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The Legal Framework for SEP Disputes in EU Post-*Huawei*: Whither Harmonization?

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Abstract

This article revisits the antitrust treatment of unilateral conduct in Standard Essential Patent (SEP) disputes in EU, with particular focus on the landmark CJEU judgment in Huawei v ZTE and the way it has affected subsequent developments before national courts. It illustrates that while the Court in Huawei significantly improved legal certainty both for SEP holders and their potential licensees, it also left open a number of crucial questions affecting everyday's licensing practice. First, it is not entirely clear whether the liability of an SEP holder presupposes leveraging by a vertically integrated firm or can also arise in purely vertical or horizontal relationships. Secondly, the safe harbor procedure formulated in the judgment begs important questions concerning burden of proof and portfolio licensing, which have given rise to divergent interpretations. It follows that the space remains wide open for competing national and even regional approaches to the rights and obligations of SEP holders, calling for further European harmonization- be it judicially, legislatively, or administratively through the European Commission. In support for the latter measures, the article illustrates the limited remit of EU private international law rules in preventing the forum shopping which is likely to unfold as a result of a fragmented landscape for the resolution of SEP disputes.

Keywords: Standard Essential Patents; Injunctions; *Huawei v ZTE*; Forum Shopping; Recast Regulation.

1. Patents, Innovation and Standardization

The relationship between patents, standards and innovation is a complex one. On the one hand, the rationale of incentivizing innovation lies at the core of the right to exclude others from making, using or selling an invention, which is the essence of patent protection. This legal entitlement aims to overcome a problem of inappropriability: due to the inherent non-excludability of information, including that constituting an invention, firms in the market could otherwise replicate an innovator's results without incurring the investments necessary to generate that invention¹.

On the other hand, while the patent system relies on the fundamental premise that exclusivity generates innovation, it is important to bear in mind that not all innovation follows the same pattern. Broadly speaking, two types of innovations can be distinguished: at one end of the spectrum is a more radical, "breakthrough" innovation –one which breaks with the past and establishes a new technological paradigm. At the opposite end lies the so called "incremental" innovation, which does not alter the established system architecture but merely provides customers with "something more or better in the attributes they already value"². The latter type of innovation tends to be more readily attainable³, but also to bring about a multitude of competing paradigms, products and processes, improving the relative *status quo* in different respects. In this scenario, technical collaboration within an industry can be strategic for the emergence of new products and services: first, in achieving coordination of otherwise competing efforts, thus accelerating or even engendering technological progress; and second, in promoting adoption of the resulting innovation by the relevant industry players.

Standardization stimulates this process through the definition of technical standards, i.e. voluntary technical specifications for products, production processes, or services⁴. In particular, most relevant from a patent perspective are the so called "compatibility standards", which provide a common architecture for the development of interoperable products and

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¹ Kenneth J. Arrow, "Economic Welfare and the Allocation of Resources for Invention", in *The Rate and Direction of Inventive Activity: Economic and Social Factors*, Kenneth J. Arrow ed. (Princeton: Princeton University Press, 1962): 615, 617.

² Joseph Bower and Clayton Christensen, "Disruptive Technologies: Catching the Wave", *73 Harvard Business Review* 43 (1995), 45. This dichotomy is obviously a stylized picture of innovation, which has been divided by others in four different categories (radical, modular, architectural and incremental) depending on the level of disruptiveness and its relation to the architecture or the component: see Rebecca M. Henderson and Kim B. Clark, "Architectural Innovation: The Reconfiguration of Existing Product Technologies and the Failure of Established Firms", *Administrative Science Quarterly* 35 (1990): 9-30 (1990). Some have also distinguished between on the one hand "incremental" and "breakthrough", reflecting Bower & Christensen's model, and on the other hand "sustaining" and "disruptive", depending on the relationship with what they call the "value network" around innovation. See Alexandre De Stree & Pierre Larouche, "Disruptive Innovation and Competition Policy", background note for the Session III of the OECD Global Forum on Competition, on 29-30 October 2015, paras. 3-4.

³ See e.g. Roy Rothwell and Paul Gardner, "The strategic management of re-innovation", *R & D Management* 19, 2 (1989): 147-160.

⁴ See Regulation (EU) No 1025/2012 of 25 October 2012 on European standardization [2012] OJ L 316/12, Rec. (1).

services: these specifications are built upon existing technologies, which may in turn be protected by patents. Therein lies the challenge at the core of the disputes discussed in this contribution: assertion of exclusivity in the underlying technology is in direct tension with standardization's aim to enable everyone to use a common architecture for the development of new products and services. Specifically, the aim of promoting incremental innovation served by standard-setting organizations (SSOs) is in tension with the right of holders of patents that are necessary for a given standard (so called "Standard Essential Patents", hereinafter "SEPs") to prevent any manufacturer of standard-compliant products to obtain a license. For this reason, standard-setting organizations ("SSOs") formulate IPR policies that strive to ensure the accessibility of standards, while preserving SEP holders' ability to receive a fair compensation for the use of their patents. IPR policies typically contain to that end two specific sets of rules on the disclosure and licensing of IPRs -SEPs in particular. First, they require SSO members to disclose within the standard-setting process the existence of any patents that they consider necessary for the standard that is being defined⁵. Second, they establish a mechanism that limits the discretion of SEP holders to refuse to license such patents to standard implementers. The most common of such mechanism is requiring SEP holders to make a so called "FRAND commitment", i.e. a commitment to make certain patents available to future standard implementers on fair, reasonable and nondiscriminatory ("FRAND") terms.⁶

However, both 'fair and reasonable' and 'nondiscriminatory' remain rather high-level and abstract concepts, escaping straightforward definition and calling for a case-by-case assessment. Practical experience shows that companies tend to struggle with the fundamental uncertainty that the FRAND framework generates,⁷ as patent holders and implementers often have widely different views on what FRAND entails. For example, parties may disagree as to whether license royalties should be based on the incremental value of the SEP after it has been included in the standard, or based solely on the intrinsic value of the invention before its inclusion in the standard.⁸ Furthermore, in addition to controversies surrounding the

⁵ See Jorge L. Contreras, "An Empirical Study of the Effects of Ex Ante Licensing Disclosure Policies on the Development of Voluntary Technical Standards" (National Institute of Standards and Technology, 2011); Jorge L. Contreras, "Technical Standards and Ex Ante Disclosure: Results and Analysis of an Empirical Study", *Jurimetrics Journal* 53 (2013): 163–211.

⁶ Jorge L. Contreras, "Rethinking RAND: SDO-based Approaches to Patent Licensing Commitments" (2012) *ITU Patent Roundtable Geneva*, 2 <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2159749>.

⁷ Renata Hesse, "Six 'Small' Proposals for SSOs Before Lunch" (2012) Remarks as Prepared for the ITU-T Patent Roundtable Geneva <<https://www.justice.gov/atr/file/518951/download>>.

⁸ See e.g. the discussions in Yann Ménière, "Fair, Reasonable and Non-Discriminatory (FRAND) Licensing Terms: Research Analysis of a Controversial Concept" [2015] *JRC Science and Policy Report* 17; Damien Geradin, "Pricing Abuses by Essential Patent Holders in a Standard-Setting Context: A View from Europe", *Antitrust Law Journal* 76 (2009): 329; Norman V. Siebrasse and Thomas F. Cotter, "The Value of the Standard", 101 *Minnesota Law Review* (2016). It should be noted that the prevailing view is currently in favor of the former interpretation: see e.g. *CSIRO v. Cisco Sys. Inc.*, 809 F.3d 1295, 1304-05 (Fed. Cir. 2015). See Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements [2011] C 11/1, para. 289: "it may be possible to compare the licensing fees charged by the company in question for the relevant patents in a competitive environment before the industry has been locked into the standard (*ex ante*) with those charged after the industry has been locked in (*ex post*). This assumes that the comparison can be made in a consistent and reliable manner". See also Federal Trade Commission, "The Evolving IP Marketplace: Aligning Patent Notices and Remedies with Competition" (March 2011), establishing that:

- The incremental value of the patented invention over the next-best alternative establishes the maximum amount that a willing licensee would pay in a hypothetical negotiation (p 21).

appropriate royalty base, different approaches exist also with regard to factors that ought to be taken into account for the computation of royalty rates.⁹

Given the open-ended character of these concepts, it is natural to observe litigation revolving around the concrete meaning of FRAND. Nevertheless, it is important to appreciate that its open-ended character is essential for FRAND to serve as bridge between two different categories of market participants: patent holders and standard implementers¹⁰. FRAND enables SSOs to bring everyone aboard for a particular standard through the conclusion of incomplete contracts in a context where it is not possible, or would be excessively costly, to address all future contingencies.¹¹ For this reason, it is generally argued that FRAND should be construed as reference not to a specific royalty rate, but rather to a range of rates that accounts for those contingencies.¹² In short, SEP holders retain significant flexibility in setting royalty amounts, but have foregone their freedom to charge licensees *any* rate they wish. One may well argue that patent holders who joined standardization efforts have sacrificed part of their reward for innovation; however, it should not be neglected that this is an SEP holder's entirely voluntary choice, made in the attempt to derive greater compensation from wider commercialization of that invention, and furthering a conscious policy effort to promote diffuse and incremental innovation.

