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**Standard Essential Patents and Antitrust: A
Comparative Analysis of the Approaches to
Injunctions and FRAND-Encumbered
Patents in the United States and the
European Union**

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Abstract

This paper looks at the holdup problem stemming from the apparent incompatibility between Standard Essential Patents—those subject to fair, reasonable and non-discriminatory (FRAND) licensing—and the use of injunctions, and analyzes the potential complementary use of antitrust rules to strike the right balance to optimize competition and innovation.

I conclude that in the U.S., patent law and the ruling in *eBay* provide courts with sufficient tools to avoid the holdup problem, though the FTC could still have a policing role under Section 5 of the FTC Act. In the E.U., the fragmentation of remedies in patent law calls for antitrust enforcement by the European Commission, in line with the safe harbor approach adopted in the *Samsung* case.

Prior to *eBay*, antitrust enforcement in the United States was limited to the scope of Section 5 of the FTC Act and its associated remedies, *i.e.* cease and desist orders. However, current patent law counts on judicial tools to identify and prevent holdups created through the threat of injunctions. In particular, the *eBay* test has enabled courts to limit the potential anticompetitive effects of an injunction sought against a willing licensee. Once courts have signaled the unlikelihood or practical impossibility of obtaining an injunction against such a licensee, holdup issues disappear and any threat to seek injunctions loses all credibility. Courts can then establish damages for past infringement and to set ongoing royalties

In Europe, remedies for patent law breaches diverge across jurisdictions and while some seem more in line with the *eBay* balancing test (the Netherlands), others still use injunctions as the default remedy (Germany). The potential benefits of an *Ebay*-style balancing test are thus not available across the E.U. Meanwhile, patentees can continue to leverage the threat of injunctions to obtain unfair licensing terms. The European Commission has stepped up to take a decisive stance against injunctive relief in the presence of Standard Essential Patents as stated in its decisions in the *Motorola Mobility* and *Samsung* cases. The European Commission has the authority to establish an adequate framework for negotiation under FRAND under the *Samsung* decision. It should exercise this power to set an *ex ante* expectation that no injunctive relief will be granted and that parties will have to reach to an agreement sooner or later or leave it for the courts to decide the FRAND terms.

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1 INTRODUCTION

The Internet, wireless communication protocols, buses ports, computers, tablets, smartphones... All of these technologies are present in our lives on a daily basis. However, their genesis and mass distribution could only take place thanks to the design and implementation of technical standards. However, standardization brings along other associated problems. Once the standard has been established, designing around those standards may prove difficult. Thus, those patentees who possess patents over technology under the scope of the standard see their licensing bargaining power increased. To favor standards-setting and to prevent opportunistic behavior by those who hold standard essential patents (“SEPs”), standard-setting organizations (“SSOs”) generally require their members to commit to license their patents under (fair), reasonable and non-discriminatory (“FRAND”) terms. However, on certain occasions SEPs holders seek to obtain injunctive relief in court, which can lead to the exclusion of implementers and competitors. Such actions can be due to the so-called holdup problem: the strategic behavior by the patentee in extracting superior rents by seeking supra-competitive or unfair licensing terms. These actions could however be caused by the unwillingness of would-be licensees to license under FRAND terms. Both courses of action are in any case, *inter alia*, a function of the likelihood of obtaining an injunction from the courts. It is thus paramount to strike the right balance between the right of the patentee to obtain adequate royalties related to his effective contribution to the technology and the enforcement of actual FRAND terms.

There is no role for the application of antitrust rules in the process of issuing patents in the U.S. and after issuance, there is very limited regulatory intervention or monitoring taken on by

public authorities.¹ Although it is not the role of antitrust to offset the flaws of imperfect regulation, regulation of any sort should not be a deterrent to the application of antitrust laws.²

This paper looks at the apparent incompatibility between FRAND-encumbered SEPs and the seeking of injunctions and analyzes the potential use of antitrust rules to strike the right balance to optimize competition and innovation. Firstly, I describe the framework and the nature of the holdup problem in the presence of FRAND terms. Secondly, I analyze how courts and regulatory agencies have dealt with the problem both in the United States (“U.S.”) and the European Union (“E.U.”). Finally, I deliver some conclusions and policy recommendations to address the problem both in the U.S. and the E.U.

2 THE PROBLEMS OF HOLDUP AND REVERSE HOLDUP: THE DIFFICULT EQUILIBRIUM

2.1 Standards: Positive and Negative Effects of Standardization

The rationale for standards lays mainly on the interoperability of complementary products. As Carl Shapiro puts it, *‘standards are an inevitable outgrowth of systems, whereby complementary products work in concert to meet users’ needs’*.³ In today’s world, standards play

¹ Herbert J. Hovenkamp, Competition in Information Technologies: Standards-Essential Patents, Non-Practicing Entities and FRAND bidding, University of Iowa Legal Studies Research Paper Number 12-32, 2, Nov. 2012.

² *Id.*, at 2

³ Carl Shapiro, *Setting Compatibility Standards: Cooperation or Collusion?*, in EXPANDING THE BOUNDARIES OF INTELLECTUAL PROPERTY: INNOVATION POLICY FOR THE KNOWLEDGE SOCIETY 81, 82

a preeminent role due to the increased importance of the information, communications and technology sector:⁴ MP3 players play music because they can read the same format, mobile phones can call each other because they use the same GSM technology, and devices connected to Wi-Fi could connect to the internet because of their use of the 802.11 technology, radios get signal because they use the AM standard. In a nutshell, we need standards so that our increasingly interconnected world works.

Standards are generally regarded as pro-competitive. Standards provide many benefits for consumers beyond interoperability like lower product costs and increased price competition.⁵ The benefits of standardization are multiple. They can help achieve the maximization of network effects and consumers can rely on the usability of products they buy and not get stranded with phased-out technologies.⁶ However, they can also constrain dynamic efficiencies due to reduced choice and/or to locked innovation paths.⁷ In general the economics of standards-setting does not show a particular preference in the weighing of positive and negative effects: either standardization takes place to allow the realization of network effects and competition happens *ex post within* the standard; or standardization is discarded and competition happens *ex ante between* standards.⁸

However, the increased complexity of technologies nowadays and the need of multiple

(Rochelle Cooper Dreyfuss et al. eds., 2001).

⁴ Joseph Scott Miller, *Standard Setting, Patents, and a Access Lock-In: RAND Licensing and the Theory of the Firm*, 40 IND. L. REV., 351 (2007).

⁵ *See* Apple, Inc. v. Motorola Mobility, Inc., 2011 WL 7324582, at 1 (W.D. Wis. June 7, 2011).

⁶ Shapiro, *supra* note 3, at 88.

⁷ *Id.*, at 88.

⁸ *Id.*, at 89.

technologies from different actors to allow the interface of parts implies in many cases that for a particular product to exist at all, an agreement over the standard is paramount to get through the ‘patent thicket’.⁹

2.2 Standard-Setting Organizations Standard Essential Patents and the Problem of Holdup

The necessity to establish efficient and operative standards to unleash the benefits of innovation and to bring about new products calls for cooperation in the setting of standards. Companies can cross-license their patent portfolios or create patent pools to facilitate licensing of their intellectual property (“IP”) rights. They can also cooperate to adopt a single standard through the creation of a private standard-setting organization (“SSO”).¹⁰

Once the standard has been set, holdup risks arise. The problem of patent holdup refers to the strategic behavior of patentees to extract over-the-market royalties for a patent.¹¹ When the standard is set, all patents need to implement it to become truly essential.¹² The IP protection conferred to patents means that all SEP holders can leverage on the monopoly that they hold on their patent onto others and absent an external alignment of incentives between SEP patentees, all of them have the incentive seek higher royalties by leveraging the market power gained through

⁹ Carl Shapiro, *Navigating the Patent Thicket: Cross Licensing, Patent Pools, and Standard Setting*, 1 INNOVATION POLICY AND THE ECONOMY 119 (Adam B. Jaffet al. eds., 2001).

¹⁰ See generally Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CALIF. L. REV. 1889 (2002).

¹¹ See Mark A. Lemley & Phillip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783 (2007).

¹² For a discussion on the need to include only truly essential patents in the standard see Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 BERKELEY TECH. L. J. 1135, 1140 (2013).

the threat of injunction suits against non-licensed implementers that can lead them out of the market.¹³

2.3 Intellectual Property Rights Policy, FRAND Licensing and Reverse Holdup

SSOs can mitigate the threat of patent holdup through the implementation of internal policies requiring members who hold IP rights over SEPs to agree to license them to anyone on FRAND terms.¹⁴ Patentees bound by FRAND terms must negotiate a fair and reasonable royalty with implementers and the latter must be willing to pay it or face damages in an infringement suit.¹⁵

In cases where parties end up litigating the case, the question whether the patentee holds the right to seek injunctions or exclusion orders has a paramount importance in setting the incentives in the licensing negotiation *ex ante* and the settlement negotiations *ex post*. If patentees were allowed to seek injunctions to protect FRAND-encumbered SEPs, then patent holdup allows patentees to extract higher rates than fair royalties, since they not only take into account the contribution of the patent to the technology, but also shift costs that the implementer would incur

¹³ Carl Shapiro, *supra* note 9, at 136 (“Blocking patents are specially common in the context of standard setting: once a standard is picked, any patents (or copyrights) necessary to comply with that standard become truly essential. If the standard becomes popular, each such patent can confer significant market power on its owner, and the standard itself is subject to holdup if these patent holders are not somehow obligated to license their patents on reasonable terms. As noted above, for precisely this reason, standard-setting bodies require participants to license any essential patents on reasonable terms as a quid pro quo before adopting any standards”).

¹⁴ See Lemley, *supra* note 10, at 1902.

¹⁵ Daryl Lim, Standard Essential Patents, Trolls and the Smartphone Wars: Triangulating the End Game 5 (Sept. 12, 2014) available at ssrn.com/abstract=2495547.

if he were to circumvent the standard as a whole.¹⁶ On the other hand, if injunctions were *per se* prohibited for FRAND-encumbered patents, infringers would have less to lose if no agreement is reached and implementers would have fewer incentives to negotiate in good faith with the patentee.¹⁷ The conclusion that FRAND commitments exclude in full injunctions entails the limitation of the patentee's bargaining power, leading in turn to under-compensation and reduced incentives to innovate.¹⁸ This problem is known as reverse holdup.

Thus, it is paramount to find the right balance to avoid the holdup and reverse holdup problems: patentees must have the incentives to innovate and engage in the standard-setting process in a constructive way. To achieve this, patentees must have the incentives to seek fair and reasonable royalties and licensees must have the incentive to accept those terms.

In the following sections I describe how this problem is addressed in the U.S. and the E.U.

¹⁶ Lemley & Shapiro, *supra* note 14, at 1140.

¹⁷ I do not disregard the importance of other legal institutions as willful infringement that could also have an impact on the incentives of infringers. What I want to stand out is that the threat of injunctions has an evident role in the economics of infringing patents.

