or ensuring their payment in escrow, and providing regular accounting of those payments.\textsuperscript{200}

The \textit{Orange Book Standard} ruling has been confirmed in later German cases.\textsuperscript{201} Even though the case concerned a \textit{de facto standard} and an SEP for which a FRAND-commitment had not been given, it is settled case law that the conditions laid down by the German Federal Supreme Court also apply to \textit{SSO-generated standards}.\textsuperscript{202}

\section*{7.2 The EC’s approach}

In April 2014 the EC closed two parallel investigations of SEP-based injunctions in the smartphone sector. It released a complete decision accounting for its whole analysis in \textit{Motorola}\textsuperscript{203} and a commitment decision in \textit{Samsung}.\textsuperscript{204} Both cases concerned dominate companies launching injunctions against Apple for infringing their SEPs. In \textit{Motorola}, the company Motorola had successfully obtained an injunction against Apple for SEP-infringement in Germany, even though Apple had made six licensing offers to Motorola during the injunction proceedings.\textsuperscript{205} Amongst other things, the offers had included proposals giving Motorola the right to set royalties according to its equitable discretions and the FRAND standard in the industry without any limitations regarding size of royalty rates and methods for calculation. However, it was not until Apple agreed to acknowledge the alleged infringement and entitle Motorola the right to terminate the agreement if Apple challenged the validity of the licensed SEPs, that the enforcement of the injunction was stayed and Motorola agreed to sign a settlement agreement.

The EC found the benefits of standardisation to be endangered by the seeking and enforcement of SEP-based injunctions and determined that antitrust intervention was necessary.\textsuperscript{206} It based its decision on the \textit{“exceptional circumstances”} doctrine of \textit{Magill} and \textit{IMS health}, thereby extending the case law beyond refusal to license.\textsuperscript{207} The standardisation context and the FRAND-commitment constituted \textit{“exceptional circumstances”}.

---

\textsuperscript{200} Case No. KZR 39/06 \textit{Orange Book Standard} p. 15.
\textsuperscript{201} See for example judgment of the Oberlandsgerichte in Karlsruhe of 27 February 2012 Case. No. 6 U 136/11.
\textsuperscript{203} Case AT. 39985 \textit{Motorola}.
\textsuperscript{204} Case AT.39939 \textit{Samsung}.
\textsuperscript{205} Case AT. 39985 \textit{Motorola}.
\textsuperscript{206} Ibid. para. 284.
\textsuperscript{207} Ibid. para. 278, see for background section 6.2.1 Refusal to license.
“es” distinguishing the case from others. Following the standardisation, the GPRS standard was so widely implemented that the industry had become locked-in, and this gave Motorola the opportunity to act anti-competitively by holding-up implementers of the standard. Furthermore, Motorola’s commitment to license its patent on FRAND-terms gave manufacturers of GPRS-compliant products reason to expect that Motorola would make its SEP available on such terms to all implementers.

The termination clause according to which Motorola was entitled to terminate the license if Apple challenged the validity of the SEP was considered to be especially problematic since it was capable of limiting Apple’s ability to influence the royalty level and could lead other manufacturers to pay for invalid IP, causing increased costs that might be passed on to consumers in the form of higher prices. The EC referred to the Windsurfing International case, according to which it is in the public interest to eliminate any obstacles to economic activity that may arise when a patent is granted in error, and stated that a successful invalidation of the SEP would benefit the entire industry including consumers.

According to the EC, there were no objective justifications for Motorola’s behaviour. The seeking of injunction could not provide enough advantages in terms of efficiencies that also benefit consumers, to counteract its likely negative effects. Three scenarios in which an SEP-holder can be entitled to launch injunctions against potential licensees were however exemplified; where the potential licensee (i) is in financial distress and is unable to pay its debts; (ii) has its assets located in jurisdictions that do not provide for adequate means of enforcement of damages; or (iii) is unwilling to enter into a licensing agreement on FRAND-terms and conditions with the result that the SEP-holder will not be appropriately remunerated for the use of its SEP. According to the EC, Apple’s second licensing offer was a clear indication that Apple was willing to enter into a licensing agreement on FRAND-terms with Motorola. After that offer was put forward, Motorola had no right to seek or enforce an injunction and doing so resulted in a competition law violation.

---

208 Case AT. 39985 Motorola para. 281.
209 Ibid. para. 289.
210 Ibid. para. 294.
211 Case AT. 39985 Motorola para. 336.
212 Ibid. para. 377.
213 C-193/83 Windsurfing International paras. 92-93.
214 Case AT. 39985 Motorola paras. 379-380.
215 Ibid. para. 489-491.
216 Ibid. para. 427.
217 Ibid. para. 437.
The EC made the same substantial assessment in the Samsung case as in the Motorola case. Since Samsung had given a FRAND-commitment, and Apple had shown itself willing to negotiate a FRAND-license, the recourse to injunctions was considered harmful to competition. \(^218\) Samsung promised to refrain from seeking injunctions on the basis of any of its SEPs related to technologies implemented in smartphones and tablets against any company that, within 30 days, agreed to a particular licensing framework for the determination of FRAND-terms. \(^219\) The licensing framework included a negotiation period of up to 12 months and a third-party determination of FRAND-terms and conditions in the event that no licensing agreement or alternative process for determining FRAND was agreed upon at the end of the negotiation period. \(^220\) During the negotiation period, implementers could practice the standard without fear of injunctive relief or obligations to put sums into escrow.

Even though they have different packaging, the Motorola and Samsung decisions express the same conclusion. Dominant SEP-holders cannot be allowed to launch injunctions in order to distort licensing negotiations and impose unjustified licensing terms, since such behaviour could ultimately harm consumers. Even though recourse to injunction is a possible remedy for patent infringements, it might be considered abusive where it is based on SEPs and the alleged infringer is willing to enter into a FRAND licensing agreement.

### 7.3 Comments and conclusions

The German court’s method and the EC’s approach differ in one fundamental way. Whereas the assumption in Orange Book Standard is that SEP-holders are allowed to launch injunctions in order to distort licensing negotiations and impose unjustified licensing terms, since such behaviour could ultimately harm consumers. Even though recourse to injunction is a possible remedy for patent infringements, it might be considered abusive where it is based on SEPs and the alleged infringer is willing to enter into a FRAND licensing agreement.