2. The legal framework for SEP disputes in the EU

2.1 The legislative framework around FRAND

As noted, FRAND licensing is promising in theory, but controversial in practice. If SEP holder and implementer are not able to come to an agreement, this has one notable consequence: the implementer will not be authorized to produce standard-compliant features. However, if the implementer decides to proceed with implementation of the standard despite the lack of agreement— e.g. because he cannot afford to delay its production in order not to

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- A reasonable royalty damages award that is based on high switching costs, rather than the ex ante value of the patented technology compared to alternatives, overcompensates the patentee. It improperly reflects the economic value of investments by the infringer (p 189).
 - A definition of RAND based on the ex ante value of the patented technology at the time the standard is set is necessary for consumers to benefit from competition among technologies to be incorporated into the standard – competition that the standard setting process itself otherwise displaces (p 194).
 - For a patent subject to a RAND commitment, courts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was defined (p 23).

⁹ See e.g. Damien Geradin, “Standardization and Technological Innovation: Some Reflections on Ex-ante Licensing, FRAND, and the Proper Means to Reward Innovators”, *World Competition: Law and Economics Review* 29, 4, (2006): 517; Gregory J. Sidak, “The Meaning of FRAND, Part I: Royalties”, *Journal of Competition Law and Economics* 9 (2013): 931. See also David Long, “Federal Circuit provides guidance on royalty determination for standard essential patents (CSIRO v. Cisco)”, *Essential Patent Blog* (3 December 2015), at <http://www.essentialpatentblog.com/2015/12/federal-circuit-provides-guidance-on-royalty-determination-for-standard-essential-patents-csiro-v-cisco/>.

¹⁰ See in this sense CEN-CENELEC's position paper “Standard Essential Patents and Fair, Reasonable and Non-Discriminatory Commitments” (September 2016), available at http://www.cencenelec.eu/News/Policy_Opinions/PolicyOpinions/EssentialPatents.pdf, p. 14. See also Nicolo Zingales and Olya Kanevskaia, “The IEEE-SA patent policy update under the lens of EU competition law”, *European Competition Journal* 12, 2 (2016): 6-7.

¹¹ Damien Geradin, “The Meaning of ‘Fair and Reasonable’ in the Context of Third-Party Determination of FRAND Terms”, *George Mason Law Review* 21 (2014): 929. Joanna Tsai & Joshua D. Wright, “Standard Setting, Intellectual Property Rights, and the Role of Antitrust in Regulating Incomplete Contracts”, *Antitrust Law Journal* 80, 1 (2015).

¹² See e.g. Gregory J. Sidak, “The Meaning of FRAND, Part I: Royalties”, *Journal of Competition Law & Economics* 9, 4 (2013): 931-1055.

lose ground to his competitors – he will incur potential liability for use of the patent. The qualification of liability as “potential” is key here, because an implementer can always rebut in court the two presumptions operating in favor of patent holders, one concerning the validity of a granted patent and the other concerning the actual essentiality of a patent that has been declared so before an SSO¹³. There may indeed be discrepancies between the real bearing of a patent for a particular standard and the self-declaration of essentiality made by its holder to an SSO, which constitutes an artificial mechanism necessary to enable standardization to unfold quickly and keep pace with the development of technologies relying upon it. Not only the speed, but also the very effectiveness of standardization could be comprised if SSO members had the burden to identify or verify the scope of technological solutions covered by each patent declared as essential to a given standard.

Another crucial feature for the effectiveness of this process, although operating more in the backdrop of the SSO’s work, is the availability of injunctions¹⁴. Without injunctions, SEP holders would be unlikely to join standardization efforts as this would imply relinquishing their ability to prevent unwilling licensees, who fail to meet the conditions for their proposed (FRAND) licensing agreement, from continuing to operate or sell their products on the market. On the other hand, there is also a risk that injunctions be used by SEP holders as a threat forcing implementers to agree to above-FRAND royalties for the patents that they need to use, or keep competitors out from the SEP-based markets altogether. It is therefore useful to review the rules set up by the EU in this regard.

The availability of injunctions in national IP law is mandated in the EU by the IPR Enforcement Directive (hereinafter, “the Directive”)¹⁵, enacted with the explicit goal to ensure a high, equivalent and homogeneous level of protection of IP across Member States¹⁶. The Directive requires Member States to provide the right to provisional measures (including preliminary injunctions) before a decision on the merits, particularly where any delay would cause irreparable harm to the holder of an intellectual property right.¹⁷ With specific regard to injunctions, the Directive also prescribes that IPR holders should be able to apply for an injunction against “an intermediary whose services are being used by a third party to infringe the right holder’s industrial property”¹⁸. The conditions and procedures relating to such injunctions are largely left to national law, but important requirements are set out by the Directive.

¹³ For example, he may prove that despite falling into the SSO’s definition of essentiality, a patent is not essential from a strictly technical perspective, and can be “designed around” in order to implement the standard in question. The meaning of “essentiality” depends on the rules of the relevant SSO, and may in particular refer not only to technical, but also commercial essentiality – ie that non-infringing alternatives may exist but are (in the view of the declaring entity) too expensive or cumbersome. A recent study by the National Academy of Science and the United States Patent and Trademark Office identified two SSOs in the ICT sector (IEEE and VITA) including a “commercial” notion of essentiality in their IPR policy, and one (ETSI) specifically excluding it. See Keith Maskus and Stephen A. Merrill, *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communication Technology* (National Academy Press 2013): 38.

¹⁴ According to the definition given by the European Commission, an injunction is ‘an order granted by a court or an administrative body whereby someone is required to perform or to refrain from performing a specific action.’ See European Commission, ‘Injunctions’ <http://ec.europa.eu/consumers/enforcement/injunctions/index_en.htm> .

¹⁵ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L195/16 (Enforcement Directive).

¹⁶ *Id.*, recital 10

¹⁷ *Id.*, recital 22.

¹⁸ *Id.*, recital 23, and art. 9 (1) (a).

First, article 3 requires EU Member States to generally provide for measures, procedures and remedies that are necessary to ensure proper enforcement of IPRs. In line with the Directive's objective to ensure minimum standards of IP enforcement, it places an important focus on the fact that those measures, procedures and remedies be 'fair and equitable', 'effective' and 'dissuasive' and not be 'unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays'. At the same time however, limitations are imposed by requiring that they be proportionate, provide safeguards against abuse and do not create barriers to trade between member states.¹⁹

Secondly and more specifically, article 9 of the Directive addresses provisional and precautionary measures by requiring that judicial authorities be empowered, upon request of the applicant, to "issue against the alleged infringer an interlocutory injunction intended to prevent any imminent infringement of an intellectual property right, or to forbid, on a provisional basis and subject, where appropriate, to a recurring penalty payment where provided for by national law, the continuation of the alleged infringements of that right (..)".²⁰

Third and finally, article 11 of the Directive addresses *permanent* injunctions, requiring Member States to ensure that, "where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement".²¹ This type of injunction is clearly of paramount importance once an infringement has been established, but often not as crucial as *interlocutory* injunctions in securing effective enforcement in fast-moving markets, such as those involving SEP-based technologies.

As explained by a Commission Staff Working Document in 2010, significant variations exist at the national level in this regard²². Although the Commission found the experience with article 9 injunctions across EU jurisdictions positive, both in terms of speed and in encouraging amicable settlements, the evidence gathered from national implementations revealed divergence in the evidence required by courts in Member States, often to a substantial degree in patent infringement cases²³. Furthermore, the minimal harmonization approach has led to the stipulation into some national laws of additional conditions to be satisfied for the issuance of an injunction, as well as different ranges of factors considered by courts when deciding over requests for injunctive relief²⁴.

2.2 Injunctions and abuse of dominance

a. The tension between the right to an injunction and article 102 TFEU

While intellectual property laws provide right-holders with certain rights, including that to an injunction in accordance with the aforementioned articles, EU competition law imposes

¹⁹ *Id.*, art 3 (2).

²⁰ *Id.*, art 9 (emphasis added).

²¹ *Id.*, art 11 (emphasis added).

²² Commission, 'Commission Staff Working Document: Analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights in the Member States' COM (2010) 779 final.

²³ *Id.*, 14.

²⁴ See Pierre Larouche and Nicolo Zingales, "Injunctive Relief in Disputes Related to Standard-Essential Patents: Time for the CJEU to Set Fair and Reasonable Presumptions", *European Competition Journal* 10, 3, (2014): 564-577

certain limits to the exercise of such rights. Article 102 TFEU, in particular, applies to undertakings holding a dominant position in a relevant market, and prohibits conduct which amounts to abuse of such position. For the application of that prohibition, two basic elements need to be satisfied. We consider below the application of each of those elements to the context of an IP holder seeking injunctive relief, with particular focus on FRAND-encumbered patents²⁵.

The first element is the identification of dominance. Dominance depends on the definition of the relevant market and the position that undertaking has on that market. It should be noted that, while firms in high tech markets often exhibit many features that are indicative of market power²⁶ (high market shares, network effects, and even considerable profit margins²⁷), that does not necessarily mean that they have the requisite ‘ability to behave to an appreciable extent independently of [their] competitors, customers and ultimately of its consumers’²⁸. In particular, the mere grant of a patent cannot simply be equated with that ability²⁹, since using the patented product or method may be merely one way amongst many to satisfy consumer demand in the relevant market. The inclusion of a patent in a standard may lead to such patent being the preferred alternative to satisfying consumers in that market, but there is no reason why this should change the underlying reasoning³⁰. One could argue that even commercially convenient (as opposed to commercially essential) patents tend to yield market power, but a case by case analysis is necessary- and indeed explicitly required by the Commission for SEPs³¹. For example, there may be other products within the same relevant market that are made to competing standards, non-standardized products, and countervailing buyer power constraining the ability of the SEP holder from behaving independently.