¹⁸ F. Scott. Kieff, *Coordination, Property, and Intellectual Property: An Unconventional Approach to Anticompetitive Effects and Downstream Access*. 56 EMORY LJ 327 (2006).

3 THE APPLICATION OF ANTITRUST LAW IN THE UNITED STATES IN THE PRESENCE OF STANDARD ESSENTIAL PATENTS

3.1 The Availability of Alternative Remedies to Injunctions – Ebay

The characterization of IP rights as property has the natural effect of granting the '*right to exclude others from making, using, offering for sale, or selling the invention*'.¹⁹

The economics of patent valuation shows that the threat of an injunction is one of the most powerful leverage assets for patentees in the framework of licensing negotiation.²⁰ In the U.S., courts have long recognized the right to permanent injunctive relief upon compliance with four judicially set requirements: (i) plaintiff must have suffered an irreparable injury, (ii) other remedies (e.g. damages) are inadequate compensatory measures, (iii) a positive balance in equity of the hardships to born by the plaintiff and the defendant, (iv) the lack of curtailed public interest.²¹

In *eBay v MercExchange*,²² the Supreme Court limited the previously dominant quasi-automatic granting of injunctive relief.²³ The district court denied MercExchange's motion for a

¹⁹ 35 U.S.C. § 154(a)(1).

²⁰ ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 400 (Aspen Publishers, 6th ed. 2012).

²¹ Weinberger v. Romero-Barceló, 456 U.S. 305, 311-13, 102 S. Ct. 1798, 72 L. Ed. 2d 91 (1982).

²² eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

permanent injunction. The Federal Circuit reversed, as it considered that injunctions should be granted unless *exceptional circumstances* arise. Finally, the Supreme Court reversed the Federal Circuit. When assessing the application of the well-established equitable four-prong test, the Supreme Court considered that the lower courts had not applied it consistently and that they had established a *per se* granting of injunctive relief, contrary to the equitable test to be applied. In summary, the Supreme Court considered that the general right to exclude does not entail a direct right to obtain injunctive relief.²⁴

The impact of this judgment in subsequent cases is evident. By shifting the characterization of injunctive relief from a property rights issue to a liability issue, the economics of patent licensing change dramatically.²⁵ In particular, by allowing continued infringement, which was avoided by *per se* granting of injunctive relief, infringers do not necessarily face an exclusion from the market; and the holdup problem is limited through the equitable test.

In the framework of FRAND-encumbered SEPs in the *post-eBay* landscape, Hovenkamp advocates that patentees are prevented from obtaining injunctions as long as '*the defendant has agreed to pay a FRAND royalty*'.²⁶ It seems that the impact is quite relevant as *post-eBay*, as one

²³ David B. Conrad, *Mining the Patent Thicket: The Supreme Court's Rejection of the Automatic Injunction Rule in eBay v. MercExchange* 26 REV. LITIG. 119,128-31 (2007). On the consequences of the judgment see also Benjamin H. Diessel, *Trolling for Trolls: The Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions in Patent Cases Post-eBay*, MICHIGAN LAW REVIEW Vol. 106, No. 2 305-345 (2007) and Miranda Jones, *Permanent Injunction, a Remedy by any other Name is Patently Not the Same: How eBay v. MercExchange Affects the Patent Right of Non-Practicing Entities* 14 GEO. MASON L. REV. 1035 (2006-2007).

²⁴ For a wider analysis of the question see Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1092-93 (1972).

²⁵ Peter Lee, *The Accession Insight and Patent Infringement Remedies*, 110 MICH. L. REV. 195 (2011).

²⁶ See Hovenkamp, *supra* note 1, at 14.

third of injunction requests have been rejected by courts.²⁷ Along the same line, Lemley claims that the threat of injunctive relief in the presence of FRAND commitments may grant excessive leverage in comparison with the real contribution of the patent to the standard and that the denial of injunctions is the best way to avoid the patent holdup problem.²⁸

3.2 The Binding Nature of FRAND Commitments

Part of the debate as to whether competition law should interfere in the presence of injunction requests for FRAND-encumbered SEPs is as regards the contractual question as to whether FRAND commitments entail an obligation to negotiate *bona fide* or a contractual obligation to reach an agreement under FRAND terms.

In *Microsoft Corp. v. Motorola Inc.* before the Court of Appeals of the 9th Circuit, Microsoft filed a breach-of-contract suit against Motorola, alleging that Motorola's royalty terms proposal was unreasonable, and that such behavior thus breached its contractual FRAND terms in licensing a SEP to Microsoft, a third party beneficiary. The next day, Motorola filed a patent suit against Microsoft for patent infringement.²⁹ The district court concluded that FRAND commitments preclude the success of motions for injunctive relief, and the Court of Appeals affirmed, acknowledging that:

²⁷ According to Patstats.com, by Dec. 31, 2013, injunctions were granted in 168 cases and rejected in 56 cases. *Post-eBay Permanent Injunction Rulings in Patent Cases to 12-31-13*, http://www.patstats.org/Injunction_rulings_post-eBay_to_5-26-2013.xls (last visited Oct. 31, 2014).

²⁸ Mark A. Lemley, *Ten Things to do about Patent Holdup of Standards (and one not to)*, 48 B.C. L. REV. 149, 167 (2007). (“Courts can now consider the public interest, the balance of the hardships, and whether the patentee really needed injunctive relief or was merely using the threat of injunction to leverage its bargaining power. There are some early indications that district courts are taking this responsibility seriously, denying injunctive relief where non-manufacturing patent owners seek it primarily to use as a bargaining lever. Denying such relief is the most powerful way to prevent patent holdup and realign the incentives in patent licensing negotiations”). (emphasis added)

²⁹ *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012).

It is clear that there is a contract, that it is enforceable by Microsoft [...]. Moreover, even if Motorola did not breach its contract, then, however the [F]RAND rate [...], injunctive relief against infringement is arguably a remedy inconsistent with the licensing commitment.³⁰

Consequently, since FRAND commitments are binding, implementers, as third-party beneficiaries, could argue before the court that a failure to offer a FRAND license by the SEP holder amounts to a breach of contract.

In the same line, in *Apple Inc. v. Motorola Inc.* Judge Posner concluded that the commitment by Motorola to license the patent to whoever is willing to pay the FRAND royalty precludes the request for injunctions, as Motorola would have acknowledged that the royalty is an adequate compensation for the license.³¹ On appeal, the Federal Circuit however discarded the existence of a *per se* bar of injunctive relief for FRAND-encumbered SEP patents in the broad sense expressed before by Judge Posner and reaffirmed the need to analyze the appropriateness of injunctive relief in the light of the *eBay* test:

To the extent that the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred. While Motorola's FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some amici urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. The framework laid out by the Supreme Court in *eBay*[...] provides ample strength and flexibility for addressing

³⁰ *Id.*

³¹ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901 (N.D. Ill. 2012), at 18-19.

the unique aspects of FRAND committed patents and industry standards in general.³²

The court continued its analysis by concluding that under the *eBay* test, SEP holders under FRAND terms might find it difficult to prove the first prong of the test, *i.e.* irreparable harm. However, Judge Reyna, for the majority, envisaged a potential case where an injunction could be an adequate remedy for an infringement where, '*an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect*'.³³ As a caveat to that assertion, Judge Reyna made clear that the would-be licensee's refusal to accept a license does not automatically mean that an injunction is an adequate means of relief, since it could be that the proposed license does not meet the FRAND terms, which is a factual element that should be analyzed by courts under the *eBay* framework.³⁴ Although a great deal of Judge Posner's judgment was reversed, the denial of injunction relief to Motorola was affirmed, as the Federal Circuit concluded that (i) Motorola had not proved irreparable harm, (ii) the fact that Motorola had licensed the SEP under FRAND terms in numerous occasions showed that damages were enough of a remedy, (iii) Apple had not unilaterally refused to license and negotiations had been ongoing.³⁵

The foregoing case shows that U.S. courts have strongly limited the granting of injunctive relief in the presence of FRAND commitments. Although the possibility remains viable, the fact that courts doubt about the ability of plaintiffs to show irreparable damage to meet the first prong

³² Apple, Inc. et al. v. Motorola, Inc., et al., Case No. 12-1548 (Fed. Cir. April 25, 2014).

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.* at 71-73

of the *eBay* test shows the unwelcome judicial atmosphere towards injunctions for SEPs. It seems that the only way to prove the need of injunctive relief under the new judicial framework is to show the unwillingness of the infringer to negotiate a license under FRAND terms.

3.3 The ITC Problem and Potential Solutions

The *eBay* judicial approach in patent and contract law in the U.S. seems to put judges in an adequate position to prevent the deadweight loss associated to the unfair terms that patentees can extract through holdup in the framework of SEPs. However, the presence of the parallel jurisdiction of the U.S. International Trade Commission (“ITC”) threatens to spark forum shopping for more favorable treatment for injunctive relief requests.³⁶

Patentees can seek protection of their inventions from the ITC. The ITC is a quasi-judicial federal agency entrusted with the investigation and arbitration of alleged violations of section 337 of the Tariff Act of 1930, which prohibits unfair methods of competition and unfair acts in the importation goods into the United States, as well as importation of goods which infringe patents and other IP rights.³⁷ Since the nature of the ITC is administrative and it is not an Article III court, the four-prong test for the granting of injunctive relief set forth by the Supreme Court in *eBay* does not apply to the ITC in its determination of remedies arising from breaches of Section

³⁶ See Thomas F. Cotter, *The Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties*. 22 TEXAS INTELLECTUAL PROPERTY L. J. 311 (2014)

³⁷ Tariff Act of 1930 (19 U.S.C. § 1337). *See generally*, SHAYERAH ILIAS & IAN F. FERGUSSON INTELLECTUAL PROPERTY RIGHTS AND INTERNATIONAL TRADE 47 (Nova Science Pub Inc. 2008).

337 of the Tariff Act of 1930.³⁸ Moreover, the ITC lacks the power to impose damages and the natural remedy for breaches of patent law under the scope of its jurisdiction is injunctive relief.³⁹

These factors have led to a more favorable environment for injunctive relief. Consequently, Samsung filed a complaint against Apple before the ITC for a breach of section 337 of the Tariff Act related to the importation of 'certain electronic devices, including wireless communication devices, portable music and data processing devices, and tablet computers', mainly iPads and iPhones, which infringed Samsung's patents.⁴⁰ The ITC found that Apple had breached a FRAND-encumbered SEP and decided to grant remedies to Samsung, in particular a limited exclusion order and a cease and desist order prohibiting Apple from selling or distributing in and importing into the U.S. certain iPads and iPhones.⁴¹ Apple argued that the presence of FRAND commitments precluded the ITC from finding an infringement. However, the ITC concluded that Apple had not proved the preponderance of evidence in that direction and rejected the claim that a SEP cannot be a violation of Section 337 of the Tariff Act.⁴² The ITC then concluded that there was a violation, whose natural consequence is the exclusion of violating articles from entry in the U.S, '*unless after considering the effect of such exclusion on four public interest factors the Commission determines a remedy should not issue*'.⁴³ Those factors, which are equally applicable for cease and desist orders, take into account impact of the exclusion of the products on: (1) the public health and welfare; (2) the competitive conditions in the U.S.