---

\(^218\) Case AT.39939 Samsung para 52.
\(^219\) Ibid. para. 76.
\(^220\) Ibid. para. 78.
8 The Huawei Case

8.1 Facts of the case

The *Huawei* case arose from a patent licensing dispute between the two Chinese telecommunications companies Huawei Technologies and ZTE Corp. Huawei, the holder of a patent declared to be essential to practice the LTE standard published by ETSI and commonly marketed as 4G wireless service, had agreed to license its SEP on FRAND-terms. After ZTE’s infringement on Huawei’s patent, the companies engaged in discussions regarding the possibility of them concluding a licensing agreement on FRAND-terms. Huawei indicated an amount that it considered to be reasonable, and ZTE sought a cross-licensing agreement, but the negotiations never led to any final bid. When ZTE despite this continued the infringement, Huawei brought an action against the company, seeking an injunction prohibiting the infringement, an account of money due, the recall of products and an award of damages in Germany.

In its defence, ZTE argued that Huawei was abusing its dominance by seeking an injunction. The German court agreed that in theory Huawei’s actions could constitute an abuse of dominance in the meaning of Art 102 TFEU, but since the *Orange Book Standard* jurisprudence did not correspond with the statements of the EC in *Samsung* and *Motorola*, it decided to ask the ECJ for a preliminary ruling. The question was if an SEP-holder, which has agreed to license on FRAND-terms, is allowed to bring an action for injunction against a patent infringer when that infringer has declared that it is willing to negotiate a license, or if such an action constitutes an abuse of dominance.

8.2 Opinion of Advocate General Wathelet

AG Wathelet began his opinion by declaring that the right to bring an action for injunction is directly linked to the right to IP, and can therefore not in itself constitute abuse. However, since IPRs cannot be considered as absolute and inviolable, they must in the general interest be reconciled with the antitrust rules.

Since Huawei had voluntarily committed to license the patent to third parties on FRAND-terms, the case hinged on the manner in which Huawei had fulfilled its commitment. The fact that the patent was incorporated into a technical standard created a

---

221 C-170/13 *Huawei*.
222 Ibid. para. 39.
223 Ibid. para. 61.
224 Ibid. para. 63.
225 AG Wathelet’s Opinion 20 November 2014, Case C-170/13 *Huawei* para. 70.
relationship of dependence between Huawei and the undertakings producing products and services that were in accordance with that standard.\footnote{Ibid. para. 71.} According to Whathelet, under such circumstances the bringing of an action for injunction can constitute an abuse of dominance if it means that the patent holder, in spite of the infringer’s willingness to enter into a licensing agreement, is violating its FRAND-commitment.\footnote{Ibid. para. 74.}

Whathelet declared that in order to avoid abusing its dominance, an SEP-holder must alert the infringer of the infringement in writing, giving reasons and specifying the SEP concerned and the way in which it has been infringed.\footnote{Ibid. para. 84.} Furthermore, the holder must present a written offer for a licence on FRAND-terms containing all the terms normally included in a license to the infringer.\footnote{Ibid. para. 85.} This was considered justifiable since the SEP-holder is the only one who has access to the data needed to ensure that there is no discrimination between licensees.\footnote{Ibid. para. 86.} After this, the infringer must respond to the offer in a diligent and serious manner.\footnote{Ibid. para. 88.} If the offer is not accepted, a reasonable counter-offer must promptly be submitted to the SEP-holder in writing.\footnote{Ibid. para. 89.}

Whathelet claimed that an action for a prohibitory injunction does not constitute an abuse of dominance if the infringer’s conduct has been purely tactical, dilatory or un-serious.\footnote{Ibid. para. 93.} If negotiations are not commenced or are unsuccessful, the conduct of the infringing undertaking cannot be regarded as negligent if it asks for the terms to be fixed by an independent third party,\footnote{Ibid. para. 94.} neither can the infringer be considered negligent if it reserves the right to challenge the validity of the patent or the illegality of its use.\footnote{Ibid. para. 95.} It is in the public interest for alleged infringers to be able to challenge the validity of SEPs, as wrongfully granted patents constitute obstacles to the legitimate pursuit of economic activity.\footnote{Ibid. para. 98.} Furthermore, if the infringer has requested a court determination of the terms, the SEP-holder is allowed to demand security for the future payment of royalties or the deposit of a provisional sum for past and future use of its SEP.\footnote{Ibid. para. 98.}
8.3 The judgment

The ECJ started its ruling of the *Huawei* case by stating that the Court, in order to assess the lawfulness of an action for infringement on an SEP, must strike a balance between the interest of maintaining free competition and the requirement to safeguard the proprietor’s IPRs and its right to effective judicial protection.\(^{238}\) The possibility to bring an action for infringement forms part of the rights of an IPR-owner and the exercise of such a right cannot in itself constitute an abuse of dominance.\(^{239}\) However, under *exceptional circumstances*, the exercise of an exclusive right linked to an IPR can constitute abusive conduct for an SEP-holder.\(^{240}\) The Court stated that the circumstances of the case differed from those in the *Volvo Veng*, *Magill* and *IMS Health* cases.\(^{241}\) However, rather than concluding that this meant that the act of launching an injunction could not be considered abusive, the Court adopted a new standard.

---

\(^{238}\) C-170/13 *Huawei* para. 42.
\(^{239}\) Ibid. para. 46.
\(^{240}\) Ibid. para. 47.
\(^{241}\) Ibid. para. 48.
Under the “particular circumstances” where; (i) the patent is essential to a standard established by an SSO, rendering its use indispensible to all competitors which envisages manufacturing products complying with the standard; 242 and (ii) the SEP-holder has committed to grant licenses on FRAND-terms, thereby creating legitimate expectations on the part of third parties that the SEP-holder will in fact grant licenses on such terms, 243 Art 102 TFEU can be considered breached. According to the Court, the mere right to launch an injunction for an SEP-infringement means that the SEP-holder can prevent products being manufactured by competitors from appearing or remaining on the market, thereby reserving the manufacture of the products in question to itself. 244 Because of the “particular circumstances” regarding SEPs, the ECJ considered it justified imposing obligations on SEP-holders to comply with before launching injunctions. Interestingly however, obligations were also placed on the alleged infringer to comply with in order to invoke an abuse of dominance defence against the SEP-holder. Thus, the Court created a negotiations framework for implementers wanting to avoid injunctions, and SEP-holders not wanting to infringe Art 102 TFEU by launching injunctions.