In his opinion delivered to the CJEU in the *Huawei* case³², Advocate General Wathelet stressed the importance of properly undertaking the assessment of market power: though conceding the applicability of a presumption of dominance for SEP holders as defined by the referring court, he noted that, given the “special responsibility” attached to the notion of dominance, it “must be possible to rebut that presumption with specific, detailed evidence”. The Advocate General did not elaborate on the type of evidence he would envisage as being sufficient to rebut that presumption. However, the so called “proximity principle” in the establishment of the burden of proof suggests that when it comes to evidence of substitution, the burden would indeed be more properly situated within the SEP holder’s purview, who has

²⁵ It is worth noting, however, that the formulation of a FRAND-specific theory of harm for SEP disputes is not in itself immune from problems, as it creates imbalances with non-encumbered SEPs and perverse incentives for SEP holders. See Pierre Larouche and Nicolo Zingales, “Injunctive Relief in FRAND Disputes in the EU – Intellectual Property and Competition Law at the Remedies Stage”, TILEC Discussion Paper No. 2017-004 and Tilburg Law School Research Paper No. 01/2017, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2909708; *Cambridge Handbook of Technical Standardization*, Jorge L. Contreras ed. (Cambridge: Cambridge University Press, 2017).

²⁶ Miguel Rato and Nicolas Petit, “Abuse of Dominance in Technology-enabled Markets: Established Standards Reconsidered?”, *European Competition Journal* 9 (2013): 8.

²⁷ Robert Bork and Gregory J. Sidak, “The Misuse of Profit Margins to Infer Market Power”, *Journal of Competition Law & Economics* 9, 3 (2013): 511, 512.

²⁸ As required under the working definition of dominance in EU competition law. Case 27/76 *United Brands Company and United Brand Continentaal BV v Commission of the European Communities - Chiquita Bananas* [1978] ECR 207.

²⁹ See case 6/73 *Commercial Solvents* [1974] ECR 00223, ECLI:EU:C:1974:18.

³⁰ Guidelines on horizontal co-operation agreements, supra note 8, para 269.

³¹ *Id.*

³² Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH* [2015] ECLI:EU:C:2015:477.

privileged access to data about (often confidential) licensing agreements³³. The same could arguably be said with regard to claims of countervailing buyer power.

Unfortunately, the CJEU chose to address the question of “abuse of dominant position” without focusing on the distinct notion of “dominance”, on ground that this aspect was not contested before the referring court. However, the presumption suggested by the Advocate General was recently applied by the UK High Court in its recent *Unwired Planet* judgment³⁴, suggesting that the absence of a ruling on this point by the CJEU can be taken as an endorsement of the permissibility of the presumption that underlied the preliminary reference made to it³⁵. While that interpretation is questionable, the judgment is helpful in clarifying the relevance of some of the concepts that contribute to the definition of market power, irrespective of the application of that presumption. First, judge Birss found that the relevant market was that for licenses, rather than technology: in his words “it is licences that the SEP owner is offering, and a licence is the thing which protects the implementer from the risk of exclusion”³⁶. In other words, what implementers seek is legitimate access to the interoperability information (which is already available on the market), not to actually buy the patents involved³⁷. This characterization puts the SEP holder in a 100% market share position, but that is not in itself conclusive of the ability to behave independently from customers and competitors. Therefore, judge Birss turned to two additional sets of issues apt to counterbalance the weight of market shares: (i) the effectiveness of FRAND commitments, and (ii) the existence of reverse holdup. On (i) he found that, irrespective of whether the mere existence of FRAND commitment should be considered as restraining market power (something on which he preferred not to take a position), there was concrete evidence that after their adoption in relation to the patents in dispute, royalties had decreased³⁸. On (ii), judge Birss found both theoretical potential and concrete evidence supporting Unwired’s claim that Huawei had countervailing buyer power³⁹. However, he also noted that such power must be proven to exist in relation not only to a particular customer, but to the entire set of customers, and to the relevant degree so as to demonstrate an ability to behave independently⁴⁰. As a result of the analysis of (i) and (ii), judge Birss found the argument of countervailing buyer insufficiently supported by economic evidence to rebut the finding of dominance⁴¹. All in all, although the judgment does not explain further how to substantiate such claims, it does take the analysis one step further than Advocate General’s proposed presumption, providing a helpful framing for questions of market definition and market power in SEP disputes.

The second element of the analysis, once the existence of substantial market power has been ascertained, is the qualification of a given conduct as an abuse. Specifically, the relevant question for present purposes is whether the use of an injunction for a FRAND-encumbered SEP may constitute an abuse of dominant position. In principle, the answer to this question depends on whether the SEP holder is relying on the litigation process simply as a mechanism to enforce its FRAND entitlement, or rather as a strategic means to expand the scope of such entitlement. EU competition law has a specific line of cases dealing with

³³ Cristina Volpin, “The ball is in your court: Evidential burden of proof and the proof- proximity principle in EU competition law”, *Common Market Law* 51 (2014): 1173

³⁴ *Unwired Planet International Ltd v. Huawei Technologies Co. Ltd* [2017] EWHC (Pat) 711 (Eng.).

³⁵ *Id.*, para. 634.

³⁶ *Id.*, para. 659.

³⁷ *Id.*, paras. 658 and 660.

³⁸ *Id.*, para. 656.

³⁹ *Id.*, paras. 665, 667 and 668.

⁴⁰ *Id.*, para. 646.

⁴¹ *Id.*, para. 670.

vexatious litigation, revolving around two cumulative elements: (a) the claim can be reasonably expected not to succeed in court; and (b) the court proceeding is part of a plan to eliminate all competition⁴². While one could debate the fulfillment of the first condition for an injunction sought in conjunction with an above-FRAND licensing offer, the rigidity of the second prong makes this test ill-suited to dealing with injunctions that are merely aimed at obtaining above-FRAND rates (an exploitative purpose), as opposed to the elimination of competitors from the secondary market where license to that SEP is needed (an exclusionary purpose).

A similar problem arises with regard to the possible framing of such conduct as a constructive refusal to license intellectual property. For such refusal to fall foul of EU competition law, it is necessary that it meets four conditions: (a) it relates to a product or service indispensable to the exercise of a particular activity on a neighboring market; (b) it excludes effective competition on that market; (c) it prevents the appearance of a new product for which there is potential customer demand; and (d) it is not objectively justified⁴³. This test however refers to a particular notion of refusal, whereby an IP holder prevents a competitor from entering a market with untapped potential, whereas doubts can be casted on its appropriateness to address subtle disagreements in the negotiation of SEP royalties when the parties do not compete in the downstream product market. Once again, adopting this test would leave out of the reach of antitrust all that conduct which consists of exploiting the privileged position conferred to SEP holders to the detriment of consumers, namely by charging unreasonably high royalties.

This is a limitation that competition enforcers on the other side of the Atlantic are comfortable with⁴⁴, but does not bode well with the scope of EU competition law. This does not mean that EU competition law *should* have a role to play when it comes to disagreements on royalties that form part of a regular bargaining process (that is, within FRAND ranges): the case-law on “excessive pricing” under article 102 TFEU has circumscribed its concern for prices when those are “unfair”, either because of very significantly high margins, or because of a gross disproportionateness when compared with the prices offered by competing products⁴⁵. Furthermore, scholars have suggested that, in light of the inherent difficulty for competition authorities to conduct an appropriate pricing analysis taking into account all relevant considerations, these cases should be brought only in very narrow circumstances⁴⁶.

⁴² Case T-111/96 *ITT Promedia NV v Commission* [1998] II-2937.

⁴³ Case T-201/04 *Microsoft* [2007] ECR II-03601, ECLI:EU:T:2007:289, paras. 322-334.

⁴⁴ See e.g. Joshua D Wright, “SSOs, FRAND, and Antitrust: Lessons from the Economics of Incomplete Contracts”, *Remarks at the Center for the Protection of Intellectual Property Inaugural Academic Conference “The Commercial Function of Patents in Today’s Innovation Economy”*, George Mason University School of Law, Arlington, VA September 12, 2013, pp. 12, 32. Maureen K Olhausen, “The Elusive Role of Competition in the Standard-Setting Antitrust Debate”, *Stanford Technology Law Review* 20, 93 (2017), 121, 131, 132.

⁴⁵ Case 27/76, *United Brands Company and United Brands Continentaal BV v. Commission*, [1978] ECR-207 at §250.