³⁸ Brian T. Yeh, Availability of Injunctive Relief for Standard- Essential Patent Holders, Congressional Research Service, 7-5700, Sept. 7.

³⁹ Spansion Inc. v. ITC, 629 F.3d 1331, 1358-59 (Fed. Cir. 2010).

⁴⁰ See Notice of Final Determination, In the Matter of Certain Electronic Devices, Inv. No. 337-TA-794 at 2(ITC June 4, 2013).

⁴¹ *Id.*, at 3.

⁴² See also Commission Opinion, In the Matter of Certain Electronic Devices, Inv. No. 337-TA-794 (ITC July 5, 2013) at 47-48 (public version).

⁴³ *Id.*, at 107.

economy; (3) the production of competitive articles in the U.S.; and (4) U.S. consumers. The ITC concluded that none of those public interests were at risk, particularly and as regards the last three, because the more modern iPhones and iPads would still be available.⁴⁴

The President of the U.S. can veto and leave without effect any decision by the ITC. While the ITC is bound by the four statutory public interest exceptions, in issuing a veto, the President is not limited to these policy considerations.⁴⁵ In making use of that power, the U.S. Representative for Trade sent a letter to the Chairman of the ITC wielding the presidential right to veto the exclusion order and the cease and desist order.⁴⁶ The letter shows the concern of the Obama Administration about the '*undue leverage*' gained through holdup.⁴⁷ The letter continues by stating that exclusionary remedies agreed by the ITC should still be available in the framework of SEPs, mostly (but not exclusively) where the would-be licensee cannot take or refuses to take the license under FRAND terms and acts outside the FRAND commitments.⁴⁸ Finally, the U.S. Trade Representative reminded the ITC that when assessing cases involving SEPs, the public interest considerations have to be thoroughly looked into and fully taken into account.⁴⁹

Commentators had argued in the past for a wider use of the public interest weighs, in line with the conclusion advanced by U.S. Trade Representative, when the ITC faces a complaint

⁴⁴ *Id.*, at 109-110.

⁴⁵ *Id.*, at 108 and 19 U.S.C. § 1337(j)(2).

⁴⁶ Letter from the U.S. Trade Representative, Ambassador Michael B. G. Froman to the Chairman of the ITC, Irving A. Williamson, (Aug. 3, 2013).

⁴⁷ *Id.*, at 2.

⁴⁸ *Id.*, at 2 and FN 3.

⁴⁹ *Id.*, at 3.

where FRAND commitments are involved.⁵⁰ In the presence of FRAND terms, public interest is concerned about the necessary nature of the SEP for the implementation of a standard.⁵¹ The convenience to invoke the public interest safeguards stems, from a policy perspective, from the idea that exclusionary remedies do not provide any tangible benefit except the undue increased bargaining power associated to patent holdup.⁵² Alternatively, the ITC could also delay the effective date of its section 337 exclusion and cease and desist orders until the parties agree in good faith to damages for past infringement and ongoing royalties, under the condition that the orders will either (a) enter into effect if the implementer refuses a reasonable offer under FRAND terms; or (b) be vacated if the ITC determines that the patentee has refused a reasonable offer under FRAND terms.⁵³

To conclude, although the jurisdiction of the ITC might seem problematic to fully unleash the benefits of the *eBay* judgment, the potential use of public policy considerations to prevent injunctive relief from being granted in the face of FRAND commitments as suggested by commentators and embraced by the executive may have the effect of deterring patentees seeking injunctions from forum shopping at the ITC.

3.4 The Application of Antitrust Law to Limit Injunctions

The policy view of the letter from the U.S. Trade Representative is based on a previously

⁵⁰ Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012). *See also* Thomas F. Cotter, *The International Trade Commission: Reform or Abolition? A Comment on Colleen v. Chien & Mark A. Lemley, Patent Holdup, The ITC and the Public Interest*. 1 CORNELL LAW REVIEW ONLINE (2013), Minnesota Legal Studies Research Paper No. 13-07.

⁵¹ *See* Cotter, *supra* note 50, at 50.

⁵² *See* Chien & Lemley, *supra* note 50, at 41.

⁵³ Certain Personal Data and Mobile Communications Devices and Related Software, Notice of the Comm'n's Final Determination Finding a Violation of Section 337; etc. at 3 (Dec. 2011).

published policy statement on remedies for SEPs subject to FRAND, jointly issued by the U.S. Patent and Trademark Office (“PTO”) and the U.S. Department of Justice (“DoJ”).⁵⁴ The document responded mainly to the need to ensure coherence between the granting of injunctions in the *post-eBay* judiciary environment and the granting of exclusionary orders by the ITC, which is not bound by *eBay* as detailed *supra*.⁵⁵

Published on January 8, 2013, the document aims at responding to the central question of this paper, which is whether injunctions or exclusion orders are adequate remedies in the presence of FRAND-encumbered SEPs.⁵⁶ The answer is ‘it depends’. The document stresses that the lock-in effect and switching costs that implementers would incur if they had to circumvent a SEP reinforce the gain of market power and potential holdup-related opportunistic behavior by patent holders.⁵⁷ Under the threat of injunctions or exclusion orders, SEP holders can leverage their enhanced market power to force implementers to accept more onerous licensing terms that they would under FRAND terms which in turn would harm competition and consumers.⁵⁸ The statement warns about the potential anticompetitive effects that injunctions could have in the presence of FRAND commitments and calls decision-makers to strike the balance between the appropriate compensation of patentees and the prevention of holdup problems when deciding the appropriate remedies.⁵⁹ In line with the view of the Federal Circuit in *Apple, Inc. et al. v.*

⁵⁴ U.S. DEP’T OF JUSTICE & U.S. PAT. & TRADEMARK OFF., POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS (Jan. 8, 2013).

⁵⁵ Speech by Renata B. Hesse, Deputy Assistant Attorney General for Criminal and Civil Operations of the Antitrust Division of the DoJ, A Year in the Life of the Joint DOJ-PTO Policy Statement on Remedies for F/RAND Encumbered Standards-Essential Patents, Mar. 25, 2014, at 8.

⁵⁶ Joint Statement PTO-DoJ, *supra* note 54, at 1.

⁵⁷ *Id.*, at 4.

⁵⁸ *Id.*, at 6.

⁵⁹ *Id.*, at 10.

Motorola, Inc., et al, the document underlines that although injunctions are generally not an efficient remedy in these cases, a *per se* prohibition should not be an option as injunctions may still play a role when an infringer disregards the FRAND terms by refusing to pay or refusing to negotiate.⁶⁰

The policy distrust of SEPs holders seeking injunctions has led the FTC to apply antitrust laws in those situations. On November 26, 2012, in the case of *Robert Bosch GmbH* the FTC required Bosch to divest its vehicle air conditioning repair equipment business and to license its key patents under allegations that Bosch had reneged on its FRAND commitments by seeking injunctions against willing licensees.⁶¹ In doing so, the FTC clearly stated that

Patent holders that seek injunctive relief against willing licensees of their FRAND-encumbered SEPs should understand that in appropriate cases the Commission can and will challenge this conduct as an unfair method of competition under Section 5 of the FTC Act.⁶²

On July 24, 2013, *In the matter of Motorola Mobility LLC, and Google Inc.* the FTC alleged that Google had reneged on its FRAND commitments by threatening to pursue and by pursuing injunctions in district courts and exclusion orders before the ITC against willing would-

⁶⁰ *Id.*, at 7.

⁶¹ FTC Press Release, FTC Order Restores Competition in U.S. Market for Equipment Used to Recharge Vehicle Air Conditioning Systems, Nov. 26, 2012. For a full view of the case see also FTC Decision and Order *In the Matter of Robert Bosch GmbH* FTC File Number 121-0081.

⁶² FTC, Statement *In the Matter of Robert Bosch GmbH*, FTC File Number 121-0081 at 2 (Nov. 26, 2012).

be licensees for infringement of Motorola Mobility's SEPs for smartphones and tablets.⁶³ Acting under Section 5 of the FTC Act, the FTC stated that '*where opportunistic behavior of the sort involved here (and in Bosch) harms, or threatens to harm, competition, the competitive process, and consumers, Commission intervention is justified*'.⁶⁴ The theory of harm in this case relates to higher prices passed on to consumers: injunctions or threats of injunctions lead to higher royalties to be paid for SEPs, which in turn result in higher prices for the end products being paid and borne by consumers.⁶⁵ In particular, the FTC found that the likely effects of Google's breach of its FRAND commitments were (i) deprivation of end consumers of competing products; (ii) increased manufacturing costs passed on to consumers; (iii) undermining the incentives, integrity and efficiency of the standard-setting process; and (iv) dampening competition between Google and its competitors by raising their costs.⁶⁶

Commissioner Ohlhausen, in a strong dissent, declared that the use of Section 5 of the FTC Act was overreaching (both in *Motorola/Google* and in *Bosch*) and that seeking injunctions would be protected by the *Noerr-Pennington* doctrine.⁶⁷ In dismissing those allegations the FTC declared that by agreeing to license in FRAND terms, the patentee *willingly gave up its right to seek injunctive relief* and that applying Section 5 to a licensor who had breached its FRAND

⁶³ FTC Complaint , *in the matter of Motorola Mobility LLC, and Google Inc.*, FTC File Number 121-0120 at 5 (Jan. 3, 2013) at 5.

⁶⁴ FTC Statement , *in the matter of Motorola Mobility LLC, and Google Inc.*, FTC File Number 121-0120, (January 3 2013) at 3.

⁶⁵ FTC Press Release, Google Agrees to Change Its Business Practices to Resolve FTC Competition Concerns In the Markets for Devices Like Smart Phones, Games and Tablets, and in Online Search, (Jan. 3, 2013).

⁶⁶ Complaint in *Motorola/Google*, *supra* note 63, at 5-6.

⁶⁷ FTC Statement in *Motorola/Google*, *supra* note 64 at 4.

commitments does not violate First Amendment rights because in that context it is required that those who make promises keep them.⁶⁸

To address the concerns of the FTC, Google agreed to refrain from seeking injunctions against willing licensees both in federal courts and in the ITC for FRAND-encumbered SEPs.⁶⁹

Further, in the framework of the ITC quarrels between Motorola/Apple and Motorola/Microsoft, the FTC issued identical public interest statements urging the ITC to fully take into consideration the impact of exclusion orders in the face of FRAND-encumbered SEPs on competitive conditions in the U.S. and on U.S. customers when considering whether or not to apply the public interest exceptions.⁷⁰

The FTC has made clear that the legal basis for its actions is Section 5 of the FTC Act but not the Clayton or Sherman Acts. In particular, although the FTC hesitated as to whether to allege breaches of Section 5 as being related to “unfair acts or practices”, it has limited its action for FRAND breaches to “unfair methods of competition”.⁷¹

⁶⁸ *Id.*, at 4-5, citing *Cohen v. Cowles Media Co.*, 501 U.S. 663, 670-71 (1991).