Firstly, it is for the SEP-holder to alert the alleged infringer of the infringement by designating that SEP and specifying the way in which it has been infringed. 245 This approach was based on the fact that it cannot be certain that the infringer is actually aware that it is making an infringement. 246 Over 4,700 patents have been declared essential to the LTE standard and even large telecom companies like ZTE cannot be expected to make sure that all those patents are valid and essential before commencing implementation. 247 If the infringer expresses its willingness to conclude a licensing agreement after such an approach, the SEP-holder must present a specific written offer for a license on FRAND-terms. 248 This obligation was justified through a reference to a paragraph in the AG opinion, where Wathelet states that the SEP-holder is better placed to determine whether its offer complies with the condition of non-discrimination than the alleged infringer. 249

When the SEP-holder has presented an offer, it is up to the alleged infringer to diligently respond to that offer in accordance with recognised commercial practices and in

---

242 Ibid. para. 49.
243 Ibid. para. 53.
244 Ibid. para. 52.
245 Ibid. para. 61.
246 Ibid. para. 62.
247 Ibid., AG Wathelet’s Opinion 20 November 2014 Case C-170/13 Huawei paras. 81-82.
248 C-170/13 Huawei para. 63.
249 Ibid. para. 64.
good faith, to be established on the basis of objective factors implying particularly that there are no delaying tactics.\textsuperscript{250} However, the infringer can never be criticised for challenging the validity, essentiality or infringement of the patent.\textsuperscript{251} Should the infringer not accept the offer, it may only assert abuse of dominance if it promptly and in writing makes a specific counter-offer that corresponds to FRAND-terms.\textsuperscript{252} After the counter-offer, the infringer must provide an account of past acts of use of the SEP and appropriate security for the payment of royalties in accordance with recognised commercial practices in the field.\textsuperscript{253} If no agreement is reached following the alleged infringer’s counter-offer, the parties may by common agreement, request that an independent third party determine the amount of royalty.\textsuperscript{254}

---

\textsuperscript{250} Ibid. para. 65.  
\textsuperscript{251} Ibid. para. 69.  
\textsuperscript{252} Ibid. para. 66.  
\textsuperscript{253} Ibid. para. 67.  
\textsuperscript{254} Ibid. para. 68.
8.4 Comparison of approaches

The ECJ’s ruling in the *Huawei* case is mainly in line with AG Wathelet’s opinion but differs on a couple of points. Firstly, in contrast with Wathelet, the Court did not consider it necessary for the SEP-holder to present a FRAND offer if the infringer has not expressed its willingness. This approach places a bigger burden on the infringer, which somehow (the Court does not clarify in what way) must communicate enthusiasm towards concluding a licensing agreement. Secondly, the ECJ did not, as Wathelet, consider that security for the payment of royalties in respect of use of the SEP should only be required where the infringer has asked for court determination of the terms. Instead it claimed that from the point at which the SEP-holder’s counter-offer is rejected, the alleged infringer must provide security in accordance with recognised commercial practices.

Even though some have considered the *Huawei* judgment to be a confirmation of the EC’s decisions in *Motorola* and *Samsung*, a close examination shows that the ECJ’s approach differs in fundamental ways. Firstly, the ECJ has a much narrower theory of harm in mind than the EC. According to the Court, SEP-based injunctions must have the effect of excluding products manufactured by competitors reserving the manufacturing of the products to the SEP-holder in order to be considered abusive. No attention is paid to the potential exploitative anticompetitive effect of implementers having to accept disadvantageous licensing terms suggested in *Motorola*.

Secondly, the EC based its decisions on the hold-up theory even though there is no empirical evidence whatsoever to support that hold-up actually occurs. Even though it did not expressly refute the hold-up theory, the ECJ’s omission to mention it and focus on the exclusionary effects of SEP-based injunctions suggests that the theory was not a basis for the Court’s decision.

Thirdly, by stating that there is no abusive conduct as long as the SEP-holder follows the negotiations framework, the ECJ awards the SEP-holder a safe harbour to follow

---

255 Ibid. para. 63.
256 Advocate General Wathelet’s Opinion 20 November 2014 Case C-170/13 *Huawei* para. 93.
257 *C-170/13 Huawei* para. 67.
258 Advocate General Wathelet’s Opinion 20 November 2014 Case C-170/13 *Huawei* para. 93.
260 Supranote 79, see section 3.2 Competition concerns.
261 Case AT. 39985 *Motorola* para. 311, see section 7.2 The EC’s approach.
262 Supranote 79, see section 3.2 Competition concerns.
263 *C-170/13 Huawei* para. 71 emphasis added.
in order to keep the right of launching injunctions. This approach differs from the EC’s, suggestion where it is the infringer’s “willingness” and financial situations that decides whether or not injunctions are an option.\textsuperscript{263}

The ruling differs from the \textit{Orange Book} case as well. In contrast with the German court, the ECJ did not place the burden of making the first offer on the alleged infringer.\textsuperscript{264} Furthermore, while the Orange Book judgment clarified that an alleged infringer has to make an unconditional offer in order to be considered willing,\textsuperscript{265} the ECJ just like AG Wathelet\textsuperscript{266} underlined the importance of the alleged infringer having the possibility of challenging the validity, essentiality or infringement of the patent.\textsuperscript{267}

It seems as if the \textit{Huawei} ruling and opinion stand somewhere in between the EC’s and the German court’s approaches. They are more SEP-friendly than \textit{Motorola} and \textit{Samsung}, yet less so than the \textit{Orange Book Standard} case. Furthermore, the ruling places a bit more obligations on the alleged infringer than the AG opinion, placing it further to the right on the SEP-holder friendliness track.

\begin{figure}[!ht]
\centering
\includegraphics[width=\textwidth]{Figures/SEP-Holder-Friendliness.png}
\caption{SEP-Holder Friendliness}
\end{figure}

\subsection*{8.5 Remaining uncertainties}

\subsubsection*{8.5.1 Dominance}

Even though the \textit{Huawei} judgment clears up a number of issues, the ECJ leaves many questions unanswered. Firstly, it never considered whether or not Huawei was in a dominant position since the existence of dominance was never contested before it.\textsuperscript{268} The German court’s questions related only do the existence of abuse and the Court therefore decided to confine its analysis to that issue.