⁴⁶ The literature is divided concerning the specific circumstances under which scrutiny over prices is appropriate, as summarized in Massimo Motta and Alexandre De Strel, “Excessive Pricing in Competition Law: Never say Never?”, *The Pros and Cons of High Prices*, Swedish Competition Authority ed. (Stockholm: Konkurrensverket Swedish Competition Authority, 2007): 18. In particular, Evans and Padilla suggest that intervention is warranted only if the firm is a monopolist or quasi-monopolist, its prices widely exceed its total costs, and there is a risk that it might prevent the emergence of new products in adjacent markets. Paulis simply focuses on the existence of high and long-lasting barriers to entry and expansion. Similarly, O’Donoghue and Padilla require strong market power, the existence of high entry barriers, and a minor role of investment and innovation in the affected market. Röller suggests focusing again on the existence of significant entry barriers, but also requires that the market be unlikely to self-correct, that the dominant position was due to exclusionary abuse or government actions, and that there is no effective regulation and no structural remedy available. Motta

Advocate General Wahl has even gone as far as to argue that such circumstances should be limited to regulated markets.⁴⁷

However, in the context of standard-setting, high prices can be a serious concern in light of the key role of standards in providing access to the market for new (standard-compliant) products. As argued by Lemley and Shapiro⁴⁸, this crucial role calls for a closer scrutiny over royalty demands, and relatedly, over the ability to enforce such demands through injunctive relief: licensing negotiations can be significantly affected by the threat of an injunction, especially when it concerns a patent covering a small component of a complex, profitable, and popular product. If the defendant has already invested heavily to design, manufacture, market, and sell the product with the allegedly infringing feature, an injunction may lead to a holdup⁴⁹: in particular, a specific type of holdup called “patent holdup”, where the threat of injunction is used by an SEP holder to exploit his own privileged position in order to extract excessively high royalties⁵⁰. As a corollary of this theory, it has been argued by many that a FRAND commitment includes (or should include) forbearance of the right to seek an injunction for the technologies covered by the standard before a final determination over the consistency with FRAND of the offers made by the alleged infringer⁵¹.

As explained above, however, the availability of injunctive relief (and especially

and de Stree’s proposal is an evolution of all these approaches by requiring that, in addition to high non-transitory barriers leading to a super dominant position and a link between dominance and past abuses or special and exclusive rights, there be no regulator and no effective way for the competition authority to eliminate the entry barriers. See *id.*, 22-28.

⁴⁷ Opinion of AG Wahl of 6 April 2017 in Case C-177/16, *Biedrība ‘Autortiesību un komunikēšanās konsultāciju aģentūra – Latvijas Autoru apvienība’ v Konkurences padome*, para. 48.

⁴⁸ Mark Lemley & Carl Shapiro, “Patent Holdup and Royalty Stacking”, *Texas Law Review* 85 (2007):1991-2049.

⁴⁹ *Id.*, 1993. In economic terms, the term “holdup” refers to a situation where (1) a party makes asset-specific investment which make it difficult to shift to other opportunities once made; and (2) the party that has contracted to buy the goods which takes advantage of the opportunity by exploiting the switching costs. See Anne Layne-Farrar, “Patent Holdup and Royalty Stacking Theory and Evidence; Where Do We Stand After 15 Years of History?”, background material for Item VII of the 122nd meeting of the OECD Competition Committee on 17-18 December 2014, available at http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%2984&d_o-language=en. The “patent holdup” theory constitutes an application of the more general “holdup” theory developed in the early 80s by Chicagoan economist Williamson. See Oliver Williamson, “Credible Commitments: Using Hostages to Support Exchange”, *American Economics Review* 73 (1983): 519; Oliver Williamson, *The Economics Institutions of Capitalism* (New York: The Free Press, 1985). For a more nuanced definition, see Thomas F Cotter, “Patent Holdup, Patent Remedies, and Antitrust Responses” *The Journal of Corporation Law* 34 (2009): 1151.

⁵⁰ Carl Shapiro, “Injunctions, Hold-Up and Patent Royalties”, *American Law and Economics Review* 12, 2 (2010): 283.

⁵¹ For example, in a joint statement in January 2013, the US Patent and Trademark Office and the Antitrust Division of the US Department of Justice declared that “the availability of injunctive relief to holders of FRAND-encumbered patents may harm competition and consumers by degrading one of the tools SDOs employ to mitigate the threat of such opportunistic actions by the holders of FRAND-encumbered patents that are essential to their standards”. See US DOJ and US PT, “Policy Statement on Remedies For Standards- Essential Patents Subject to Voluntary F/RAND Commitments”, 8 January 2013, available at http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%2984&d_o-language=en. See also Third Party US FTC’s statement on the public interest” filed on June 6, 2012, in *Re Certain Wireless Communication Devices, Portable Music & Data Processing Devices, Computers & Components Thereof* (establishing that injunctive relief is unavailable for infringement of a FRAND-encumbered patent). See also Maurits Dolmans, “Standards for Standards”, *Fordham International Law Journal* 26 (2002): 205; Joseph S. Miller, “Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm”, *Indiana Law Review* 40 (2007): 386.

interlocutory injunctions) is crucial to patent holders' submission to the standardization process. Depriving them of their right to injunction would be sensible in a world of perfect compliance, but in a more realistic world, one should recognize the likelihood of abuse by standard implementers, who might take advantage of the SEP holders' inability to prevent sale, use or production of a standard-implementing product by offering to take a license on below-FRAND royalties. This is particularly likely if negotiation occurs (as it is the case for SSOs) when patentees have already sunk their R&D costs⁵². If patent holders have no "stick", such as the prospect of injunctive relief to guard against misconduct by potential licensees, standard implementers are incentivized to demand licenses on below-FRAND rates, since in the case of failed negotiation SEP holders will only be able to resort to costly and time-consuming actions for damages. Under this scenario, SEP holders would be likely to grant licenses below FRAND terms, and even below an expected damages award, in order to recoup the sunk investment and forego expensive and time-consuming litigation, where among other things he would face the risk of having his patents invalidated or declared non essential⁵³. This situation of systematic undercompensation has become known as "reverse holdup"⁵⁴.

Whether the reality is more accurately reflecting a "holdup" or a "reverse holdup" situation has been heavily debated in academic, policy and industry circles, without sufficient evidence being found in favor of either⁵⁵. Unsurprisingly, the inconclusiveness of this discussion goes

⁵² Richard Gilbert, "Deal or no Deal? Licensing Negotiations by Standard Development Organizations", *Antitrust Law Journal* 77 (2011): 855-888.

⁵³ Pierre Larouche, Jorge Padilla, and Richard Taffet, "Settling FRAND Disputes: Is Mandatory Arbitration a Reasonable and Non-Discriminatory Alternative?", *Journal of Competition Law and Economics* 10, 3 (2014); Anne Layne-Farrar, "The Economics of FRAND" in *Antitrust Intellectual Property and High Tech Handbook*, Daniel Sokol ed., (Cambridge: Cambridge University Press, 2017).

⁵⁴ See e.g. Damien Geradin, "Reverse Hold-Ups: The (Often Ignored) Risks Faced by Innovators in Standardized Areas" in *The Pros and Cons of Standard Setting*, Swedish Competition Authority ed., (Stockholm: Swedish Competition Authority, 2012): 112.

⁵⁵ Although the literature questioning theory and evidence of patent holdup is significant and growing, it does not go as far as offering empirical evidence of reverse holdup. See Alexandre Galetovic and Stephen Haber, "The Fallacies of the Holdup Theory", *Journal of Competition Law & Economics* 13, 1 (2017). Richard A. Epstein and Kayvan B. Noroozi, "Why Incentives for "Patent Holdout" Threaten to Dismantle FRAND, and Why It Matters", *Berkeley Technology Law Journal* (Forthcoming, 2017), available at SSRN: <https://ssrn.com/abstract=2913105>; Gregory J. Sidak, "Does the International Trade Commission Facilitate Patent Holdup?", *The Criterion Journal on Innovation* 1 (2016); Reply Submission on the Public Interest of Federal Trade Commissioners Maureen K. Ohlhausen and Joshua D. Wright – In the Matter of Certain 3G Mobile Handsets and Components Thereof – U.S. International Trade Commission (July 2015) <https://www.ftc.gov/system/files/documents/public_statements/685811/150720itcreplyohlhausen-wright.pdf>; Alexander Galetovic, Stephen Haber and Ross Levine, "An Empirical Examination of Patent Hold-Up" *Journal of Competition Law and Economics* 11, 5 (2015); Gregory J. Sidak, "The Antitrust Division's Devaluation of Standard-Essential Patents", *Georgetown Law Journal Online* 104 (2015); Gregory J. Sidak, "The Meaning of FRAND, Part II: Injunctions" *Journal of Competition Law and Economics* 11 (2015); Anne Layne-Farrar, "Patent Holdup And Royalty Stacking Theory and Evidence: Where Do We Stand After 15 Years of History?" (December 2014), Submission for Item VII of the 122nd meeting of the OECD Competition Committee on 17–18 December 2014 <<http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%2984&doclanguage=en>>; Joshua D. Wright and Douglas H. Ginsburg, "Patent Assertion Entities and Antitrust: A Competition Cure for a Litigation Disease", *Antitrust Law Journal* 79 (2014); Kirti Gupta and Mark Snyder, "Smart Phone Litigation and Standard Essential Patents", Hoover IP2 Working Paper Series No 14006 (May 2014), <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2492331>; Colleen V. Chien, "Holding Up and Holding Out", *Michigan Telecommunications & Technology Law Review* 21, 1 (2014); Roger G. Brooks, 'SSO Rules, Standardization, and SEP Licensing: Economic Questions from the Trenches' *Journal of Competition Law and Economics* 9 (2013); Kirti Gupta, "The Patent Policy Debate in the High-Tech World", *Journal of Competition Law and Economics* 9 (2013); Sir Robin Jacob, "Competition Authorities Support Grasshoppers:

hand in hand with the significant amount of disputes on this matter, which is giving rise to contrasting judicial approaches and leading to the intervention of competition authorities both on the EU and US front⁵⁶. The evolution of the antitrust treatment under EU competition law of injunctions for SEPs is illustrated below through a review of decisions that have “set the standard” in this previously uncharted area.