⁶⁹ FTC Press Release in *Google/Motorola*, *supra* note 65.

⁷⁰ FTC Public Interest Statements in ITC Inv. No. 337-TA-745 (*Motorola Mobility v. Apple*) and ITC Inv. No. 337-TA-752 (*Motorola Mobility v. Microsoft*) (June 6, 2012).

⁷¹ *See Cotter*, *supra* note 36, at 19.

4 THE APPLICATION OF COMPETITION LAW IN THE EUROPEAN UNION IN THE PRESENCE OF STANDARD ESSENTIAL PATENTS

4.1 Treatment in Different Member States

The E.U. Member States have made increased efforts to adopt and implement a single European patent system. 38 European States, including all the Member States of the E.U. are parties to the 1973 European Patent Convention.⁷² The Convention provides for a unitary patent granting procedure.⁷³ However, enforcement is made at the national level, since the unitary procedure entails the granting of a bundle of national patents governed by the particular laws of the different national laws.⁷⁴ On February 19, 2013, 25 Member States agreed upon the creation of a Unified Patent Court (“UPC”), which would have exclusive competence over most patent litigation cases brought by individuals.⁷⁵ However, the Agreement on a Unified Patent Court has not been ratified yet by the necessary minimum of 13 States and redress remains purely national at this stage. Still, in the most relevant forums for patent litigation in Europe, namely France, the United Kingdom, the Netherlands and Germany, the default remedy for patent infringement

⁷² Apart from the 28 EU Member States, Albania, Cyprus, Iceland, Liechtenstein, Monaco, Macedonia, Norway, Serbia, San Marino and Turkey are also parties to the Convention.

⁷³ Convention on the Grant of European Patents, art. 2(2), Oct. 5, 1973, 1065 U.N.T.S. 199, 273.

⁷⁴ Opinion 1/09 of the European Court of Justice § 3, Mar. 8, 2011.

⁷⁵ Agreement on a Unified Patent Court art 32 *Official Journal of the European Union* 56: 2013/C175. (June 20, 2013).

remains injunctive relief.⁷⁶ Below, two examples reflect the limitations of antitrust laws and the wide differences as regards the treatment of injunctive relief requests.

4.1.1 Germany

In Germany, in the presence of a patent infringement, patentees can seek injunctive relief and the issuance of preliminary injunctions is very favorable for patentees, and almost compulsory for judges to grant them.⁷⁷ The German patent system is bifurcated, meaning that different courts analyze the validity and infringement claims.⁷⁸ However, when assessing whether or not to grant a preliminary injunction, the Federal Patent Court must make a preliminary test of validity, which will be passed unless the *prima facie* analysis shows an evident potential invalidity of the patent. As a consequence, most requests for injunctions in Germany are granted. The almost automatic granting of injunctions is such that in the 2008 *Olanzapine* case, the Higher Regional Court of Düsseldorf disregarded the parallel decision of a first instance court that declared the invalidity of the patent and reversed the denial of an injunction.⁷⁹

Apart from the *prima facie* case of invalidity, a competition law defense has also been recognized against the granting of injunctions. The most relevant case in the application of competition law to injunctions requested in the framework of patents subject to FRAND commitments is the *Orange Book Standard* case brought before the German Federal Court of

⁷⁶ THOMAS F. COTTER, *COMPARATIVE PATENT REMEDIES: A LEGAL AND ECONOMIC ANALYSIS*, 180-182, 245-46 (Oxford University Press, 2013).

⁷⁷ German Code of Civil Procedure, Art. 940.

⁷⁸ For a discussion in depth of the bifurcated system in Germany, see Katrin Cremers, Fabian Gaessler, Dietmar Harhoff, Christian Helmers, *Invalid But Infringed? An Analysis of Germany's Bifurcated Patent Litigation System* Max Planck Institute for Innovation & Competition Research Paper No. 14-14 (Sept. 14, 2014)

⁷⁹ COTTER, *supra* note 76, at 243-44.

Justice, the highest court in civil and criminal cases in Germany.⁸⁰ In that case, the court recognized the possibility of raising a defense based on an Article 102 of the Treaty on the Functioning of the European Union (“TFEU”) for abuse of dominant position to counter the request of an injunction for a breach of a patent. Phillips sued Master & More, SK Kassetten, and Global Digital Disks for the breach of a patent essential to a standard developed by Sony and Phillips related to compact disks. No SSO had agreed upon the creation of FRAND commitments over the particular patent. However the patent had been publicly licensed on FRAND terms.⁸¹ According to the court, in order to find an antitrust breach, the defendant must have made a binding unconditional offer to contract the standard patent at FRAND terms. If the patent-holder refuses to license the patent, thereby discriminating the defendant *vis-à-vis* other similar licensees, such an action would entail a breach of competition law where the patent holder holds dominance over the relevant market. However, the defendant must behave as if the patent-holder had already accepted the offer by paying the FRAND royalties into court deposit.⁸² This corresponds to the understanding of FRAND commitments by German courts as non-binding obligations, which do not entail a right to obtain a license, in contrast with the view of U.S. courts in *Microsoft Corp v. Motorola Inc.* and in *Apple Inc. v. Motorola Mobility Inc.*⁸³

⁸⁰ Bundesgerichtshof, May 6, 2009, KZR 39/06, GRUR 2009 694.

⁸¹ Alison Jones, *Standard Essential Patents: FRAND Commitments, Injunctions and the Smartphone Wars*, 10(1) EUROPEAN COMPETITION JOURNAL 1-36, available at <http://ssrn.com/abstract=2394495>.

⁸² European Commission Case At.39985 - Motorola - Enforcement of GPRS Standard Essential Patents., April 29, 2014 C(2014) 2892 final §82.

⁸³ *See supra* notes 29 and 31. Also note that while Motorola had committed to license under FRAND terms to a SSO, no such commitment existed in the *Orange Book Standard* case, where the presence of FRAND licensing was a *de facto* practice by the patentee.

Although the Court recognized the applicability of competition law to *de facto* FRAND-encumbered patents, it established a very strict test for licensees to meet.⁸⁴ Consequently, the potential use of the abuse of dominant position defense against the issuance of injunctions for FRAND patents in Germany remains very limited. In fact in key subsequent cases before the Regional Court of Mannheim, the court granted injunctions even though the defendants had made offers to pay FRAND royalties subject to arbitration determination.⁸⁵ In particular, in *Motorola Mobility Inc v. Apple Sales International*, Motorola accused Apple of the infringement of three patents. Apple tried to fall under the scope of the *Orange Book Standard* antitrust defense by making six licensing offers, but Motorola rejected all of them. The court acknowledged the infringement of two of the patents, one of them a SEP pertaining to the GPRS standard and granted injunctions for both patents despite Apple's several offers to pay FRAND royalties on the SEP patent.⁸⁶

The patentee-friendly environment provided by the ease of obtaining an injunction in the biggest market of the European Union has allowed SEPs holders to obtain supra-competitive prices EU wide, exacerbating the bargaining power of patentees through holdup threats and contributing to an intensified royalty stacking problem.⁸⁷

⁸⁴ Alison Jones, *supra* note 81, at 12.

⁸⁵ *Id.*, at 12.

⁸⁶ *Motrola Mobility Inc. v. Apple Sales International* Mannheim Regional Court (Germany) (7 O 12/11). *See also General Instrument Corp v. Microsoft*, Mannheim Regional Court (Germany) (2 O 79/13) (granting Motorola an injunction against Microsoft for the infringement of two patents related to video compression standard H.264).

⁸⁷ Alison Jones, *supra* note 85, at 13.

4.1.2 *The Netherlands*

In contrast with the pro-patentee approach in Germany in granting injunctions, the Dutch courts seem to have adopted the view that FRAND commitments preclude the potential granting of injunctions. In March 2012, the District Court of The Hague rejected Samsung's requests of injunctive relief to prevent certain iPhones and iPads from being traded in the market for the infringement of SEPs related to the UMTS/3G standard.⁸⁸ In the analysis of Apple's allegations over the preclusion of injunctions derived from the commitment to license under FRAND terms, the court concluded that Samsung had not abided by its obligations to negotiate the FRAND licensing in good faith and had abused its power by making a single proposal and not replying to a reasonable counter-offer by Apple; and had sought an injunction without responding to a request by Apple asking Samsung to set a royalty.⁸⁹ Having found that Apple was a willing would-be licensee, the court rejected the injunctive relief.

The divergence shown by these examples calls for a more homogeneous approach across the E.U. as regards the treatment of injunctions, where IP rights have to play an increasing role in the R&D economy that the E.U. aims at fostering.

4.2 **European Commission – The Motorola and Samsung Cases**

The European Commission (the "Commission") has engaged in multijurisdictional discussions about the role of competition law in encumbered SEPs for years. In 2007 it opened a

⁸⁸ D.C. Hague, Mar. 14, 2012, Dkt. Nos. 400367/HA ZA 11-2212, 400376/HA ZA 11-2213, 400385 /HA ZA 11-2215 (Samsung Elecs. Co. Ltd/Apple Inc.).

⁸⁹ Leon B. Greenfield, Hartmut Schneider & Joseph J Mueller, *SEP Enforcement Disputes beyond the Water's Edge: A Survey of Recent Non-U.S. Decisions*, 27 ANTITRUST 50, 51-52 (2012-2013).

formal investigation for alleged abuse of dominant position by *Qualcomm* for breaching its FRAND commitments in the CDMA and WCDMA standards.⁹⁰ However, the Commission finally closed the investigation without finding proves of anticompetitive behavior.⁹¹

The Commission did not cease to monitor the markets in search of potential abuses of dominance in the SEPs field. In 2012, the Commission found that *Rambus* had concealed its possession of patents and patent applications on the Dynamic Random Access Memory chips standard to subsequently pursue the payment of supra-competitive royalties, once infringers were captured in the use of Rambus technology.⁹² The Commission obtained commitments from Rambus to establish a worldwide cap to its licenses.⁹³ The Commission also took into account the potential anticompetitive effects stemming from injunctions in its *Google/Motorola* merger approval decision. The Commission recognized that Google could be deterred from such anticompetitive behavior by arbitral tribunals as well as courts, which could reject the injunctions. However, the Commission considered that Google, through the acquisition of Motorola's patent portfolio, could significantly impede effective competition by seeking or threatening to seek injunctions, leaving the door open for antitrust actions by the European Commission.⁹⁴

⁹⁰ European Commission, MEMO/07/389 (Oct. 1, 2007).

⁹¹ European Commission, MEMO/09/516 (Nov. 24, 2009).

⁹² Piero Cavicchi & Ruben Schellingerhout, *Patent ambush in standard-setting: the Commission accepts commitments from Rambus to lower memory chip royalty rates*, EC COMPETITION POLICY NEWSLETTER, 1, 32-36 (2010).

