

Standard-essential patents and assertion of IPRs: defining the boundaries of abusive use of court injunctions

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One of the hottest issues in IP and competition law

In June 2009 the Association of European Competition Law Judges dedicated its annual meeting to *EU competition law and IPRs in the context of standardization of technologies*

In the last four years: fierce competition among major platforms in an environment of technological convergence; strong innovation and entry of new competitors; major acquisitions of patent portfolios; a wave of IP litigation in the IT sector all over the world

Can the use of injunctions by SEP holders be an abuse?

The application of art. 102 TFEU to the use of injunctions by SEP holders under FRAND commitments became a new area of interest in EU competition law. Recently:

- the European Commission sent statements of objections to Samsung (December 2012) and Motorola (May 2013)
- the District Court of Düsseldorf sent the EUCJ a request for preliminary ruling on the conditions under which a SEP holder may abuse a dominant position by seeking injunctive relief

Searching for the proper boundaries of the application of art. 102 to SEP litigation

The extreme positions are being set apart: both the theory of irrelevance of competition rules in this area and the assumption that, in principle, for SEP holders with FRAND commitments seeking an injunction is an abuse of dominance. Both approaches are inadequate to pursue the objective of promoting innovation by encouraging investment in a system of undistorted competition. How should we go on with the search process?

The general background

Horizontal cooperation guidelines and the European standardization regulation

In the Horizontal Cooperation Guidelines (2011) the Commission encourages standardization agreements with FRAND commitments by declaring that in general they do not not restrict competition. This safe harbour does not imply that the absence of FRAND commitments amounts to an infringement of either art. 101 or 102

Regulation 1025/2012 modernizes European standardization procedures, making them more rapid and inclusive, but does not address IP licensing issues

The assessment of dominance

There is no presumption that a SEP implies the existence of market power (HCG, para. 269). The assessment of dominance on a case by case basis, taking into account the existence of substitutes and potential competition, cannot be skipped

Full property rights v. FRAND-encumbered property rights (a)

According to EU courts, the prohibition of refusal to deal should not be seen as a normal consequence of dominance, but is limited to “exceptional circumstances” (Magill, IMS, Microsoft), also in cases not involving IPRs (Bronner). According to the ECJ case law in the presence of IPRs, a refusal to deal may be an abuse if four requirements are met: indispensability of the technology; exclusion of any effective competition on a neighbouring market; prevention of the appearance of a new product; no objective justification

Full property rights v. FRAND-encumbered property rights (b)

Microsoft and the Commission Guidance paper on exclusionary abuses (2009) broaden the language of the new product test. However, the EU case-law still allows requesting a demanding standard of proof concerning the likely consumer harm. If taken seriously, this approach is still capable of limiting the “duty to supply” to strictly exceptional circumstances

Full property rights v. FRAND-encumbered property rights (c)

In the SEP context, things change because SSO usually require members to self-limit their right to exclude other parties through FRAND commitments. These commitments are mere contractual obligations, not statutory rules, aimed to ensure access to the standard and to prevent hold-ups, while ensuring remuneration of IP. FRAND commitments entail, with different formulations, that the patentee cannot refuse to enter into good faith negotiations with potential licensees with the aim to achieve a licence on FRAND terms.

Non compliance with a FRAND commitment (a)

FRAND commitment is not a duty to license independently of the economic conditions of the agreement; it is a commitment to license on FRAND terms (and problems arise because there may be different views on what FRAND means in practice).

Non compliance with a FRAND commitment can be addressed, as a breach of contract, under contract law. In principle, it can also be an abuse of dominance: an exclusionary abuse by vertically integrated competitors or even an exploitative abuse if the patent holder does not compete with licensees.

Non compliance with a FRAND commitment (b)

However, nothing suggests that this breach of contract should be automatically considered an abuse. The general criteria for the application of article 102 should always be referred to. Moreover, for allegations of exploitative abuses, it has to be remembered that “in order not to reduce dynamic competition and to maintain the incentive to innovate, the innovator must not be unduly restricted in the exploitation of IPRs” (Commission Guidelines on Technology Transfer Agreements, §8).

Use of injunctions under article 102

Is the use of injunctions precluded for SEPs?

In the Commission's view, injunctive relief on the basis of SEPs is not precluded (see, e.g. Google- Motorola Mobility, §106 and §126). The possibility that its use amounts to an abuse is an exception. The memo on the statement of objections sent to Motorola (6 May 2013) stresses that "the preliminary conclusion that seeking and enforcing an injunction can constitute an abuse in the exceptional circumstances of the case" does not question the availability of injunctive relief for SEP holders outside those circumstances

What are the concerns for competition? (a)

In Google/Motorola (§107): " (...) the threat of an injunction, the seeking of an injunction or indeed the actual enforcement of an injunction granted against a good faith potential licensee may significantly impede effective competition by, for example, forcing the potential licensee into agreeing to potentially onerous licensing terms which it would otherwise not have agreed to. (...) To the extent that injunctions are actually enforced, this furthermore may have a direct negative effect on consumers if products are excluded from the market". Even temporary exclusions in a fast moving market can cause serious harm

What are the concerns for competition? (b)

In the memo of 6 May 2013 the Commission argues that in the specific situation of the Motorola case, recourse to injunctions “distorted the negotiation process for a FRAND license with Apple, a willing licensee”, and that “hold-ups of this kind can ultimately lead to less consumer choice with regard to interoperable products and less innovation”.