\begin{itemize}
\item \textsuperscript{263} Case AT. 39985 \textit{Motorola} para. 427, see section 7.2 The EC’s approach.
\item \textsuperscript{264} \textit{Orange Book Standard} p. 13-14, see section 7.1 The German approach.
\item \textsuperscript{265} \textit{Orange Book Standard} p. 15, see section 7.1 The German approach.
\item \textsuperscript{266} Advocate General Wathelet’s Opinion 20 November 2014 Case C-170/13 \textit{Huawei} para. 95.
\item \textsuperscript{267} C-170/13 \textit{Huawei} para 69.
\item \textsuperscript{268} Ibid. para. 42.
\end{itemize}
Some of the Court’s formulations on this subject however, do deserve further analysis. As an example, the Court recognised that Huawei and ZTE had equivalent bargaining power, and that both undertakings were holders of numerous patents essential to the LTE standard. This suggests that the Court may have had doubts regarding Huawei’s presumed dominance in the case at hand. However, no further statement was made regarding this issue and it therefore remains unclear whether dominance can be established in a conflict between two equally strong market players.

8.5.2 FRAND-calculation
A second question that was left unanswered is how one should go about calculating FRAND. This is not entirely surprising since the referring court did not ask the ECJ on the meaning of FRAND. By acknowledging that both parties can make FRAND-offers and counter-offers and still remain in disagreement, the Court clarifies that FRAND, more than anything, is a scale where various royalties can be encompassed. No further guidance is however offered on the subject.

Since the ruling places obligations on both the SEP-holder and the alleged infringer to make FRAND-offers, it would have been appropriate to give additional guidance on FRAND-calculation.

8.5.3 Absence of FRAND-commitment
Furthermore, the Court says nothing about what happens if the SEP-holder has never made a FRAND-commitment. Is the obligation that comes with the FRAND-commitment to be transferred to the new owner when the SEP is sold or is the new owner, within the frames of the ITT Promedia conditions, free to launch injunctions as it pleases?

Even though one could imagine that the contractual nature of a FRAND-commitment would enable such a commitment to be evaded by selling the patent to a third party, this does not appear to be the case. The general opinion seems to be that an obligation to license on FRAND-terms travels with the patent. This view is supported by the EC’s statement that the transfer of FRAND-commitments after the sale of standard is im-

---

269 Ibid. para. 37.
270 Ibid. para. 40.
272 C-170/13 Huawei para 68.
273 T-111/96 ITT Promedia v. EC Commission, see section 6.2.2 Vexatious litigation.
274 Chapatte & Walter “European Competition Law, Non-Practicing Entities, and FRAND Commitments” p. 380.
important from a competition law perspective since it safeguards the pro-competitive economic effects of standard setting. Since it remains silent on this issue.

8.5.4 The negotiations framework

The negotiations framework itself leaves much to the imagination. It does not indicate how long the SEP-holder has to wait for a response before finding the infringer unwilling. Neither does it give any guidance on how negotiations should proceed beyond the SEP-holder’s first offer and the alleged infringer’s counter-offer. Sure, the Court suggests the option of third-party determination by common agreement, but it says nothing on how to resolve a stalemate. What happens if one of the parties does not wish to involve a third-party? Is it then open for the SEP-holder to launch an injunction? Or are the parties obligated to keep making counter-offers for all eternity, bouncing the responsibility back and forth between each other? This seems unlikely.

Moreover, the alleged infringer’s obligations are unclear. In order to invoke an abuse of dominance defence against an injunction, the alleged infringer has to make a FRAND counter-offer and behave diligently in accordance with recognised commercial practices and in good faith. What exactly does this entail? Delaying tactics are obviously out of the question but does the same go for demands for cross-licensing?

8.5.5 The theory of hold-up

The Court is also silent about the theory of hold-up even though the German court expressly mentions it in its referred questions. Instead of declaring the risk of SEP-based injunctions having the exploitative effect of enabling SEP-holders to extract excessive royalties, the Court bases its judgment on the exclusionary competitive harm of closing competitors out of the market. Since it is unclear whether the silence should be interpreted as the Court repudiating the theory, the only thing we can be sure of is that it does not provide a clear endorsement for it.

It would have been good if the Court had cleared up this issue. If the hold-up theory is the underlying reason for the antitrust interference in the SEP-holder’s right to protect

---

276 C-170/13 Huawei para. 71.
277 C-170/13 Huawei para. 38.
278 Ibid. para. 52.
its patent, that should be acknowledged for the sake of the principle of legality, which demands a transparent, accountable, democratic and pluralistic process for enacting laws.\footnote{COM(2014) 158 final/2 Communication from the Commission to the European Parliament and the Council A new EU Framework to strengthen the Rule of Law p. 4.}

8.5.6 Applicability on NPEs

Another unclear aspect of the ruling is whether or not it applies to NPEs. Just like concerning refusal to license and vexatious litigation,\footnote{See section 6.3 Comments and conclusions.} the answer to that question seems to be that it does not.\footnote{Petit “Huawei v. ZTE: Judicial Conservatism at the Patent-Antitrust Intersection”, CPI Antitrust Chronicle 10:2 2015 p. 4.} According to paragraph 52 of the judgment, the danger with SEP-based injunctions is that they allow SEP-holders to prevent products manufactured by competitors from appearing or remaining on the market, thereby \textit{reserving the manufacturing of the product in question to themselves.}\footnote{C-170/13 Huawei para. 52 emphasis added.} This means that it is necessary that the SEP-holder has an actual or potential degree of vertical integration in manufacturing in order to enable a finding of abuse.\footnote{Petit “Huawei v. ZTE: Judicial Conservatism at the Patent-Antitrust Intersection” [2015] 10:2 CPI Antitrust Chronicle p. 4.} It also means that NPEs are immune from Art 102 TFEU liability when it comes to SEP-based injunctions.\footnote{Ibid.}