⁹³ European Commission Decision in Case COMP/38.636 – *Rambus* – of December 9, 2009, Article 1 and Annex.

⁹⁴ European Commission Decision in Case COMP/M.6381 *Google/Motorola Mobility* of February 13, 2012, paragraph 116.

In April 2014, the Commission concluded two investigation proceedings against Motorola and Samsung for potential anticompetitive behavior stemming from litigation proceedings in Germany. In summary, the European Commission understands that in the framework of an standardization process, where a patentee holds a SEP and has committed to license it under FRAND terms, the intent to exclude competitors from the market by seeking injunctions is anticompetitive, as the injunction may distort licensing negotiations in a fashion that could harm consumers *via* reduced choice and higher prices.⁹⁵

4.2.1 *Motorola Mobility – Article 7 Prohibition Decision*

In this case the Commission set out its views as regards the application on European competition law to FRAND-encumbered SEPs. The Commission has signaled its willingness to intervene in order to prevent abuses stemming from breaching FRAND commitments in patent litigation. According to the Commission, injunctions are not a viable remedy to enforce SEPs rights when the patent holder has committed to license under FRAND terms where the would-be licensee shows a willingness to contract under such terms.⁹⁶

Following the injunction proceedings pursued by Motorola before the Mannheim Regional Court, Motorola and Apple settled and signed a licensing agreement under FRAND terms.⁹⁷ Motorola sought rate-setting proceedings before the Mannheim Regional Court, which in

⁹⁵ European Commission, Competition Policy Brief, Issue 8 (June 2014)

⁹⁶ European Commission Decision in Case AT.39985 - Motorola - Enforcement of GPRS Standard Essential Patents, art. 1.

⁹⁷ *Id.* at paragraphs 162,168.

turn asked the European Commission as to how to proceed in setting the FRAND royalties while respecting European competition law.⁹⁸

4.2.1.1 The Abuse, Remedies and Fines

The Commission started by analyzing whether Motorola held a dominant position in the licensing of the GPRS technology to conclude that it did, in the light of the indispensability of the GPRS standard and the lock-in effect suffered by the industry.⁹⁹ Regarding the anticompetitive behavior, the Commissions advanced that SEPs patent holders can seek injunctions but in ‘*exceptional circumstances and absent any objective justification*’, such behavior could amount to an abusive conduct.¹⁰⁰ In this case, the Commission concluded that the ‘*exceptional circumstances*’ subjecting the enforcement of SEPs to a stricter scrutiny derives from their being subject to FRAND commitments.¹⁰¹ The Commission concluded that holders of SEPs subject to FRAND terms and conditions are entitled to appropriate remuneration for the licensing of its SEPs, and even to injunctions where the would-be licensee is unwilling to enter into a license under FRAND terms.¹⁰² However, in the present case Apple had shown its interest to reach a licensing agreement under FRAND conditions and Motorola abused its dominant position by seeking and enforcing the injunction.¹⁰³ According to the Commission, such conduct entailed (i) a temporary ban of Apple products in German soil, (ii) the acceptance of potential anti-competitive

⁹⁸ *Id.* at paragraph 174.

⁹⁹ *Id.* at paragraphs 221-270.

¹⁰⁰ *Id.* at paragraph 278.

¹⁰¹ *Id.* at paragraph 284.

¹⁰² *Id.* at paragraphs 492-496.

¹⁰³ *Id.* at paragraph 496.

conditions in the settlement by Apple, and (iii) the undermining of the standard setting process.¹⁰⁴ As a consequence, the Commission reached a prohibition decision.¹⁰⁵ The decision requires Motorola to bring the infringement to an end and to refrain from repeating it.¹⁰⁶ However, no fines were imposed on Motorola due to the lack of EU courts precedent and the diverging views of courts in different Member States.¹⁰⁷

4.2.1.2 TRIPS Agreement Considerations

Interestingly, the Commission dealt with the question of whether the antitrust interference in IP rights could breach the international obligations of TRIPS Agreement signatories.¹⁰⁸ The

¹⁰⁴ *Id.* at paragraph 279. As regards (i) the temporary ban, the Commission understands that through an injunction, a patent holder can drive out of the market even the most efficient competitor. The limitation of products available in the market means less consumer choice and partial elimination of competition downstream (see paragraph 312). With respect to (ii) the acceptance of overly onerous conditions by Apple in the settlement, the Commission recognizes that as a result of seeking and enforcing the injunction, Apple agreed (a) to grant Motorola entitlement to terminate the license if Apple challenged the validity of the SEPs; (b) to include the iPhone 4S in the list of infringing products; and (c) to acknowledge past damage caused to Motorola for the infringement of the patents (see paragraph 322). Finally, regarding (iii) the undermining of the standard-setting process, the Commission understands that there is no reverse hold-up problem because Apple had already agreed in its second offer to pay FRAND royalties as determined by a German court (see paragraph 420). Also, the Commission understands that the censoring of Motorola's conduct enhances the functioning of standards by granting access to the SEPs and preventing hold-up. The Commission understands that the application of monopolization rules to this case strikes the right balance between the right to adequate remuneration by the SEP holder and the right of implementers of the standard to manufacture and sell lawfully products under the scope of the standard (see paragraph 418).

¹⁰⁵ Council Regulation (EC) No 1/2003, of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty OJ L 1, 4.1.2003, p. 1, Article 7. Although the Commission could have imposed a fine, it decided to issue a naked prohibition decision equivalent to a cease and desist order.

¹⁰⁶ European Commission in Motorola, *supra* note 104, at paragraph 577-558.

¹⁰⁷ *Id.* at paragraph 561.

¹⁰⁸ *Id.* at paragraph 497-99.

Commission concluded that Article 40(2) of the TRIPS Agreement allows competition authorities to limit the abuse of IP rights when it adversely affects competition.¹⁰⁹

4.2.1.3 Fundamental Rights

The Commission looked at the potential breaches of fundamental rights enshrined in the Charter of Fundamental Rights of the European Union, in particular to the protection of IP, the access to court, and freedom to conduct business.¹¹⁰ The presence of an overriding public interest makes the restriction of the bare rights (*i.e.* the protection of competition)¹¹¹ proportional.¹¹² In particular, the interference only affects a particular remedy, the injunction, only against Apple, only in Germany and only for a specific patent.¹¹³ Besides, Motorola still counts on other adequate remedies including damages actions, which do not entail a disproportionate interference with Apple's right to conduct business as an injunction for a blocking patent on a small component of the end-product.¹¹⁴

¹⁰⁹ WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, 1869 UNTS 299; 33 ILM 1197 (1994). Article 40(2) (“Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.”)

¹¹⁰ European Union, *Charter of Fundamental Rights of the European Union*, Oct. 26, 2012, 2012/C 326/02, Articles 16, 17(2) and 47.

¹¹¹ European Commission in *Motorola*, *supra* note 108, at paragraph 514.

¹¹² *Id.* at paragraph 516.

¹¹³ *Id.* at paragraph 517.

¹¹⁴ *Id.* at paragraph 518-522.

4.2.2 Samsung Electronics – Article 9 Commitment Decision

On January 30, 2012, the European Commission opened proceedings for a potential abuse of dominant position by Samsung for its alleged breaching of FRAND commitments in the framework of the UMTS standard, *inter alia* through seeking injunctions in different Member States.¹¹⁵ On December 31, 2012 the European Commission issued a statement of objections and Vice-President Almunia announced that *‘When companies have contributed their patents to an industry standard and have made a commitment to license the patents in return for fair remuneration, then the use of injunctions against willing licensees can be anti-competitive’*.¹¹⁶

After months of a parallel investigation with the Motorola case, the Commission market-tested several proposed commitments by Samsung.¹¹⁷ On April 29, 2014, the same day of the Motorola decision, the Commission announced that it had accepted the settlement with Samsung.¹¹⁸

In line with the Motorola findings of infringement of competition law, Samsung avoided the censoring of its conduct by offering commitments accepted by the European Commission to drop the case. In particular, Samsung committed to renounce injunctions for its SEPs under FRAND used in smartphones and tablets for a period of 5 years in the European Economic Area. Also, the settlement included a framework for licensing, which forces Samsung to negotiate for a

¹¹⁵ European Commission, Press Release IP/12/89 of Jan. 31, 2012.

¹¹⁶ European Commission, Press Release IP/12/1448 of Dec. 21, 2012. *See also* European Commission MEMO/12/1021 *Samsung – Enforcement of ETSI standards essential patents (SEPs)* of December 21, 2012.

¹¹⁷ European Commission, Press Release IP/13/971 of Oct. 17, 2013.

¹¹⁸ European Commission Press Release IP/14/490 of Apr. 29, 2014. *See also* European Commission MEMO/14/322 - *Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics - Frequently asked questions* of Dec. 21, 2012.

maximum period of 12 months after which, if no agreement is reached, parties will subject the fixing of FRAND terms to third party determination, either courts or arbitral courts.¹¹⁹

4.3 European Courts - Huawei

Despite the heat around the question of the application of European competition law to the seeking of injunctions in the framework FRAND-encumbered SEPs, there is still no precedent setting the views of the European courts. The European Court of Justice faces in the *Huawei* a case of first impression where the court will have to decide whether the approach taken by the European Commission in *Motorola* is valid.

In this case, the Regional Court of Düsseldorf asks the court about the legality under the scope of E.U. competition law of the German approach to the antitrust defense in the light of European Competition law.¹²⁰ In particular the German court requested the European court to answer the question of whether there is a presumption of abuse where the injunction of a FRAND-encumbered SEPs is requested against a would-be licensee who is willing to negotiate (in line with the European Commission view in *Motorola*) or if, on the contrary, the presumption only operates where the would-be licensee makes *'an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfills his contractual*

¹¹⁹ European Commission, Case COMP/C-3/39.939 – Samsung Electronics – Enforcement of UMTS Standard Essential Patents – Commitments Offered to the European Commission, of Apr. 29, 2014.

¹²⁰ European Court of Justice - Case C-170/13 - Request for a preliminary ruling from the Landgericht Düsseldorf (Germany) lodged on Apr. 5, 2013 – *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*.

obligations for acts of use already performed in anticipation of the license to be granted' (in line with the German *Orange Book* defense).

The oral hearing took place on September 11, 2014 and based on my own experience as to the working of the European Courts, the judgment should be handed down by spring-summer 2015. The Advocate General Melchior Wathelet ("AG Wathelet") issued his non-binding opinion on November 20, 2014.¹²¹

After defining the framework of the case, AG Wathelet draws a fundamental difference between *Huawei* and the *Orange Book Standard* cases that sets them apart: while in *Orange Book* a commitment to a SSO was not present and FRAND licensing took place due to a de facto practice, in *Huawei* such commitment exists.¹²² This is a fundamental difference affecting the contractual nature and enforceability of FRAND and the AG is right in drawing the line between these two scenarios. On the other hand, the AG notes that a bare highly vague and non-binding willingness to negotiate cannot lead to an ironclad protection from injunctive relief.¹²³ He calls then for a middle ground solution:¹²⁴ in the presence of FRAND-encumbered SEPs, where the patentee holds a dominant position, the seeking of an injunction against an (i) objectively ready infringer, who is (ii) willing and (iii) able to license under FRAND terms constitutes an abuse of dominant position contrary to Article 102 TFEU.¹²⁵

¹²¹ Opinion of Advocate General Melchior Wathelet in case C-170/13 – *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*, delivered on Nov. 20, 2014.