b. Orange Book

The first guidance in EU on the permissibility under competition law of seeking injunctive relief for an SEP came from the German Federal Court of Justice on 6 May 2009.⁵⁷ The suit concerned a permanent injunction sought by Philips against the use of its patents concerning CD-R/CD-RW supports. After finding that those patents were in fact infringed, the Court also noted that, since the patents were *de facto* essential to enter the market (i.e., they had become an industry standard without a formal standard-setting process), the patent holder seeking injunctive relief would violate competition law if the prospective licensee could

Competition Law as a Threat to Innovation”, *Competition Policy International* 9 (2013); James Ratliff and Daniel L. Rubinfeld, “The Use and Threat of Injunctions in the RAND Context”, *Journal of Competition Law and Economics* 9 (2013); Gregor Langus, Vilen Lipatov and Damien Neven, “Standard-Essential Patents: Who Is Really Holding Up (and When)?” *Journal of Competition Law and Economics* 9 (2013); Richard A. Epstein, F. Scott Kieff and Daniel F. Spulber, “The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination” *Journal of Competition Law and Economics* 8 (2012); Richard S. Taffet and Hill B. Wellford, “Questioning the FTC’s Incremental Value Test and Claims of Widespread Hold-Up in Technology Standards”, *Antitrust Bulletin* 57 (2012); Luke Froeb, Bernhard Ganglmair and Gregory J. Werden, “Patent Hold-Up and Antitrust: How a Well-Intentioned Rule Could Retard Innovation” *Journal of Industrial Economics* 60 (2012); Mario Mariniello, “Fair, Reasonable and Non-Discriminatory (FRAND) Terms: A Challenge for Competition Authorities”, *Journal of Competition Law and Economics* 7 (2011); Joshua D. Wright and Aubrey N. Stuempfle, “Patent Holdup, Antitrust, and Innovation: Harness or Noose?”, *Alabama Law Review* 61 (2010); Damien Geradin and Miguel Rato, “FRAND Commitment and EC Competition Law: A Reply to Philippe Chappatte” *European Competition Journal* 6 (2010); Damien Geradin, “Pricing Abuses by Essential Patent Holders in a Standard-Setting Context: A View from Europe” *Antitrust Law Journal* 76 (2009); Bruce H Kobayashi and Joshua D Wright, “Federalism, Substantive Preemption, and Limits on Antitrust: An Application to Patent Holdup” *Journal of Competition Law and Economics* 5 (2009); J. Gregory Sidak, “Patent Holdup and Oligopsonistic Collusion in Standard-Setting Organizations”, *Journal of Competition Law and Economics* 5, 1 (2009); Gregory J. Sidak “Holdup, Royalty Stacking, and the Presumption of Injunctive Relief for Patent Infringement: A Reply to Lemley and Shapiro”, *Minnesota Law Review* 92 (2008); Einer R Elhauge, “Do Patent Holdup and Royalty Stacking Lead to Systematically Excessive Royalties?” *Journal of Competition Law and Economics* 4 (2008); Damien Geradin, Anne Layne-Farrar and Jorge Padilla, “Competing Away Market Power? An Economic Assessment of Ex Ante Auctions in Standard Setting” *European Competition Journal* 4 (2008); Vincenzo Denicolò, Damien Geradin, Anne Layne-Farrar and Jorge Padilla, “Revisiting Injunctive Relief: Interpreting eBay in High Tech Industries with Non-Practicing Patent Holders” *Journal of Competition Law and Economics* 4 (2008); John M. Golden, “Patent Trolls and Patent Remedies” *Texas Law Review* 85 (2007); Damien Geradin and Miguel Rato, “Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-up, Royalty-Stacking and the Meaning of FRAND” *European Competition Law Journal* 3 (2007); Damien Geradin and Miguel Rato, “Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-Up, Royalty Stacking and the Meaning of FRAND” *European Competition Journal* 3 (2007); David J. Teece and Edward F. Sherry, “Standard Setting and Antitrust” *Minnesota Law Review* 87 (2003).

⁵⁶ With regard to the US, see U.S. Federal Trade Commission, “The Evolving IP Marketplace”, supra note 8 ; U.S. Department of Justice & Patent and Trademark Office, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments 3 (2013), available at <http://www.justice.gov/atr/public/guidelines/290994.pdf>; Executive Office of the President The United States Representative, Disapproval of the U.S. International Trade Commission’s Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Investigation No. 337-TA-794, available at https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF

⁵⁷ Bundesgerichtshof [BGH] [Federal Court of Justice], 6 May 2009, BGHZ 180, 312, NJW-RR 2009, 1047, GRUR 2009, 694, WuW 2009,773 (*Orange Book Standard*).

demonstrate being a “willing licensee”. According to the Court, that qualification requires compliance with two conditions:

- 1) Making, and remaining bound by, an unconditional offer to conclude a license it which cannot in good faith be rejected by the patentee- as that would “unfairly impede” the defendant or infringe the principle of non-discrimination⁵⁸.
- 2) Behave as if the licence had been granted, i.e. rendering accounts and paying that royalty or depositing an equivalent amount in escrow.

As a matter of theory of harm, the judgment evokes a link to the concept of vexatious litigation, more specifically grounded on the principle of good faith enshrined in § 242 of the German Civil Code: it found it against that principle to request (injunctive) relief from a court when there is an immediate obligation to act against such relief, namely by granting a license on FRAND terms. It bears noting that, while this finding could be sufficient to show the existence of a baseless claim, a plan to eliminate all competition would still need to be demonstrated in order to apply this theory under EU competition law. Furthermore, what transpires from the specificity of the German context is a concern with preserving the patentee’s cashflow, more so than his ability to impose his own licensing terms from the start. This approach is consistent with the aforementioned interpretation of FRAND as a range, not a dot; and in doing so, it provides a sensible solution to the abusive recourse to injunctions, without undermining the patentee’s ability to recover in subsequent proceedings any difference between the royalties paid and those he would have been entitled to obtain. However, the principled nature of the judgment was somehow lost in the markedly pro-patentee interpretation given by the lower courts: for instance, an appellate court found that the qualification of “willing licensee” presupposes giving up the right to challenge the validity of the patent⁵⁹; and a district court ruled that even responding to an SEP holder’s offer to license with a full counteroffer, instead of merely adjusting that initial offer, would rule out a possible qualification as “willing licensee”, unless that first offer constituted an obvious violation of competition law⁶⁰.

c. Motorola and Samsung

The first clarification under EU competition law of the legality of conduct seeking injunctive relief for FRAND-encumbered SEPs came on 29 April 2014, when the Commission adopted two companion decisions in *Motorola*⁶¹ and *Samsung*⁶². According to the Commission’s press release on that day, the goal of those decisions was “to prevent SEP holders from using SEP-based injunctions in an anticompetitive way, in order to extract licensing conditions that may restrict competition and ultimately harm consumers”⁶³. It is worth noting that this

⁵⁸ See the summary of the case made by the CJEU in *Huawei v ZTE*, supra note 32, para. 31.

⁵⁹ *Oberlandesgericht [OLG] [Court of Appeal] Karlsruhe*, 27 February 2012, 6 U 136/11 (*Motorola v Apple*) (FRG)

⁶⁰ *Motorola v Microsoft*, LG Mannheim, 20 May 2012—2 0 240/11, s C.I.

⁶¹ *Motorola* (Case AT.39985) Commission Decision of 29.04.2014 addressed to Motorola Mobility LLC relating to proceedings under Article 102 TFEU and Article 54 EEA Agreement – Motorola – Enforcement of GPRS standard essential patents [2014] <http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf>.

⁶² *Samsung* (Case AT.39939) Commission Decision of 29.04.2014 addressed to Samsung Electronics Co., Ltd., Samsung Electronics France, Samsung Electronics GmbH, Samsung Electronics Holding GmbH, Samsung Electronics Italia s.p.a. relating to proceedings under Article 102 TFEU and Article 54 EEA Agreement – Samsung – Enforcement of UMTS standard essential patents [2014] <http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf> accessed 14 January 2016.

⁶³ Commission, “Antitrust Decisions on Standard Essential Patents (SEPs) - Motorola Mobility and Samsung

statement reveals a concern for exploitative harms (“extracting” licensing conditions), rather than the exclusion of competitors or potential competitors. The Commission however also aligns its formulation to the realm of possible exclusionary abuses by explaining that when an SEP holder has given a FRAND commitment to the SSO and the licensee is willing to take a license, seeking injunctive relief can distort licensing negotiations and lead to licensing terms with a negative impact on prices *and consumer choice* (presumably, due to the unaffordability of licenses for certain implementers)⁶⁴. It also points out that implementers can always resist injunctions by raising a FRAND defence, as long as they demonstrate to be “willing licensees”. What exactly constitutes a willing licensee is not specified, but the Commission indicates that a prospective licensee agreeing that a court or a mutually agreed arbitrator defines the FRAND terms will be deemed “willing”; and that a licensee will not be considered “unwilling” merely for challenging the validity, essentiality, or infringement of the SEPs, since “it is in the public interest that potentially invalid patents can be challenged in court and that companies, and ultimately consumers, are not obliged to pay for patents that are not infringed⁶⁵”. At first blush, this approach to invalidity challenges strikes as sensible and consistent with the Commission’s skeptical treatment of “no-challenge” clauses in licensing agreements⁶⁶. However, on closer inspection, one cannot help but noticing that the way in which the concept is applied in these decisions (creating an absolute bar to waivers of the right to validity challenges) tilts the balance in favor of implementers without a clear economic justification.