Commissioner Vestager has contended that the \textit{Huawei} ruling is much broader than that,\footnote{Speech of Commissioner Vestager 11 September 2015 19th IBA Conference Florence \textit{available at www.ec.europa.eu/commission/2014-2019/vestager/announcements/intellectual-property-and-competition_en.}} basing its reasoning on paragraph 53 which states that a FRAND-commitment creates \textit{legitimate expectations} on the part of third parties such that a refusal by the SEP-holder to grant a license on FRAND-terms might constitute abuse.\footnote{C-170/13 Huawei para. 53 emphasis added.} However, since paragraph 53 starts with \textit{“in those circumstances”} it is probable that the paragraph chimes with paragraph 52, and that the circumstances referred to are those in which vertically integrated SEP owners launch injunctions.\footnote{Petit “Huawei v. ZTE: Judicial Conservatism at the Patent-Antitrust Intersection” [2015] 10:2 CPI Antitrust Chronicle p. 4.} In order to avoid misinterpretations, the Court could have been clearer on this matter.
8.5.7 Safety valves

Lastly, the judgment leaves open what would happen if a dominant SEP-holder requested an injunction on the condition that the court finds the SEP-holder to have satisfied the legal test established by Huawei. Would the SEP-holder in such a situation bear any antitrust risks? This seems excessive since the SEP-holder can never be sure that its offers actually are FRAND without having a court statement confirming the fact. However, it remains uncertain whether or not such an approach would be acceptable.

8.6 Unconvincing arguments

8.6.1 Reversed perspective

The ECJ’s approach in Huawei deserves some criticism. Initially, it can be criticised that the Court does not really answer the referred question. While the German court asks whether an SEP-holder, which has made a FRAND-commitment, abuses its dominance if it brings an action for an injunction against a patent infringer, even though the infringer has declared itself willing to negotiate a license, the ECJ explains under which circumstances an application for an injunction does not constitute abuse. The Court thus reverses the perspective in a way that can be criticised.

This is clear from the Court’s phrasings. According to paragraph 55 of the ruling, in order to prevent an action from being regarded as abusive, the SEP-holder must comply with certain conditions. Moreover, in paragraph 71, the Court declares that an SEP-holder that complies with the prescriptions does not abuse its dominance by bringing an action for infringement. This suggests an assumption that SEP-based injunctions, in themselves, are abusive. A notion that seems far removed from the fundamental right to IP, and the obligation on member states to ensure that their judicial authorities are able to issue injunctions against IPR-infringers.

8.6.2 Third parties’ legitimate expectations

Some of the ECJ’s arguments in the Huawei judgment warrant closer scrutiny. The notion that a FRAND-commitment can give rise to legitimate expectations to third parties, such that a refusal by the SEP-holder to grant a license on FRAND-terms might constitute abuse, is unconvincing. According to general principles of EU law, an undertak-

289 C-170/13 Huawei para. 55 emphasis added.
290 Ibid. para. 71 emphasis added.
291 Charter Art 17(2) see section 2.1.2 Enforcement of IPR.
292 IPRED Art 11, see section 2.1.2 Enforcement of IPR.
293 C-170/13 Huawei para. 53 emphasis added.
ing can only nurture legitimate expectations when it has been given precise assurance-
es.\

\[294\] Since a FRAND-declaration is typically formulated as “I am prepared to grant licenses” and not “I will grant licences”, it is unclear if it actually can meet the threshold of constituting assurances.\[295\] Also, since the notion of FRAND encompasses a range of possible reasonable remuneration rates,\[296\] a FRAND-commitment lacks the kind of precision required by the principle of legitimate expectations.\[297\] It can also be seen as inconsistent with the principles of no implied waiver and legitimate expectations.\[298\] Since the forms for FRAND-declarations contain no explicit waiver of injunctive relief, no waiver should be read into the commitment.\[299\]

8.6.3 The infringer’s absolute right to challenge

Also the Court’s prohibition of restrictions on implementers’ possibilities to challenge SEPs is problematic.\[300\] It is based on the premise that licensing agreements are entered into through ideal bargaining processes where parties have all the information and agree on a royalty that reflects the underlying value of the patented technology.\[301\] This is rarely the case.\[302\] In general, there is often uncertainty as to whether an SEP is valid and essential during licensing negotiations, and the only way to know for sure is to get the uncertainty removed through a judicial finding.\[303\] The alleged infringer can achieve this by challenging the patent, and the SEP-holder, by requesting injunctive relief thereby forcing the infringer to defend itself by challenging the patents. By removing the SEP-holder’s possibility to ask for injunctive relief while at the same time making sure that the alleged infringer cannot be hindered from challenging the SEP, the Court has shifted the balance of the negotiating power to the alleged infringer’s advantage. This might have negative effects on the incentive to innovate.

Moreover, there is a risk that the prohibition of restrictions on implementers’ possibilities to challenge SEPs will have negative effects for consumers at an earlier stage.

\[294\] T-427 & T-17/05 French Republic and France Télécom SA v Commission paras. 259-260.
\[295\] Ibid. p. 711-712
\[296\] Ibid. p. 711-712
\[297\] Ibid.
\[298\] T-167/08 Microsoft Corp. v Commission para. 95.
\[299\] Ibid.
\[300\] C-170/13 Huawei para. 69.
\[301\] Case AT. 39985 Motorola para. 324.
\[303\] Ibid.
The grade of certainty of an SEP’s validity and essentiality affects the royalty size. SEP-holders are able to charge more for patents that have been declared valid and will most likely take the risk of the patent being declared invalid or non-essential into account in royalty negotiations. By refusing them the possibility of using the threat of injunction to stop alleged infringers from challenging their patents, the ECJ is basically giving them incentive to charge higher royalty rates, which ultimately might be passed on to consumers.

8.6.4 Incorrect assumptions

Some of the ECJ’s arguments seem hurried and simplified and are based on incorrect assumptions. When assessing competitive harm for example, the Court equates the mere right to launch injunctions with an anticompetitive risk of the SEP-holder foreclosing all competitors from the downstream market. This conclusion assumes that a request for an injunction automatically leads to such relief being granted, leading to all products implementing the patent being removed from the market. This assumption is incorrect. Courts do take FRAND-commitments into consideration and rarely award injunctions when the SEP-holder has acted in breach of its commitment.