¹²² *Id.* at para 48.

¹²³ *Id.* at para 50.

¹²⁴ *Id.* at para 52.

¹²⁵ *Id.* at para 74 ("In those circumstances, which are characterised, on the one hand, by the infringer's technological dependence following the incorporation into a standard of the teaching protected by the patent and, on the other hand, by unfair or unreasonable conduct by the SEP-holder, at variance with its commitment to grant licences on FRAND terms, towards an *infringer which has shown itself to be*

AG Wathelet defines the following guidelines to check against the foregoing test:

- i. Before filing for an injunction, the SEP holder must
 - Alert the infringer in writing about the infringement, identifying the patents concerned and the ways in which they have been breached.¹²⁶
 - Make a binding offer with all the usual licensing terms, including the royalties and the method for their calculation.¹²⁷
- ii. The infringer would then be obliged to:¹²⁸
 - Respond seriously and diligently to the offer.¹²⁹
 - Promptly make a binding counter-offer in case the offer is not acceptable. The protection from injunctions does not operate where the actions by the infringer are purely tactical, dilatory or not serious.¹³⁰
- iii. If negotiations are not commenced or turn unsuccessful:¹³¹
 - Actions by the infringer cannot be considered as dilatory or not serious when the infringer calls for a third party determination of the FRAND terms

objectively ready, willing and able to conclude such a licensing agreement, the bringing of an action for a prohibitory injunction constitutes recourse to a method different from those governing normal competition; it has an adverse effect on competition to the detriment, in particular, of consumers and the undertakings which have invested in the preparation, adoption and application of the standard; and it must be regarded as an abuse of a dominant position for the purposes of Article 102 TFEU”) (emphasis added).

¹²⁶ *Id.* at para 84.

¹²⁷ *Id.* at para 85.

¹²⁸ *Id.* at para 87.

¹²⁹ *Id.* at para 88.

¹³⁰ *Id.* at para 88.

¹³¹ *Id.* at para 93.

- But the patent holder can, in that case, require a guarantee of payment and a provisional deposit in a court account of sums covering for past and present use of the SEPs.

In summary, AG Wathelet suggests the establishing of an antitrust safe harbor for willing licensees when they prove ready and able to license and where their actions are not purely strategic, dilatory or not serious.

If the European Court of Justice were to follow the opinion of AG Wathelet, it seems that the approach taken by the European Commission in *Motorola* and *Samsung* would be upheld by the court: while the European Commission formulates its test in the negative, claiming that injunctions are only adequate where the infringer is unwilling to enter into a licensing agreement under FRAND terms and conditions, AG Wathelet formulates an equivalent test in the positive.

One could argue that AG Wathelet departs from the test set by the European Commission by requiring, *inter alia*, (i) additional ability and readiness to infringers, and (ii) guarantees and/or a bank deposit in case of third party determination. However this reinforced willing licensee test responds in essence to the same rationale: as long as the infringer proves to a legitimate implementer that it intends to abide by FRAND licensing, no injunctions should be allowed.

5 ANALYSIS OF POLICY CHOICES ON BOTH SIDES OF THE ATLANTIC

So far I have described the problem of holdup faced by courts and regulators and analyzed the approach by courts and antitrust agencies on both sides of the Atlantic. In the U.S. it seems that *eBay* has the potential to strike the right balance in the injunctions dilemma and the role of antitrust is quite limited to Section 5 of the FTC Act and cease and desist orders. On the other hand, in Europe remedies diverge across jurisdictions and while some seem more in line with the *eBay* balancing (the Netherlands), others are still sided with injunctions as the default remedy (Germany). Although patent law remains national, antitrust in the E.U. remains as an exclusive competence of the Union, and the European Commission has strongly signaled its opposition to injunctions in the presence of FRAND terms, before the European Court of Justice had the chance to rule on a case of first impression.

In this section, I analyze the appropriateness of both approaches to the problem in the framework of the idiosyncrasies of both legal systems from an economic perspective.

5.1 Adequacy of the US Approach

As explained *supra*, the approach of the FTC towards injunctive relief for SEPs under FRAND terms relies exclusively on Section 5 of the FTC Act.¹³² The role of Section 5 to sanction the threat of injunctions for patents under FRAND is a topic that divides the FTC Commission in bipartisan terms. While Democrats seem comfortable with the aggressive

¹³² See *supra* note 64.

approach shown in *Motorola/MMI*, *Motorola* and *Bosch*, their Republican counterparts seem much more skeptical as regards the role of antitrust in preventing harmful effects stemming from injunctive relief: Chairwoman Edith Ramirez,¹³³ as well as her Democrat colleague Commissioner Julie Brill,¹³⁴ have been quite clear in their stance favoring the use of Section 5 of the FTC Act to prevent the holdup problem derived from injunctions; however, the Republican commissioners Maureen K. Ohlhausen,¹³⁵ and Joshua D. Wright,¹³⁶ have publicly held a very

¹³³ FTC Chairwoman Edith Ramirez, *Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective*, 8th Annual Global Antitrust Enforcement Symposium Georgetown University Law Center Washington, (DC Sept. 10, 2014), at 8 (“Antitrust has a role to play when licensing practices threaten competitive harm. In the standard-setting context, the risk of patent hold-up creates the type of competitive harm that falls properly within the scope of antitrust enforcement. An injunction can put a significant portion of the implementer’s business at risk, giving the SEP owner the bargaining power to extract licensing terms that reflect the profits from potential lost sales, which can be extraordinarily high for an implementer if there is no feasible design-around alternative. Even the risk of hold-up can degrade the value of the standard-setting process for consumers by discouraging the investments required to implement the standard. But a dispute with a willing licensee over royalty terms that does not take place under the threat of an injunction is not likely to create the undue leverage that is the source of the competitive problem in the standard-setting context”).

¹³⁴ Statement of the Federal Trade Commission *In the Matter of Google Inc.* FTC File No. 121-0120 Jan. 3, 2013, at note 9 (“Chairman Leibowitz and Commissioner Brill support an unfair acts claim as well as an unfair methods claim. They have a reason to believe that seeking injunctions on FRAND-encumbered SEPs is likely to cause substantial harm to end-use consumers and, because FRAND commitments made to a standard-setting body often induce industry-wide lock-in and eliminate alternative technologies, this harm may not be reasonably avoided by consumers. Google’s threat of injunctions would likely increase costs to consumers because manufacturers using Google’s SEPs would be forced, by the threat of an injunction, to pay higher royalty rates, which would be passed on to consumers”).

¹³⁵ Statement of Commissioner Maureen K. Ohlhausen *In the Matter of Robert Bosch GmbH* FTC File No. 121-0081, at 1 (“Simply seeking injunctive relief on a patent subject to a fair, reasonable, and non-discriminatory (“FRAND”) license, without more,³ even if seeking such relief could be construed as a breach of a licensing commitment, should not be deemed either an unfair method of competition or an unfair act or practice under Section 5”).

¹³⁶ Statement of Commissioner Joshua D. Wright, *SSOs, FRAND, and Antitrust: Lessons from the Economics of Incomplete Contracts*, at the Center for the Protection of Intellectual Property Inaugural Academic Conference: The Commercial Function of Patents in Today’s Innovation Economy (Sept. 12, 2013), at 32-33: (“The sanctions available to address patent hold-up and related concerns under other legal regimes are more than adequate to provide optimal deterrence against patent hold-up. Antitrust enforcement remains available in cases of true anticompetitive price-fixing or deceptively manipulating standards. In the absence of robust empirical evidence to suggest that SSOs’ adaptation of their IPR policies over time have been inadequate in minimizing the probability of hold-up, there is little reason to

reluctant and combative stance against the extension of the scope of Section 5, in particular as regards the enjoinder of injunctions under FRAND terms. This split might be innocuous with the appointment of Terrell McSweeney as fifth Commissioner. Commissioner McSweeney was sworn in on April 28, 2014 and according to the information available on her views on the matter, she could be aligned along the “Democrat” line.¹³⁷ It is unclear still to what extent the new configuration of the FTC Commission will lead to a continuation of the aggressive line of *Motorola* and whether the strong opposition of the Republicans could lead to a softening in antitrust enforcement in this area.¹³⁸ However, the presence of new Commissioner McSweeney might lead to a strong antitrust opposition towards injunctions, more in line with the European Commission approach.

What seems clearer is the limited potential to succeed in proving antitrust breaches under Section 2 of the Sherman Act. The FTC, which has not attempted to try a case through that more stringent legal basis and has limited itself to Section 5 unfair practices and commentators, seems

bring to bear the blunt weaponry of antitrust rules and remedies to micromanage the competitive process in the name of improving SSO contracts”).

¹³⁷ Law360 Article *FTC's McSweeney Sets Early Focus On Health Care, IP* (“the commissioner applauded the advocacy work the DOJ and FTC have done so far to try to convince the U.S. International Trade Commission to limit its use of exclusion orders in cases involving royalties disputes over SEPs that companies have promised to license on fair, reasonable and nondiscriminatory terms. “I agree with [U.S. Trade Representative Michael Froman]'s decision last summer to direct the ITC to be very careful about the use of its exclusion authority in these cases,” McSweeney said that decision was just one of the “promising developments” that have resulted from the agencies' advocacy work, but said there was still work to be done to help standard-setting organizations clarify their own IP policies”), <http://www.law360.com/articles/545215/ftc-s-mcsweeney-sets-early-focus-on-health-care-ip>

¹³⁸ FTC statement in *Bosch*, *supra* note 62, at 3 (“we view this action as well within our Section 5 authority. The plain language of Section 5, the relevant legislative history, and a long line of Supreme Court cases all affirm that Section 5 extends beyond the Sherman Act”) note 7: (“We have no reason to believe that, in this case, a monopolization count under the Sherman Act was appropriate. However, the Commission has reserved for another day the question whether, and under what circumstances, similar conduct might also be challenged as an unfair act or practice, or as monopolization”).

hesitant to conclude that courts would sanction monopolization claims for seeking injunctions. Professor Cotter provides a detailed analysis of the different harm theories that could lead to monopolization charges.¹³⁹ In particular, one could claim that by seeking injunctions the patentee could reap higher royalties that it would be fair. However, such pricing claims have a very limited role in the U.S. after *Trinko*.¹⁴⁰ Despite the open window left by the Supreme Court to sustain price squeeze claims as predatory pricing claims, there must be in all cases an unlawful refusal to deal.¹⁴¹ In the framework of deceptive practices in standard setting, in *Rambus*,¹⁴² following *NYNEX Corp. v. Discon, Inc.*,¹⁴³ the circuit court found that a legal use of deceptive practices by a monopolist with the only aim to raise prices does not entail anticompetitive effects.¹⁴⁴ If courts allow such extreme cases of pricing practices in the presence of deception, it seems difficult to prove pricing breaches where a patentee seeks to obtain higher royalties by requesting the granting of a common remedy in patent law as injunctions, in the absence of deception.