In *Motorola*, the case arose from the enforcement of patents essential to the GPRS standard. Motorola owned a patent (CUDAK patent) that was essential to the GPRS standard, and made a FRAND commitment to ETSI. During negotiations, Apple made six different *Orange Book*-offers to Apple, and the Commission found that Apple’s willingness to enter into a license agreement could have been concluded from the moment the second offer was made.⁶⁷ According to the Commission, the fact that Motorola sought and continued to seek and to enforce an injunction against Apple in Germany resulted in a threefold anti-competitive harm: a temporary ban on the online sale of Apple’s GPRS-compatible products in Germany; the inclusion in the Settlement Agreement of licensing terms disadvantageous to Apple, including the termination of the license in case Apple challenged the validity of the SEP in question⁶⁸; and a negative impact on standard-setting, given the legitimate expectation it creates on third parties.⁶⁹

First, it is important to emphasize the point about the prevention of validity challenges, which constituted one of the alleged harms stemming from the threat of injunctive relief. Here, the concern of the Commission was that the termination clause, whereby Motorola would be entitled to terminate the licensing agreement if the implementer challenged the validity of one of its licensed patents, might adversely influence the level of royalties to be paid by Apple: by eliminating the possibility that Apple pay zero royalties in case of successful validity challenge to a given patent, this clause would raise prices for the implementer and allegedly

Electronics - Frequently Asked Questions” MEMO/14/322.

⁶⁴ *Id.* (emphasis added).

⁶⁵ *Id.*

⁶⁶ See Commission Regulation (EC) 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements [2004] OJ L123/11, article 5(1c); Commission Regulation (EU) 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements [TTBER], [2014] OJ L93/17, article 5(1b).

⁶⁷ *Id.*, paras. 301-307.

⁶⁸ *Id.*, paras. 339, 361-363, 375-383.

⁶⁹ *Id.*, para. 311.

consumers.⁷⁰ Furthermore, this harm would be propagated to future implementers as they cannot benefit from the possibility that Apple invalidates such patents in court.⁷¹ This reasoning however views the termination clause in isolation from the context of the negotiation, where it may constitute an important concession given by the implementer in exchange for a lower level of royalties of an entire portfolio of patents, some of which may be valid and some of which may be invalid. Accordingly, removing the possibility for the patent owner to secure against the risk of invalidation is likely to lead him to raise the overall royalty level, in order to account for that risk, and thus increase the price for implementers, and ultimately, consumers.⁷² As mentioned above, this is *not* a criticism against the Commission's goal to preserve the right of implementers to challenge patent validity (and thus consider it irrelevant for their qualification as "willing licensee"), but rather a reflection about the consequences of the Commission's absolutist stance against the waiving of such right as part of the negotiation⁷³.

Second, it is crucial to note the types of harms identified by the Commission: the first one is exclusionary, the second exploitative, and the third systemic, introducing "legitimate expectation" in the standardization process as a value to be protected by competition law. The introduction of this concept is not a mere caprice by the Commission, but represents an essential element of the theory of harm which allows it to bring its action in compliance with existing case-law, in particular that on refusal to license⁷⁴. Specifically, the Commission relied on the open-ended nature of the "exceptional circumstances" test defined in *Microsoft* to cover a situation featuring the following circumstances: (1) the existence of a standard-setting process; and (2) an undertaking's FRAND commitment in relation to its SEPs reading on that standard.⁷⁵ On the latter circumstance, the Commission simply emphasizes the expectations generated by commitment-based standardization: by giving a FRAND commitment, Motorola indicated that it would grant licenses on FRAND terms; implementers of the GPRS standard could therefore reasonably expect that Motorola would indeed grant such licenses to all implementers.⁷⁶ The former circumstance is not discussed at length in the decision, but the Commission refers to the ubiquity of the GPRS standard in the telecommunications sector and the important role that compatibility and interoperability play in fostering follow-on innovation⁷⁷. Accordingly, on the basis of the asserted effects of standard-setting on innovation, the Commission is able to "assume away" the consumer harm element implied in Microsoft's "new product" test, leading to the conclusion that denial of access to the standard on FRAND terms constitutes an abuse.

In its *Samsung* decision, published on the same day, the Commission accepted commitments to address the concerns relating to analogous conduct in relation to another FRAND-encumbered SEP. Samsung had given a commitment to ETSI to license its UMTS (Universal

⁷⁰ *Id.* at para. 338-357.

⁷¹ *Id.* at para. 375-383.

⁷² For a more in-depth elaboration of this point, see Larouche & Zingales, *supra* note 24, p.582-584.

⁷³ This position also appears to be inconsistent with the Technology Transfer block exemption regulation, which explicitly carves out "any direct or indirect obligation on a party not to challenge the validity of intellectual property rights which the other party holds in the Union", yet preserves "the possibility, in the case of an exclusive licence, of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights". See TTBER, *supra* note 66, art 5 (1) (b).

⁷⁴ Cases C-241/91 P and C-242/91 P *Magill* [1995] ECR I-743; Case C418/01 *IMS Health v NDC Health* [2004] ECR I-5039; *Microsoft* [2004] ECR II-4463.

⁷⁵ *Motorola*, para. 281

⁷⁶ *Id.*, para. 294.

⁷⁷ *Id.*, para. 286.

Mobile Telecommunication Service) SEPs on FRAND terms. The Commission investigated whether Samsung failed to honor its FRAND obligation, particularly by seeking injunctive relief against Apple. It found that the same exceptional circumstances were at stake as in the *Motorola* Decision: the UMTS standard-setting process and Samsung's FRAND commitments to license its SEPs.⁷⁸ As a result, the Commission sent a Statement of Objections to Samsung⁷⁹ in January 2012, to which Samsung replied by offering commitments, eventually accepted with some alterations on 29 April 2014. The commitments bring some additional clarity as to the type of conduct that the Commission considers acceptable, including the timing of negotiation, the role of cross-licenses, of third party determination of FRAND terms, and of validity and essentiality challenges. Their key points can be summarized as follows:⁸⁰

- *Injunctive relief and determination of FRAND terms*: Samsung will not file a claim seeking injunctive relief before any court or tribunal in the EU for infringement of its SEPs against any potential licensee who agrees to the Licensing Framework. According to the Framework, Samsung and the potential licensee will enter into a negotiating period of 12 months for any SEP disputes. If those negotiations are unsuccessful, a third party of choice (a court, unless the parties mutually prefer an arbitration panel) shall determine the FRAND terms. Samsung can only seek injunctive relief against a potential licensee outside this procedure in very specific circumstances, having to do with the licensee's degree of insolvency, and with its failure to comply with the framework or to reciprocate FRAND commitments on their own mobile SEPs.⁸¹
- *Availability of validity and essentiality challenges*: licensees will remain free to challenge 'the validity, essentiality or infringement of the other party's Mobile SEPs outside the context of the Third-Party Determination of FRAND Terms.'⁸²
- *Reciprocity*: Samsung can condition its FRAND licensing upon reciprocity for SEPs in relation to the same standard. While this may be satisfied with either two unilateral licenses or apposite cross-licenses, access to the SEP cannot be conditioned upon the licensing of non-SEPs or SEPs that are not covered by the reciprocity rules of SSOs.⁸³

In sum, for the first time in *Motorola* and *Samsung* the Commission ruled in favor of the applicability of the case-law on refusal to license to behavior consisting of seeking an injunction for a FRAND-encumbered SEP. Furthermore, in *Samsung* the Commission also carved out a "safe harbor" (i.e., a circumscribed area of non-liability) for implementers: as long as they submit to a third party (a court or, per *Samsung*, an arbitration panel) determination of FRAND, they can start implementing the standard without worrying about possible patent holders' injunctions: that conduct would constitute abuse of dominant position, and hence could be raised in the course of an infringement proceeding as a "FRAND defense".

⁷⁸ *Samsung*, para. 56.

⁷⁹ Commission, 'Antitrust: Commission Sends Statement of Objections to Samsung on Potential Misuse of Mobile Phone Standard-Essential Patents' (Press Release) IP/12/1448.

⁸⁰ *Samsung*, 'Case COMP/C-3/39.939 – Samsung Electronics Enforcement of UMTS Standard Essential Patents: Commitments Offered to the European Commission' <http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1502_5.pdf> .

⁸¹ *Id.*, clause 2

⁸² *Id.*, clause 4

⁸³ *Samsung*, para. 102 and 110.