Furthermore, the negotiations framework seems detached from the reality of licensing negotiations. The Court has constructed the framework based on the assumption that the SEP-holder only ever asserts one single patent when in fact patent portfolios and cross-licensing are common in the smartphone industry. Also, the possibility to follow the framework is based on the assumption that the parties know whether or not their offers are to be considered FRAND, when the truth as discussed above, is that FRAND calculation is a very difficult and obscure endeavour. The only way to establish whether or not an offer actually is FRAND is to have a court rule on the matter. This means that SEP-holders who mistakenly believe their offers to be FRAND risk antitrust exposure, and that is not compatible with the principle of legal certainty which re-

304 Ibid.
305 Ibid. p. 30.
306 C-170/13 Huawei para. 52.
310 See section 4.3.3 Comments and conclusions.
quires rules of law to be clear, precise and predictable as regards their effects.\footnote{312} The interpretation suggests that if an alleged infringer has made a FRAND counter-offer, an SEP-holder is prevented from seeking an injunction even though it has seen its own FRAND-offer refused.\footnote{313} As Rato and English put it, this conclusion seems unduly harsh: if an SEP-holder has made a FRAND-offer which has not been accepted, there is no good FRAND-related reason to deny an injunction request.\footnote{314}

8.6.5 An independent test for abuse

Lastly, something should be said about the ECJ’s decision not to follow the case law of refusal to license or vexatious litigation but instead create an independent test for SEP-based injunctions. Firstly, the Court’s statement that the \textit{exercise of an exclusive right} linked to an IPR may in \textit{exceptional circumstances} involve abuse of dominance is curious.\footnote{315} In support of this notion the Court refers to \textit{Volvo Veng, Magill} and \textit{IMS Health} even though all three cases concerns the specific question of under which circumstances the act of refusal to license can constitute an abuse of dominance. The judgments never considered whether seeking injunctions, or the “\textit{exercise}” of IPR, constituted abuse. Despite this, the ECJ acts as if the case law is clear. This simplification is dubious.

In addition to this, the ECJ fails to mention relevant case law. The ECJ could have based its ruling on the vexatious litigation case law of \textit{ITT Promedia} and \textit{Protégé}.\footnote{316} Claiming that the act of launching an injunction is abusive implies that litigation itself is abusive and, according to established case law; one can only find litigation abusive in “\textit{wholly exceptional circumstances}”.\footnote{317} More particularly, where the litigation; (i) cannot reasonably be considered as an attempt to establish the dominant undertaking’s rights and can therefore only serve to harass the opposite party; and (ii) is conceived in the framework of a plan with the goal of eliminating competition.\footnote{318} Had this abuse of dominance test been issued in the \textit{Huawei} case, it is fairly certain that no abuse would have been established. Due to the circumstances of the case, launching an injunction to stop the infringement has to be considered as an attempt by Huawei to establish its

\begin{thebibliography}{99}
\footnote{312}{C-72/10 & C-77/10 Marcello Costa para. 74.}
\footnote{313}{Rato & English "An Assessment of Injunctions, Patents and Standards Following the Court of Justice’s Huawei/ZTE Ruling" [2016] 7:2 Journal of European Competition Law & Practice p. 110.}
\footnote{314}{Ibid.}
\footnote{315}{C-170/13 Huawei para 47 emphasis added.}
\footnote{316}{T-111/96 ITT Promedia v. EC Commission, T-119/09 Protégé International Ltd v European Commission, see section 6.2.2 Vexatious litigation.}
\footnote{317}{T-111/96 ITT Promedia v. EC Commission para. 60.}
\footnote{318}{Ibid. paras. 55-57 and 72.}
\end{thebibliography}
rights and not only an endeavour to harass ZTE. Thus, the first criteria cannot be considered fulfilled.

The decision to set SEP-based injunctions apart from other IPR-related litigation and create a new individual type of abuse test might have been appropriate if the Court had explicitly overruled the vexatious litigation case law or convincingly explained how SEP-based litigation differed from other litigation. Not even mentioning it however, demonstrates inconsistency which conflicts with the principle of legitimate expectations.\(^{319}\) It is disappointing that no reasoning whatsoever was offered regarding this issue.

9 The Aftermath of Huawei

9.1 Sisvel v. Haier\(^{320}\)

On 3 November 2015, the Regional Court of Düsseldorf, Germany granted Sisvel’s motion for an injunction against the Haier group, preventing it from continuing infringing on Sisvel’s patents essential for the GSM, GPRS, UMTS and LTE standards. Sisvel brought infringement proceedings and informed the infringer’s parent company about the patent. Negotiations were initiated but the parties never reached a final agreement. Haier rejected several written offers without giving any counter-offers. Only at the oral hearing did Haier provide a bank bond and documentation of the revenue from sales of the allegedly infringing products. The court granted the injunction finding that it did not constitute an abuse of dominance. This was based on the fact that Haier had not provided the bank bond and accounted for its use in time.\(^{321}\)

Since Haier’s counter-offer was inconsistent with the Huawei criteria, the court did not consider it necessary to determine whether Sisvel’s offer was FRAND.\(^{322}\) Thus, the court suggested that the counter-offer had to fulfill the conditions even though the original offer did not. The judgment was appealed to the Higher Regional Court, which did not agree with the court of first instance’s decision.\(^{323}\) It declared that every step of the

---


\(^{320}\) Judgment of the Landgericht of Düsseldorf of 3 November 2015 Case no. 4a O 93/14 och 4a O 144/14.

\(^{321}\) Ibid. paras. 182-187.

\(^{322}\) Ibid. para. 196.

Huawei process sequentially must follow the preceding step. Leaving the question regarding whether or not Sisvel’s offer actually constituted FRAND unanswered was considered wrongful application of the law and the case was therefore sent back to the lower court for re-examination.

9.2 SLC v. Deutche Telekom

A few weeks after the Regional Court of Düsseldorf’s decision in Sisvel v. Haier, the Regional Court of Mannheim granted SLC’s motion for an injunction against Deutche Telekom (“DT”) in order to stop it from infringing on SLC’s SEP. After filing its action, SLC informed DT about the infringement and made a licensing offer. DT rejected the offer and contacted its supplier HTC, which in turn offered to license the patent on FRAND-terms in Germany. SLC rejected the offer, whereafter HTC provided a bank guarantee for an amount that, according to HTC, covered potential licensing royalties and submitted detailed sales figures to the court.