On the side of the exclusionary theories, a unilateral refusal to deal could seem problematic to sustain in the framework of IP rights since there is a presumption of legitimacy for refusals to license unless litigation is sham, the patent was obtained fraudulently, or the patentee seeks to extend the monopoly beyond the boundaries of the patent at hand, exceptions which

¹³⁹ Cotter, *supra* note 36, at 20-24.

¹⁴⁰ *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko* 540 U.S. 398 (2004).

¹⁴¹ Ellen Meriwether, *Putting The "Squeeze" on Refusal to Deal Cases: Lessons from Trinko and Linkline*, 24 ANTITRUST 65, 66–67 (2010).

¹⁴² *Rambus, Inc. v. FTC*, 522 F.3d 456, 462 (D.C. Cir. 2008).

¹⁴³ *NYNEX Corp. v. Discon, Inc.* 525 U.S. 128 (1998).

¹⁴⁴ *Rambus*, 522 F.3d at 464 (“an otherwise lawful monopolist's use of deception simply to obtain higher prices normally has no particular tendency to exclude rivals and thus to diminish competition”).

seem not to be met.¹⁴⁵ Equally, under the essential facilities doctrine the plaintiff could argue that the owner of the SEP is excluding the willing would-be licensee from making use of an essential facility (i.e. the patent) that meets the *MCI Communications* four-prong liability test.¹⁴⁶ Cotter underlines that beyond the *MCI* test, in order to find an essential facilities breach, the defendant must be present in both upstream and downstream markets and foreclose one,¹⁴⁷ and the plaintiff and the defendant must be competitors.¹⁴⁸ All these requirements together with the traditional distrust of courts towards the essential facilities doctrine lead to the conclusion that such antitrust allegations are very unlikely to succeed.¹⁴⁹ Other authors extend the potential application of antitrust laws beyond the Section 5 of the FTC Act to unfair methods of competition and consider that claims under Section 2 of the Sherman Act could succeed in court.¹⁵⁰ Even Renata Hesse, the Deputy Assistant Attorney General Antitrust Division of the Department of Justice (DoJ) has clearly stated that antitrust enforcement in the framework of SEPs could extend beyond *ex ante* deceiving practices to cover also *ex post* potential monopolization claims stemming from seeking injunctions and that the DoJ continues to explore such legal grounds.¹⁵¹ Although these theories have not been tested before courts, the lack of such claims advanced by the FTC and the DoJ

¹⁴⁵ Cotter, *supra* note 139, at 22.

¹⁴⁶ *MCI Communications* 708 F.2d 1081 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983). Four prong test is met when all the following elements are present: “(1) control of the essential facility by a monopolist; (2) a competitor's inability practically or reasonably to duplicate the essential facility; (3) the denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility”.

¹⁴⁷ Thomas F. Cotter, *The Essential Facilities Doctrine*, in *ANTITRUST LAW AND ECONOMICS* 157, 161-162 (Keith Hylton ed., 2010).

¹⁴⁸ Cotter, *supra* note 145, at 23.

¹⁴⁹ *Id.* at 23.

¹⁵⁰ For a general discussion see Greg Sivinski, *Patently Obvious: Why Seeking Injunctions on Standard-Essential Patents Subject to a FRAND Commitment Can Violate Section 2 of the Sherman Act*, COMPETITION POL'Y INT'L, (Oct. 2013).

¹⁵¹ Renata B. Hesse, *The Art of Persuasion: Competition Advocacy at the Intersection of Antitrust and Intellectual Property* 9 (Nov. 8, 2013).

might prove the limited potential of Section 2 of the Sherman Act, in line with Cotter's assertions.

Another potential constraint calling against the application of antitrust rules is the possible application of the *Noerr-Pennington* doctrine. FTC Commissioner Ohlhausen has already called to refrain from enforcing antitrust laws in breach of the allegedly legal petitioning constituted by the seeking of injunctive relief:¹⁵² the mere threat of injunctions could be barred from constituting a breach of antitrust laws as it entails a First Amendment right to access the court. However, contract law suggests that the contractual breach by the patentee through refusing to license under FRAND terms associated to the seeking of injunctions is not protected by this doctrine.¹⁵³ First Amendment rights cover the right to petition courts to enforce intellectual property rights, including patent rights. However, the commitment to license under FRAND terms may entail the enforceable waiving of petitioning rights.¹⁵⁴

The narrow antitrust enforcement limited to the scope of Section 5 of the FTC Act and its associated remedies, *i.e.* cease and desist orders, may call for other solutions to the holdup problem. Current patent law already counts on the judicial tools to identify and prevent holdups created through the seeking of injunctions: the *eBay* test has proven useful to prevent the automatic granting for injunctions and the test fits the rejection of injunctive relief in the presence of FRAND-encumbered SEPs.¹⁵⁵ The mere fact that the patentee has entered into FRAND terms constitutes strong evidence against the two first elements of the test (*i.e.*, the presence of

¹⁵² See *supra* note 67.

¹⁵³ Cotter, *supra* note 148, at 38.

¹⁵⁴ *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1078 (W.D. Wis. 2012).

¹⁵⁵ See *supra* note 27.

irreparable damage; and the inadequacy of other remedies, including damages).¹⁵⁶ Also the fourth element (*i.e.* disserving the public interest) can be used to consider consumer harm derived from holdup if any.¹⁵⁷ The fact that the ITC is not bound by *eBay* is no impediment to conclude that it can exclude injunctions when assessing the public interest considerations as stated *supra*.¹⁵⁸ In a recent work, Ginsburg, Owings and Wright claim that in fact, in the *post-eBay* era, no injunctions have been granted in the presence of SEPs and that the only exclusion order was agreed in Samsung/Apple but defused by the Administration.¹⁵⁹

The nature of antitrust breaches and particularly the treble damages for a Section 2 breach can lead to over-deterrence and its application could tip the balance in the opposite direction, exacerbating the reverse holdup problem.¹⁶⁰ This could, in turn, lead to harm to consumers through diminished incentives to innovate.¹⁶¹ On the other hand, a plain prohibition of injunctions could have the same effect by empowering unwilling and bad faith infringers in the negotiations.

A strong signal as to a correct application of *eBay*, preventing injunctions in the presence of willing licensees, would lead to the practical impossibility to obtain harmful strategic injunctions against willing would-be licensees by correcting the *ex ante* incentives to negotiate

¹⁵⁶ Douglas H. Ginsburg, Taylor M. Owings, Joshua D. Wright, *Enjoining Injunctions: The Case Against Antitrust Liability for Standard Essential Patent Holders Who Seek Injunctions*, THE ANTITRUST SOURCE, 1, 3 (2014)

¹⁵⁷ *Id.* at 3.

¹⁵⁸ Chien & Lemley, *supra* note 50.

¹⁵⁹ Ginsburg, Owings & Wright, *supra* note 156, at 4.

¹⁶⁰ *Id.*, at 5.

¹⁶¹ *Id.*, at 5.

FRAND-compliant terms,¹⁶² which in turn would eliminate the holdup problem without distorting the bilateral Pareto-superior patent valuation. Although the FTC rejected its application in *Robert Bosch*, in *Apple v. Motorola*, Judge Crabb concluded that Motorola's application before the ITC was covered by the First Amendment.¹⁶³ However the applicability of the doctrine remains unanswered.

The application of bare contract law, where FRAND commitments to the SSOs are considered to have a contractual nature, could be interpreted to offer the same result as the *eBay*, deeming the application of patent law unnecessary. However, the variable interpretation that courts can give to the scope of the commitments could reduce the certainty as regards the impossibility to obtain an injunction solely based on contract law against a willing licensee. In cases where SSOs' policies require SEP holders to commit to give up on their rights to petition injunctive relief against willing licensees, *eBay* would not be necessary to deter potential harmful injunctions. However, these cases are rare, and the need for a safe harbor for willing licensees calls for the clear prevention of injunctions against them through *eBay*. If a willing licensee cannot rely on an interpretation of the contract law whereby FRAND commitments prevent the granting of injunctions against willing licensees, then the mere threat of an injunction can lead to an undesired holdup-driven leverage. Thus, unless there is a clear understanding that FRAND commitments contractually prevent the issuance of an injunction, *eBay* and patent law more broadly remain as a necessary tool to prevent the slightest holdup problem.

¹⁶² *Id.*, at.4.

¹⁶³ Cotter, *supra* note 153 at 24.

5.2 Adequacy of the EU Approach

As shown by the examples of Germany and the Netherlands, the patent law approach of the E.U. to injunctions differs widely among jurisdictions: while in Germany injunctive relief assessment is extremely pro-patentee, other jurisdictions like The Netherlands show a more nuanced approach more in line with eBay in the U.S. This divergence threatens to fragment the European single market due to the national character of IP laws. It also favors forum shopping, inconsistency of approaches and fuels the holdup problem by allowing patentees pick those jurisdictions where injunctive relief is easier to obtain.

The potential benefits that the mere application of *eBay* brings about are thus not available in the E.U. The E.U. IP Rights Enforcement Directive enables Member States to make use of alternative pecuniary remedies instead of injunctions, but it does not harmonize the internal market as regards remedies.¹⁶⁴ Thus Member States remain free to decide the remedies to be imposed when a patent is infringed. The set up of the Unified Patent Court may bring some homogenization of remedies to favor a common interpretation of IP rights, but such solution will have to wait until 13 States ratify the Agreement.¹⁶⁵ Meanwhile, the problem remains that patentees can leverage the threat of injunctions to obtain unfair licensing terms.

The European Commission has stepped up to take a decisive stance against injunctive relief in the presence of SEPs as stated in its decisions in the *Motorola Mobility* and *Samsung* cases.¹⁶⁶ Unlike the powers of the FTC under Section 5 of the FTC Act, the European

¹⁶⁴ Directive 2004/48/EC of the European Parliament and of the Council of April 29, 2004 on the Enforcement of Intellectual Property Rights, art. 12, 2004 O.J. (L 195) 16, 23

¹⁶⁵ See *supra* note 73.

¹⁶⁶ See cases *Samsung* and *Motorola*, *supra* notes 114 and 119.