3. The Huawei judgment and its impact on FRAND litigation in the EU

3.1 The Huawei judgment

It took until July 2015 for the CJEU to test the above-described theory of abusive recourse to injunctive relief for FRAND-encumbered SEPs. On 16 July 2015, the CJEU issued its long-awaited verdict in the case between Huawei and ZTE⁸⁴, responding to the preliminary reference made pursuant to article 267 TFEU by a Düsseldorf District Court in the context of a patent infringement suit brought by Huawei. Huawei owned a European patent⁸⁵, which had been declared to ETSI (the European Telecommunications Standards Institute) in March 2009 as essential to the ‘Long Term Evolution’ standard, and for which Huawei had given a FRAND commitment. Between November 2010 and March 2011, Huawei and ZTE discussed about the infringement of the patent concerned and about a license on FRAND terms relating to that patent. The lack of progress in the negotiations, mainly due the fact Huawei sought a royalty amount while ZTE a cross-licensing agreement, did not stop ZTE from continuing its production in compliance with the standard. For this reason, Huawei in April 2011 brought an action for infringement before the District Court, seeking an injunction that would order ZTE to stop the infringement, rendering the accounts, and recalling the infringing products, in addition to a damages award. The Court felt obliged to refer 5 preliminary questions to the CJEU, seeking clarification on the approach that ought to be taken to “determine the point at which the proprietor of an SEP infringes Article 102 TFEU as a result of bringing an action for a prohibitory injunction”.⁸⁶

The dilemma faced by the Düsseldorf Court was owed to the conflict between the German caselaw and the recent position taken by the Commission with regard to injunctions on FRAND-encumbered SEPs. Following the *Orange Book* case, ZTE would have needed to make an unconditional offer to Huawei to conclude a licensing agreement, and to behave as an actual licensee by paying royalties -both for past and current use of the patent. The court however could not conclude that ZTE’s offer was unconditional, because it only related to the products giving rise to the infringements, and ZTE did not pay the amount of royalty for past use. Therefore, in accordance with *Orange Book*, the District Court would have been entitled to grant the prohibitory injunction sought by Huawei.⁸⁷ In contrast, according to the European Commission in *Motorola* and *Samsung*, if the SEP holder has made a FRAND-commitment and the infringer is willing to negotiate, a prohibitory injunction is unlawful - and should therefore *not* be granted.⁸⁸ Thus, following the European Commission’s approach, the Court would have been required to dismiss Huawei’s action for prohibitory injunction, since both parties were willing to negotiate. The referring opinion considered that, given the need to prevent both implementers and SEP proprietors from exploiting the situation, an SEP holder should in principle be able to bring an action for a prohibitory injunction, and such a conduct can only constitute abuse in the presence of additional circumstances. In particular, the Court criticized using “willingness to negotiate” as a sole additional criterion⁸⁹, as that would give rise to multiple interpretations and an excessive degree of freedom of action for

⁸⁴ *Huawei v ZTE*, supra note 32.

⁸⁵ European patent registered under reference EP 2 090 050 B 1, “Method and apparatus of establishing a synchronization signal in a communication system”, granted by the Federal Republic of Germany.

⁸⁶ *Huawei v ZTE*, supra note 32, para. 29.

⁸⁷ *Id.*, supra note 32, para. 33.

⁸⁸ *Id.*, supra note 32, para. 34.

⁸⁹ *Id.*, supra note 32, para. 38. The Court also suggests that in any case, such criterion should be clarified with specific qualitative and time requirements.

the implementer. As a result, the following questions were referred for a preliminary ruling to the European Court of Justice:

- (1) Does an SEP holder who made a FRAND commitment to the SSO abuse its dominant market position if it brings an action for an injunction against a patent infringer, even though the infringer has declared its willingness to negotiate? (following earlier decisions from the European Commission) Or is an abuse of dominant market position to be presumed only when the infringer has made an acceptable, unconditional offer to conclude a licensing agreement to the SEP holder, which the SEP holder cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfills its contractual obligations for past acts of use in anticipation of the license to be granted? (following the German *Orange Book*-judgment)
- (2) If abuse of a dominant market position is already to be presumed as a consequence of infringer's willingness to negotiate: Does Article 102 TFEU lay down particular qualitative and/or timing requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed when the infringer merely stated (orally) in a general way that it is prepared to negotiate, or must infringer already have entered into negotiations by, for example, submitting specific conditions upon which it is prepared to conclude a licensing agreement?
- (3) If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position: Does Article 102 TFEU lay down particular qualitative and/or time requirement in relation to the licensee's offer? Must the offer contain all provisions normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the SEP is actually used and/or is shown to be valid?
- (4) If the fulfillment of the infringer's obligations arising from that offer is a prerequisite for a claim of abuse of a dominant market position: Does Article 102 TFEU require the fulfillment of any particular action by the patentee? In particular, is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?
- (5) Do the conditions under which the abuse of a dominant position by the proprietor of a SEP is to be presumed apply also to an action brought on ground of other claims (for rendering of accounts, recall of products, damages) arising from a patent infringement?⁹⁰

In its decision of July 2015, the CJEU responded by consolidating the four central issues (1 to 4)⁹¹ into one: in what circumstances the bringing of an action for infringement, by a company in a dominant position and holding an SEP, which has given a FRAND-commitment to the SSO, seeking an injunction prohibiting the infringement of that SEP is to be seen as an abuse contrary to Article 102 TFEU⁹²? The Court addressed this question, and most crucially the conflict between *Orange Book* and *Motorola-Samsung*, by reference to its case-law on the exercise of IPRs: while the right to bring an action for infringement is an essential component of IP protection, the exercise of that right can "in exceptional circumstances" lead to an abuse of a dominant position.⁹³ In doing so, it validated the two exceptional circumstances identified by the Commission in *Motorola* and *Samsung*: first, the patent is standard-essential,

⁹⁰ *Id.*, supra note 32, para. 39.

⁹¹ Question 5 is answered by the Court in the negative simply on ground that legal proceedings brought with a view to obtaining the rendering of accounts or an award of damages "do not have a direct impact on products complying with the standard in question manufactured by competitors appearing or remaining on the market". See *Huawei v ZTE*, supra note 32, para. 74.

⁹² *Id.*, para. 44.

⁹³ *Id.*, para. 46-47.

and therefore “indispensable to all competitors who envisage manufacturing products that comply with the standard”⁹⁴. Second, the patent holder has given a FRAND-commitment to the SSO. Highlighting the fact that the SEP status is given in consideration of the FRAND commitment, the Court reasoned that such status means that the patent’s proprietor “can prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserve to itself the manufacture of the products in question”⁹⁵. In these circumstances, given that the FRAND commitment creates “legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licenses on such terms”⁹⁶, refusal to grant a license “may, in principle, constitute abuse of a dominant position”⁹⁷.

This answer has been criticized as elusive, as it does not provide more details beyond those general circumstances for identifying an abuse⁹⁸. In contrast, the Court provided details as to what conduct does *not* constitute an abuse. In particular, in order to bring an action for prohibitory injunction without falling foul of article 102, an SEP holder must:

- i) Alert the alleged infringer of the infringement, identifying the relevant SEP and specifying the way in which it has been infringed.⁹⁹
- ii) Present, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, a specific, written offer for a license on FRAND terms, specifying in particular the amount of royalty and the way in which that royalty is to be calculated.¹⁰⁰

To benefit from the protection of competition law under these circumstances, the alleged infringer must in turn (i) respond in a serious manner to that offer, “in accordance with recognized commercial practices in the field and in good faith”, particularly without delaying tactics.¹⁰¹ If he does not accept the offer, he must (ii) submit a written and specific counter-offer to the SEP holder. Finally, when the alleged infringer already uses the SEP before the agreement has been concluded, he must (iii) provide security (for example by providing a bank guarantee or by placing the amounts necessary on deposit) from the point when the counter-offer is refused, including for the number of the past acts of use of the SEP.¹⁰² The following picture (Fig.1) visually explains the prescribed steps (elsewhere called “the *Huawei* choreography”)¹⁰³ in sequential order:

| | SEP HOLDER | IMPLEMENTER |
|---|--|---|
| 1 | Alert infringer about infringement, identifying SEP(s) and explaining infringement | |
| 2 | | Express willingness to conclude a license |

⁹⁴ *Id.*, para. 49

⁹⁵ *Id.*, para. 52

⁹⁶ *Id.*, para 53.

⁹⁷ *Id.*

⁹⁸ See Nicolas Petit, “Huawei v. ZTE: Judicial Conservatism at the Patent-Antitrust Intersection”, *CPI Antitrust Chronicles* 10, 2 (2015): 3.

⁹⁹ *Huawei v ZTE*, supra note 32, para. 62. The reason for the Court to oblige the SEP holder to first notify the alleged infringer is the often large number of SEPs included in a standard. An infringer may therefore not always be aware of his infringement.

¹⁰⁰ *Id.*, para. 63.

¹⁰¹ *Id.*, para. 65.

¹⁰² *Id.*, paras. 66-67.

¹⁰³ See Larouche & Zingales, supra note 25, p. 20.

| | |
|---|---|
| 3 | Express willingness to conclude a license specifying the amount of royalty and explaining its calculation |
| 4 | Respond diligently, in accordance with commercial practices and in good faith (no delaying tactics) |
| 5 | In case of rejection of SEP holder's offer, present specific and written FRAND counteroffer |
| 6 | In case of rejection of counteroffer, provide appropriate security |

Fig. 1: Choreography set out in Huawei defining a safe harbor for SEP holders and implementers

Thus, a novelty of the *Huawei* judgment is the creation of a safe harbor for SEP holders who have given a FRAND commitment: they will not fall foul of article 102 TFEU by bringing an action for infringement seeking an injunction to prevent an infringement, as long as they alert the alleged infringer and present a specific written offer to which the infringer has not diligently responded. One should not fail to see that this approach is diametrically different not only to *Orange Book*, but also to *Motorola*, *Samsung*, where it was upon the alleged infringer to prove that it fulfilled the requirements for triggering antitrust liability: respectively, making an unconditional offer to the SEP holder and complying with the conditions attached to the offer if it used the patent before the offer was accepted; and establishing that the SEP holder's offer was "un-FRAND" after royalty determination to an independent third party. Admittedly, it is not clear whether implementers can still benefit from the *Samsung* safe harbor, since *Huawei* merely states that parties *may* by common agreement, where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, request that the amount of the royalty be determined by an independent third party, by decision without delay: does that mean that no injunction can be sought before that determination? In fairness, it seems that an injunction can now still be sought if it is only the implementer who declares its willingness to submit to independent third party determination. On the other hand, the ruling provides an additional safe harbor for implementers reacting to the SEP holder's compliant behavior, who can avail themselves of the FRAND defense as long as they fulfill the indicated set of criteria. All in all, it must be recognized that the *Huawei* ruling brought important clarifications for both SEP holders and implementers, in addition to defining a specific theory of harm for the offense of seeking injunctions for FRAND-encumbered SEPs.