How to assess whether the use of injunctions infringes art. 102

Caution is needed: in *Google- Motorola* the Commission remembers that in a different case (*ITT Promedia*) it has taken “a narrow view on when the initiation of legal proceedings by a dominant company may constitute an abuse”. In *ITT Promedia* (1998) the General Court states that since access to the court is a fundamental right and a general principle ensuring the rule of law, it is only in “wholly exceptional circumstances” that bringing legal proceedings may constitute an abuse of dominance

The requirements in ITT Promedia and Protégé

ITT Promedia (1998):

➤ the action cannot reasonably be considered as an attempt to establish the rights of the undertaking concerned and can therefore only serve to harass the opposite party;

➤ it is conceived in the framework of a plan whose goal is to eliminate competition (§ 55).

Since the two conditions are an exception to the general principle of access to the courts, they must be construed and applied narrowly (§61).

• *Protégé International* (2012): the action must be objectively unreasonable or manifestly unfounded

Does *Scarlet* suggest looser criteria?

In *Scarlet* (2011) the EUCJ argued that the balancing of IPR and freedom of enterprise precludes the adoption of an injunction against an ISP requiring it to install a general filtering system for all electronic communications: the burden would be disproportionate. The Commission refers to this judgement in *Google-Motorola* (footnote 55). However, *Scarlet* does not allow to loose the *ITT Promedia* standard: when considering access to the courts, the issue is not a mere balancing between two rights. The role of courts is not to protect a specific right but to ensure the application of the law, balancing if appropriate the interests involved. 19

How do European courts deal with the issue

In general, the courts seem well equipped to play their role in SEP litigation. Preliminary injunctions are usually denied when FRAND encumbered SEPs are involved; the judgment typically takes in consideration whether the parties are negotiating in good faith. In this framework, although injunctive relief is not ruled out, the negotiation in the shadow of law between the parties will normally not lead to hold up, because the implementer always has the last resort ability to accept license terms that are either certificated by a third party as FRAND or mutually agreed upon by the parties (Ratliff and Rubinfeld, 2013).

An example: Samsung-Apple, IP Specialized Court, Milano, 2012

The Court rejected the request for a preliminary injunction for alleged infringement of FRAND encumbered SEPs, taking into account that serious negotiations already took place between the parties. Moreover the Court, balancing the interests involved, considered that a preliminary injunction would have caused a disproportionate harm to the alleged infringer of the SEPs compared with the damage which would have resulted for the SEP holder. The Court did not find bad faith in the conduct of the parties. This was deemed sufficient to exclude, in the preliminary ruling, that the SEP holder had committed an abuse of dominance by seeking injunctive relief

The criterion of the willing licensee

According to the memo on the *Motorola* case, seeking and enforcing of an injunction for SEPs can constitute an abuse where the SEP holder has committed to license on FRAND terms and where the company against which the injunction is sought has shown to be “willing to enter into a FRAND license”. This willingness results in particular from the acceptance by the implementer to be bound by a court’s determination of a FRAND royalty rate in the event that bilateral negotiations do not come to a fruitful conclusion. In this context, the Commission clarifies that the fact that the potential licensee challenges the validity, essentiality or infringement of the SEP does not make it “unwilling”

Concerns raised by this approach

This approach strongly shifts the balance in favour of the defendant. The defendant, by declaring its willingness to negotiate, in principle would be able to avoid any liability by tactical, dilatory and not necessarily serious conduct, to the detriment of the patent owner. Moreover, this approach risks favouring infringers over other licensees

The *Orange Book Standard* approach

In *Orange Book Standard* (2009) the German Federal Court of Justice adopted an approach more favourable to patent-owners. In order to avoid an injunction, the license seeker: *i*) must have made an unconditional binding offer for the conclusion of a license that the patent owner cannot refuse without being in breach of its obligations (unfairly hindering or discriminating the license seeker); *ii*) must satisfy in advance the obligations ensuing from the license agreement that is being concluded (render account of acts of use, pay the corresponding license fees).

These criteria have been further specified by the German lower courts, in generally setting very strict conditions on the license seeker

Questions referred to the EUCJ (a)

Taking into account the different approaches followed by the Commission and the German Courts, the District Court of Düsseldorf on 21 March 2013 referred five questions to the EU Court of Justice:

- a) does the owner of a FRAND encumbered SEP abuse of its dominant position if he asserts an injunctive relief although the alleged infringer has declared its readiness to enter into negotiations or only when the license seeker has submitted an unconditional offer?
- b) if readiness to enter into negotiations is sufficient, are there any qualitative and/or time related requirements?

Questions referred to the EUCJ (b)

- c) if an unconditional offer is required, are there any qualitative and/or time related conditions that must be met? May the offer involve the condition that the SEP is legally valid?
- d) if the fulfilment of obligations by the licence seeker is required, are there specific conditions that must be met (on acts of use, payment of fees, etc.)?
- e) the same conditions under which seeking an injunction may be an abuse entail the same consequence for the assertion of other claims based on patent infringement (e.g. damages)?

The future ruling of the Court of Justice will provide guidance for the future application of article 102 both by competition authorities and in private litigation.

Challenges for the courts

The issue of the conditions under which the SEP holder should obtain an injunction in court proceedings is different from the issue of the application of art. 102. Exchange of views and experiences among judges may be useful, also to develop best practices

On July 15, 2013 the judges of several Member States will come to a Workshop in Rome to discuss cases in the recent IT litigation saga in Europe, Asia and the US from a comparative perspective; the role of public authorities, including Patent Offices and competition authorities, in this policy area will also be considered.

Future perspectives: the UPC

The new Unified Patent Court , established by an international agreement signed in February 2013 by 24 Member States, has a number of features which suggest that it will play an important role for the proper operation of the system:

- it will be composed of specialized judges from all Member States, with a common training;
- it will ensure more consistent approaches to infringement actions in the EU;
- it will have the right/duty to request the EUCJ preliminary rulings, as a court of a Member state.