Commission has to build these cases through abuse of dominant position claims under Article 102 TFEU, the equivalent of Section 2 of the Sherman Act in the U.S. Although the robustness of this stand of cases has not been tested before the European Courts, Prof. Alison Jones has provided a comprehensive analysis on how the European Court of Justice could adjudicate in the long awaited *Huawei* case.¹⁶⁷

The robustness of pricing or exploitative conducts claims has been put into question and agencies and courts have stayed away from these allegations when possible.¹⁶⁸ The European Commission focuses its attention to exclusionary practices and seldom acts in the presence of pure unfair pricing cases.¹⁶⁹ Also, as in the U.S. monopolization claims have been construed around conduct-specific tests to identify and sanction abusive exclusionary conducts.¹⁷⁰ I have explained the difficulties to fit the behavior at hand in any of the categories under Section 2 of Sherman Act. The same difficulty is found with the existing categories of abuse construing Article 102 TFEU and placing the conduct under the scope of traditional doctrines such as the refusal to license or the essential facilities doctrine might seem legally unsound.¹⁷¹ In the presence of exploitative abuses, excessive pricing or unfair trading abuses are generally hard to sustain, and the European Commission bases its efforts to find exclusionary abuses, since these are easier to prove and Article 102 catches both. In *Port of Helsingborg* the European Commission held that high prices by a dominant undertaking of even excessive prices do not necessarily lead to an abuse of dominant position.¹⁷² In fact, between 1957 and 2002, the European Commission

¹⁶⁷ Jones, *supra* note 87.

¹⁶⁸ *Id.*, at 17.

¹⁶⁹ *Id.*, at 18.

¹⁷⁰ *Id.*, at 18.

¹⁷¹ *Id.*, at 20.

¹⁷² European Commission - Case COMP/A.36.568/D3 – Scandlines Sverige AB v. Port of Helsingborg

has only brought four cases for excessive pricing and two were struck down by the Court of Justice.¹⁷³

However, the scope of Article 102 according to case law of the European Courts is more far reaching than its Section 2 of the Sherman Act counterpart, as courts have upheld conducts more generally constituting an unlawful abuse of dominant positions without tagging the behavior under a conduct-specific test.¹⁷⁴ This is the case of *AstraZeneca*, where the European Court of Justice held that methods of competition out of the scope of “competition on the merits” which entail at least potential anticompetitive effects are enough to trigger liability under Article 102 TFEU.¹⁷⁵ This broader construction of monopolization claims is likely to allow the Commission leverage in exercising its antitrust powers against strategic behaviors by patentees. In line with this case law, in *Motorola*, the European Commission held that a patent holder, under his IP rights is generally entitled to seek and obtain injunctive relief.¹⁷⁶ The *special responsibility* borne by dominant undertakings not to impair competition through conducts beyond competition on the merits entails that their exercise of right that in themselves cannot be considered as abusive could turn abusive when exercised by a dominant undertaking.¹⁷⁷ Although seeking injunctions cannot in itself constitute an abuse of a dominant position, when coupled with *exceptional circumstances*, it could breach Article 102 TFEU, unless there were *objective justifications*.¹⁷⁸ In particular, according to the European Commission, the fact that the patentee

¹⁷³ DAMIEN GERADIN, DR ANNE LAYNE-FARRAR, & NICOLAS PETIT, EU COMPETITION LAW AND ECONOMICS 280 (Oxford University Press, 2012).

¹⁷⁴ Case C-457/10 P *AstraZeneca v. Commission* 6 December 2012.

¹⁷⁵ *Id.*, paragraph 75 and 112.

¹⁷⁶ *Motorola*, *supra* note 114 at paragraph 278.

¹⁷⁷ *Motorola*, *supra* note 177 at paragraph 272, 274

¹⁷⁸ Joined Cases C-241/91 P and C-242/91 P *RTE and ITP v Commission ("Magill")* [1995] ECR I-743, paragraph 50.

has committed to license under FRAND terms constitutes the *exceptional circumstances* that would trigger Article 102 when a dominant undertaking seeks injunctions, absent an objective justification.¹⁷⁹ A *per se* prohibition of seeking injunctions could lead to reverse holdup problems and diminished incentives to participate in standardization processes and to innovate. However, patentees should have a reasonable expectation to defend their seeking injunctions under certain circumstances as objective justifications. These situations could arise when the infringer is not a willing licensee or is unable to pay.¹⁸⁰ The foregoing considerations lead me to think that the European Court of Justice in *Huawei* is likely to align with the European Commission enforcement efforts in the *Motorola* and *Samsung* cases.

Prof. Alison Jones makes a more detailed analysis as regards how seeking or threatening to seek injunctions could amount to an abuse of dominant position in comparison with the analysis performed by AG Wathelet.¹⁸¹ In defining the abuse, AG Wathelet makes use of *IMS Health*,¹⁸² where the court found that “*in order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market*”.¹⁸³ Unlike the Commission, which identified the FRAND commitments as the *exceptional circumstances necessary* to find an abuse from a broad perspective more in line with Jones, AG Wathelet understands that such circumstances arise from the three-prong test from

¹⁷⁹ *Motorola*, *supra* note 177, at paragraph 300.

¹⁸⁰ Jones, *supra* note 171, at 27.

¹⁸¹ Opinion of AG Wathelet, *supra* note 121.

¹⁸² *Id.* Paragraph 69.

¹⁸³ *HMS Health* (EU:C:2004:257, paragraph 38).

IMS Health, which dealt with a refusal to license copyright rights. However, the fact that this is a case of first impression and that the previous case law does not refer to equivalent factual elements, leads AG Wathelet to find the abuse more generally (not qualifying as a traditional refusal to license) in the (i) relation of technical dependency between the dominant SEP holder and the implementer and (ii) the presence of abusive exploitation departing from normal competition embodied in the unfair or unreasonable seeking of an injunction.¹⁸⁴ This approach departing from traditional conduct-specific tests seems legally sound and the European Court of Justice could perfectly follow this line, consistent with previous case law.

Another relevant consideration is the way in which the European Commission has decided to solve these cases. In *Motorola*, despite the finding of antitrust breaches, the European Commission decided not to impose fines due to the novelty of the case, and limited the sanction to a prohibition decision in line with the cease and desist orders of the FTC under Section 5 of the FTC Act.¹⁸⁵ However, more interestingly the Commission settled the case with Samsung without finding an abuse of dominant position.¹⁸⁶ In this case, Samsung agreed to renounce to injunctions and to negotiate FRAND terms for a maximum period of 12 months before resorting to third party determination either through arbitration or courts.¹⁸⁷ The rationale behind the solidification of the process to obtain a license beyond the bare commitment not to seek injunctions lies with

¹⁸⁴ Opinion of AG Wathelet, *supra* note 121, at 73-74. He derives his holding from *Volvo* (EU:C:1988:477) (“the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article [102 TFEU] if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States”).

¹⁸⁵ See *supra* note 107.

¹⁸⁶ See *supra* note 118.

¹⁸⁷ See *supra* note 119

the public interest view that patent holders should be prevented from seeking undue licensing terms: if the patent holder can seek damages at all times, he might not be rushed to license the SEP until he gets all the terms, which could be against the public interest (*i.e.* a commitment by the licensee to give up its rights to litigate the validity of the patent). In particular, the expectation of a maximum period of mandatory negotiation or arbitration can lead to strategic negotiations from the SEP holder and lead the parties to a prompt reaching of a satisfactory agreement. This framework allows for a safe harbor for willing licensees to negotiate without the threat of injunctions and for injunctive relief where infringers do not qualify as willing licensees. I see this solution as the optimal solution in the E.U.: since no *eBay*-like solution is at hand, the European Commission should aim at settling these cases, holding fines only for patentees not willing to reach a settlement that sets the framework for negotiated FRAND terms for a maximum period of time and alternatively leave it for third parties to determine the FRAND terms.

6 CONCLUSION

So far I have detailed the different approaches on both sides of the Atlantic and assessed the adequacy of these approaches. The different legal basis and tools at hand in the different jurisdictions call for different approaches to the same outcome: striking the right balance between the holdup and reverse holdup problems.

I claim that in the U.S., *eBay* has proven effective to prevent the granting of injunctive relief in the presence of SEPs. Once courts have signaled the unlikelihood or practical impossibility of obtaining an injunction against a willing licensee, holdup issues disappear and any threat to seek injunctions loses all credibility and potential anticompetitive effects. Then

courts have the tools to establish damages for past infringement and to set ongoing royalties.¹⁸⁸ The problem of construing a case under Section 2 of the Sherman Act and the potential overreaching effects of treble damages call for a limited use of antitrust laws in the U.S., which could be limited to the current enforcement efforts by the FTC. Moreover, an interesting possibility would be to align the antitrust efforts by the FTC and the European Commission. As proven *In the Matter of Motorola Mobility LLC, and Google Inc.*, the FTC is willing to settle cases brought under Section 5 of the FTC Act. The FTC could thus seek to constitute a safe harbor in line with the European Commission settlement in *Samsung* to force parties to sit and engage in constructive negotiations with a time limit or subject the determination of FRAND terms to arbitration or courts. This dual solution to the problem could help find the right balance through competition between patent law as applied by courts and the ITC on one side, and enforcement by the FTC under Section 5 of the FTC Act on the other side. However, it seems dangerous, due to treble damages, to construe cases under Section 2 of the Sherman Act as the DoJ seems willing to do.¹⁸⁹ Also, I have explained why the likelihood of success of a case brought under Section 2 is quite limited, as supported by the detailed analysis performed by Cotter.

In Europe the potential solution through patent law is not available. The lenient granting of injunctions by German courts prevents the effective limitation of the holdup problem and the *Orange Book* antitrust defense has proven useless. The role of the Unified Patent Court is still

¹⁸⁸ The correct setting of FRAND royalties belongs to another discussion. I agree with Lim (see Lim, *supra* note 15, at 44-57) that the approach of Judge Robart in *Microsoft v. Motorola* is an accurate exercise that proves the robustness of the *Georgia-Pacific Corp v. U.S. Plywood Corp* in the framework of FRAND commitments. Also, for an interesting solution in arbitration see Lemley & Shapiro, *supra* note 16, which could very well be settled with the FTC and the European Commission.

¹⁸⁹ Hesse, *supra* note 151.

unknown and in the last draft of the rules of procedure, a reference to *eBay*-like considerations has been eliminated to make the granting of injunctions quasi-automatic.¹⁹⁰ Fragmentation of IP laws and remedies attached to them call for use of European competition laws that bind courts EU-wide and allow for a common approach in the European internal market. Although there is no judicial precedent dealing with antitrust application to injunctions under FRAND, in *Huawei*, the European Court of Justice is likely to align with the European Commission in *Motorola*. The European Commission should seek under its powers to establish an adequate framework for negotiation under FRAND in line with *Samsung* under the threat of extensive fines, in order to set an *ex ante* expectation that no injunctive relief will be granted and that parties will have to reach to an agreement sooner or later or leave it for the courts to decide the FRAND terms.

¹⁹⁰ Rule 118.2 of the 16th draft of the Rules of Procedure of the UPC was deleted in the 17th draft. The Table with explanatory notes to the changes made by the Legal Group of the Preparatory Committee in the 17th draft of the Rules of Procedure of Oct. 31, 2014 explains that ‘Where the Court finds an infringement of a patent it will under Article 63 of the Agreement give order of injunctive relief. Only under very exceptional circumstances it will use its discretion and not give such an order’ (emphasis added). In my view the UPC takes the opposite direction to what I claim necessary through this move.