The court rejected DT’s Huawei defense on the grounds that DT never had expressed any willingness to enter into a licensing agreement on FRAND-terms. Because of that circumstance, it was not considered necessary to determine whether or not SLC had informed DT about the infringement in a Huawei compatible way. Thus, the court categorized the pre-notification as a formality that in itself is not enough for an abuse. The court never answered the question of whether DT could base an abuse of dominance defense on the fact that its supplier, HTC, was willing to enter into a licensing agreement on FRAND-terms because it considered HTC’s counter-offer to be inadequate as it did not contain any specific suggestion on the royalty size. Neither was the compatibility of SLS’s offer with FRAND assessed. The court namely considered that the infringer’s obligation arises independently of the SEP-holder’s offer’s material content as long as it formally meets the requirement of an offer. Having an independent third party fixing the royalty size was only considered to be an alternative if both parties agreed.

The SLC v. Deutche Telekom judgment could possibly be considered incompatible with the Higher Regional Court of Düsseldorf’s decision in Sisvel v. Haier. It remains to be seen whether the approach holds up on appeal.

---

324 Ibid. para. 35.  
325 Ibid. para. 40.  
327 Ibid. para. 212.  
328 Ibid. para. 221.  
329 Ibid. para. 232.
9.3 Comments and conclusions

The German cases exemplify the difficulties that arise when national courts attempt to apply the *Huawei* negotiation framework to real cases. So many questions are left open that it is unsurprising that national courts have so much trouble filling in the blanks. For example, can an infringer transfer the obligation to make a counter-offer onto its supplier or is it not allowed to invoke an abuse of dominance defense on the basis of its supplier’s FRAND-offer? Moreover, how long can the infringer wait to express willingness to license after having been informed about the infringement and how long can it wait with providing security after having rejected the SEP-holder’s offer? All of these questions are of importance to the assessment of whether an injunction constitutes abuse and it is highly probable that national courts will make additional references to the ECJ in order to receive guidance in their assessments.

Another thing that can be gathered from the cases is that the courts in general seem to be reluctant to venture into FRAND-calculation. In *Sisvel v. Haier*, so much so that the lower court tried to argue that the obligations in the negotiations framework does not have to be fulfilled sequentially even though the opposite, in my opinion, is clear from the ECJ’s wordings. Had the ECJ given more guidance on how to determine FRAND the German court may have felt more secure and might not have worked so hard to avoid having to deal with it. This is only speculation however. Maybe the court’s reluctance to calculate FRAND had nothing to do with its misjudgment. It could simply be the ECJ’s ambiguity that threw it off the right path.

10 Conclusion

10.1 Answering the questions

10.1.1 Is the law in force sufficiently clear?

As has been discussed to some length in the previous chapter, the ECJ leaves many questions unanswered in the *Huawei* ruling. The proposed negotiations framework has so many holes in it that it can be regarded as the antitrust equivalent to Swiss cheese and the method for FRAND calculation is not mentioned at all. This makes it difficult for SEP-holders to know whether or not they are entitled to ask for injunctions.

---

330 C-170/13 *Huawei* paras. 61-63.
Subjects of the law are supposed to have the ability to regulate their conduct in order to protect themselves from the arbitrary use of state power. Community rules shall enable those concerned to know precisely the extent of the obligations which are imposed on them and individuals must be able to ascertain, unequivocally, what their rights and obligations are in order to take the steps accordingly. The idea of SEP-holders risking committing competition law violations, and being imposed hefty fines based on them making offers which they wrongfully believe to be FRAND seems far removed from these values. Some clarification is thus necessary if we are to avoid a system incompatible with the general principle of legal certainty.

In addition to being problematic for SEP-holders, the insufficient clarity makes it more difficult for legal authorities to apply the judgment, which might lead to misjudgement. The German cases Sisvel v. Haier and SLC v. Deutsche Telekom are good examples of this problem. Misjudgment forces appellate courts to intervene and make additional references to the ECJ for guidance. This leads to lengthier and more complicated legal proceedings and higher litigation costs which in turn might be passed on to consumers. If one of the motives behind the antitrust intervention, as Angeli suggests, is to counteract increasing amounts of resources spent on litigation, the Court’s unclarity risks defeating that whole purpose.

10.1.2 Is there a balance between interests?
Developing an economy based on knowledge and innovation is one of the three main priorities set in “Europe 2020”, the ten-year strategy adopted by the EU for smart, sustainable and inclusive growth. In today’s world of increasingly globalised markets and knowledge economies it is evident that encouraging industries, which lead from research and development (“R&D”) investments to employment, is crucial in order to create a more competitive economy with higher employment. An efficient IPR system is one of the most important factors in this process since IP has the capacity of encourag-

---

332 C-345/06 Heinrich para. 44, C-158/06 ROM-projecten para. 25.
333 C-72/10 & C-77/10 Marcello Costa para 74.
334 See sections 9.1 Sisvel v. Haier and 9.2 SLC v. Deutsche Telekom.
ing creativity and innovation. Innovation encouragement is also one of the objectives behind competition law.

As has been mentioned above, there is a need to strike a fair balance between the interests of protecting IPR, of safeguarding competition and of achieving the advantages of standardisation. If undertakings are completely deprived of the essence of their exclusive rights the value of IPR will be diminished. Such an outcome cannot be allowed since it makes undertakings refrain from investing in development and innovations. The alternative would mean competition law counteracting the values that it is supposed to be protecting in the first place. Thus, too much intrusion in the patent holders’ possibilities to enforce their rights might disturb the system and threaten the realisation of the ambition to establish an ideal breeding ground for innovation and interoperability.

In my opinion, the *Huawei* ruling is somewhat unbalanced. By developing a presumption that SEP-based injunctions constitute abuse of dominance the ECJ has tipped the scale to the infringer’s advantage. Only after having followed the steps of the negotiations framework is the SEP-holder allowed to launch an injunction in order to stop an infringement. The infringer however, is free to commence court proceedings in order to challenge the validity, essentiality or infringement of the patent whenever it wants.

This imbalance may give the SEP-holder a great disadvantage in the negotiation process. Such a disadvantage might lead to SEP-holders displaying more restraint regarding the enforcement of their rights, which in turn may result in less investment in innovation. It might also make patent holders less willing to incorporate their patents into technical standards, jeopardising the effectiveness of standardisation. If patent holders are doubtful regarding whether or not to standardise their technology, there is a risk that the best and most cost efficient technology will not always be selected for the standard. In the long run, this might lead to less interoperability and increased cost, to the detriment of consumers. It might also lead to risks of economic losses for undertakings investing in developing technologies wrongly believing that they will work together with other devices.

---

338 Ibid.
339 See section 2.2 The protection of competition.
340 See sections 2.3 A balance between interests and 3.3 The balance between standardisation, IP law and competition law.
341 See section 8.6.3 The infringer’s absolute right to challenge.
342 See section 2.3 A balance between interests.
343 See section 3.1 Interoperability and technical standards.
10.1.3 Is there a better approach?

10.1.3.1 The breach of Art 101 TFEU approach

It has been suggested that Art 101 TFEU, which prohibits agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between member states and which have as their objective or effect the prevention, restriction or distortion of competition within the internal market, is applicable to SEP-based injunctions. The EC has expressed the view that Art 101 TFEU requires FRAND licensing in agreements to adopt specific standards. Based on this, Temple Lang considers that an SEP-hold...
10.1.3.2 The contract law approach

It can be argued that the anti-competitive effects that come with SEP-based injunctions should have been left for the national courts or the SSOs to deal with outside of the realm of competition law. Since a FRAND-commitment made to an SSO also creates rights for third parties, a court can refuse to grant an injunction based on general contract law. As I have mentioned above, courts rarely grant injunctions to SEP-holders acting in breach of their FRAND-commitments. Competition law, and the fines that come with violating it, is thus not necessary to handle the issue.

In order to make things clearer, SSOs could change their IPR-policies to prohibit injunctions. Angeli argues that even though it is unquestionable that the problem could be solved by SSOs changing their IPR-policies, antitrust interference is needed since no such change appears to be on the horizon. I respectfully disagree with this logic. In my opinion, the fact that the SSOs have not changed their IPR-policies suggests that they do not view the launching of SEP-based injunctions as such a big problem. This argument rather speaks against competition law intervention, than for it.

What then was the decision to make a competition law intervention based on? According to Angeli, such an intervention is necessary in order to lessen the negative effects of unnecessary litigation. While it is true that the increasing number of legal proceedings surrounding SEPs is a problem since the vast resources spent on litigation might eventually be passed on to consumers, I respectfully submit that one should not to be too hasty declaring litigation as unnecessary. As I have discussed above, injunctions have important functions in licensing negotiations since they can be used to increase and decrease royalty size. Basing the decision on this argument is not very convincing.

10.2 Closing remarks

The Huawei judgment is the first in which the ECJ has ruled on SEP-based injunctions’ compatibility with competition law. Following its announcement, SEP-holders will need to take into account the risk of violating competition law before seeking injunctions against infringers, and infringers have a new defence against unwelcome injunctions. As has been described above, the judgment leaves multiple questions unanswered. It is also unbalanced to the detriment of SEP-holders and detached from the reality of licensing

350 See section 4.1 FRAND in general.
351 See section 8.6.4 Incorrect assumptions.
353 Ibid.
negotiations. Because of these shortcomings, both undertakings and legal authorities will have trouble interpreting it. This might lead to misunderstandings and misjudgement. It is predictable that there will be further requests for preliminary rulings from national courts trying to figure out how to apply the ruling to the disputes before them.

Personally, I do not agree that antitrust intervention was necessary in order to deal with SEP-based injunctions. Leaving this issue to the SSOs and national courts to deal with using contract law might have been preferable since it would not have limited the possibilities of enjoying the fundamental right to IP to the same extent. However, if antitrust intervention is required I have to admit that the *Huawei* method might not be that bad. Compared to the EC, the ECJ demonstrates a fairly modest appetite for competition law intervention. Only where injunctions can be expected to cause the exclusionary competitive harm of closing all competitors out of the market can an abuse be established.\(^{354}\) This departure from the *Motorola* and *Samsung* framework indicates some improvement for SEP-holders wanting to establish their rights through launching injunctions. The judgment thus provides a new hope for a more balanced application of the antitrust regulation in respect of SEP-based injunctions.

\[^{354}\text{C-170/13 Huawei para. 52.}\]
Bibliography

Literature


Jones, Alison & Sufrin, Brenda, EU Competition Law, (5 edition OUP 2014).


Academic articles


62


**Case law of the European Court of Justice**


85/76 Hoffmann-La Roche & Co. AG v Commission of the European Communities, EU:C:1979:36.


C-418/01 IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG, EU:C:2004:257.

C-158/06 Stichting ROM-projecten v Staatssecretaris van Economische Zaken, EU:C:2007:370.

C-345/06 Gottfried Heinrich, EU:C:2009:140.


C-92/09 and C-93/09 Volker und Markus Schecke GbR and Hartmut Eifert v Land Hessen, EU:C:2010:662.

C-72/10 and C-77/10 Marcello Costa and Ugo Cifone, EU:C:2012:80.

C-539/10 and C-550/10 Stichting Al-Aqsa v Council of the European Union and Kingdom of the Netherlands v Stichting Al-Aqsa, EU:C:2012:711.

C-170/13 Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, EU:C:2015:477.
Case law of the General Court of the European Union


German case law

Bundesgerichtshof of May 6, 2009, Case No. KZR 39/06.

Oberlandesgerichte in Karlsruhe of 27 February 2012, Case. No. 6 U 136/11.

Landgericht of Düsseldorf of 3 November 2015, Case no. 4a O 93/14 and 4a O 144/14.

Landgericht of Mannheim of 27 November 2015, Case no. 2 O 106/14.


American case law


U.S. District Court of the Northern District of California at San Jose Division of 6 January 2014, Realtek Semiconductor Corp. v. LSI Corp. and Agere Systems LLC, C-12-03451-RMW, 2013 WL 46997.

Decisions of the European Commission


Case No COMP/C-3/37.990 Intel, Commission Decision relating to a proceeding under Article 82 of the EC Treaty and Article 54 of the EEA Agreement, 2009/C 227/07.

Official publications from EU institutions


Commission guidelines on the application of Article 81(3) of the Treaty, OJ 2004 C 101/08.

COM(2008) 466 final, Green paper, Copyright in the Knowledge Economy

Commission Guidance on Art 102 Enforcement Priorities, OJ 2009 C 45/7


Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ 2011 C 11/1


Other sources