3.2 Critical analysis and open issues

While the *Huawei* judgment significantly improved legal certainty in the application of article 102 TFEU to SEP disputes, it has also attracted criticism¹⁰⁴. In addition to failing to clearly

¹⁰⁴ Larouche & Zingales, supra note 24; Miguel Rato & Mark English, "An Assessment of Injunctions, Patents, and Standards Following the Court of Justice's *Huawei/ZTE* Ruling" *Journal of European Competition Law & Practice* 7, 2 (2016): 103; Petit, supra note 98, p. 4; Sean-Paul Brankin, Salome' Cissal de Ugarte, & Lisa Kimmel "Huawei/ZTE: Towards a More Demanding Standard of Abuse in Essential Patent Cases", *Journal of European Competition Law & Practice* 7, 4 (2016): 2.

delineate the theory of harm, the judgment left a number of practical questions on the scope of liability (and of the SEP holder's safe harbor), potentially leading to divergence across Member States at the IP/antitrust interface. These two sets of issues are addressed in the following subsections.

a. Duty to license all, or just (potential) competitors?

The first striking aspect of the *Huawei* ruling is that, notwithstanding its adherence to a theory of exclusionary abuse, it invokes a generalized principle of legitimate expectations for FRAND licenses. At first, the Court refers to the proprietor's ability "to prevent products manufactured by *competitors* from appearing or remaining on the market and thereby reserve to itself the manufacture of the products in question",¹⁰⁵ implying that a certain degree of competition between the SEP holder and the implementer is required for the conduct in question (seeking injunctive relief) to breach article 102. Yet in the following paragraph of the judgment, the Court seems to follow a different theory, reasoning that, because the SEP status has been granted only in return for the proprietor's irrevocable commitment to license on FRAND terms¹⁰⁶, there are "legitimate expectations that the SEP holder will in fact grant those licenses". This latter theory suggests that *everyone* (not only competitors) is entitled to FRAND licenses, and thus any denial may constitute an abuse¹⁰⁷.

One plausible interpretation of this apparent inconsistency is that the words "in those circumstances" used at the beginning of the second paragraph tie the notion of abuse to the theory of leveraging detailed in the preceding paragraph. Accordingly, an abuse would only occur where it is sufficiently likely that the SEP holder leverages its patent into a secondary market, and thereby prevents the entry or survival of competition on that market¹⁰⁸. In other words, SEP holders would incur liability only for exclusionary, and not exploitative refusals to license. SEP holders could then legitimately seek injunctions against non-competitors for their failure to accept offers on un-FRAND terms, and yet remain free from antitrust liability even without fulfilling the conditions of their own *Huawei* safe harbor¹⁰⁹.

Regrettably, this narrow notion of liability appears inadequate to address the potentially significant holdup concerns arising with the deployment of the Internet of Things, where SEP licenses will be required to connect a wide range of "objects", such as cars, fridges, and various other sorts of physical objects embodying sensors¹¹⁰. In that scenario, where wireless chips and any implicated patents constitute a small feature of the entire product, bearing only a remote connection to the market for the downstream product in question, could Huawei really be interpreted in such a way that SEP holders are free to seek injunctions against the producers of those standard-compliant technologies? Taking a narrow interpretation leaves us with a significant gap of protection in one of the most promising areas of technological development.

¹⁰⁵ *Huawei v ZTE*, supra note 32, para. 52

¹⁰⁶ The use of "in those circumstances" to tie paragraph 52 with paragraph 53 seems to link the notion of abuse to the fact that a patent has been granted SEP status.

¹⁰⁷ *Huawei v ZTE*, supra note 32, para. 53

¹⁰⁸ See in this sense Petit, supra 98, p. 4. This would also explain the words "may, in principle" that qualify the definition of such conduct as abusive.

¹⁰⁹ *Huawei v ZTE*, supra note 32, para. 61-69

¹¹⁰ The heightened risk of patent holdup in the context of the Internet of Things was specifically discussed in Fiona Scott Morton & Carl Shapiro, "Patent Assertions: Are We Any Closer to Aligning Reward to Contribution?", in *Innovation Policy and The Economy*, Josh Lerner & Scott Stern eds. (Chicago: University of Chicago Press 2016), 89.

The narrow interpretation of liability also appears to clash with the Commission’s view. Shortly after *Huawei*, a public speech of Commissioner for Competition Margrethe Vestager offered support for a generalized concept of legitimate expectations, indicating that the holder of a SEP “must commit in advance to license it to *all* third parties on fair, reasonable and non-discriminatory terms”.¹¹¹ The Commissioner explained the rationale of this obligation, which is to guarantee that standards “are open to all”¹¹², in line with the existing EU approach to standardization¹¹³. That said, it should also be acknowledged that it is not clear whether the word “must” implicitly referred to an *antitrust* duty, or simply restated the content of *contractual* FRAND obligations. Furthermore, the Commissioner did not explicitate that the failure to grant a FRAND license to *either* a competitor *or* (even) a non-competitor entails a violation of article 102 TFEU. As a result, this argument cannot be given much weight.

It is submitted that this confusing state of affairs is due to the CJEU’s acritical acceptance of the Commission’s position in *Motorola*, which, as mentioned, already revealed a contradiction between exploitative and exclusionary harm. Instead of addressing that contradiction by expanding the scope of antitrust liability through the definition of a cogent theory of exploitative abuse, the court simply endorsed the aforementioned view of “undermining trust in the standardization process” as harm to consumers, which offers a shortcut to the more complex and sensitive exercise of recognizing the existence of holdup. As a result, the most plausible interpretation of the ruling is one that reconciles the two approaches by broadening the traditional notion of “competitor” to encompass undertakings in all those markets in which an SEP constitutes an essential input. In other words, an SEP holder is a potential competitor in all those markets, because he can in principle (violating FRAND commitments) reserve to itself (and none other) the provision of the products and services of its implementers. This furthers the well established EU policy to promote access to standards and use standardization as a lever for follow-on innovation¹¹⁴.

Such interpretation opens up new scenarios, whereby a FRAND defense is available to *any* user of the patent, including distributors or manufacturers using the teaching of the patent at different levels of the production chain. While the doctrine of patent exhaustion prevents SEP holders from extracting two licenses for the same patent, it does not impose limits on their ability to exercise their rights at any level of the production chain, even if the standard practice in the industry has been to require a license from device manufacturers (and not from distributors of those devices). This matter was particularly relevant in the context of the injunction obtained by SEP holder Saint Lawrence before the Regional Court of Mannheim in November 2015 against Deutsche Telekom, a network operator selling standard-compliant mobile devices¹¹⁵. The patent concerned read on the AMR-WB standard for wideband audio coding used in HD-Voice transmission, and was subject to a FRAND commitment with ETSI. In the infringement proceeding brought by Saint Lawrence, Deutsche Telekom raised an antitrust FRAND defense indicating that mobile manufacturer HTC had specifically

¹¹¹ Speech of Commissioner Vestager, “Intellectual Property and Competition”, 11 September 2015, 19th IBA Conference, Florence, available at <https://ec.europa.eu/commission/2014-2019/vestager/announcements/intellectual-property-and-competition_en> (emphasis added).

¹¹² *Id.*

¹¹³ See Horizontal Guidelines, *supra* note 8, paras. 268, 294; Decision of 15 December 1986, *X/Open Group* [1986] OJ L 35/36.

¹¹⁴ *Id.*. See also *supra*, section 1. For a recent example, see Communication “ICT Standardisation Priorities for the Digital Single Market” (COM(2016)176 of 19.4.2016); and Communication “Digitising European Industry. Reaping the full benefits of a Digital Single Market” (COM(2016) 110 of 19.4.2016).

¹¹⁵ *Saint Lawrence Communications v. Deutsche Telekom, Landgericht [LG] [Regional Court] Mannheim* 27 November 2015, case no. 2 O 106/14.

offered to take a license for the patent asserted, which would then be sublicensed to its distributor Deutsche Telekom. However, the Court rejected this defense following a rigid interpretation of *Huawei*, i.e. noting that the offer had been made to the defendant, while the counter-offer submitted by a third party: it was thus Deutsche Telekom's responsibility to enter into a licensing agreement after being notified of the infringement and receiving a FRAND offer.

Although the *Saint Lawrence* judgment predates the *Huawei* decision, it strikes as a logical extension of the "legitimate expectation" theory advanced by the Court: if *all* third parties are entitled to obtain a license on FRAND terms, they are also *all* expected to do so, if asked, in relation to any product they use, sale or make implementing the standard. The Mannheim Court explained that a patent holder who has given a FRAND commitment retains a valid legal interest in injunctive relief against a distributor¹¹⁶, as he would otherwise have to face the continuous risk that the latter distributes patent-infringing mobile phones received from manufacturers who do not satisfy the requirements of a FRAND defense. It also noted that the objective of a FRAND defense is not to guarantee the existence of certain distribution models for SEP holders (such as a manufacturer-focused licensing programme), but rather to prevent the SEP holder from exploiting the dependence of the market on its SEP to prevent other companies from entering it.¹¹⁷

That injunction was appealed to the Karlsruhe Appellate Court, who disagreed with the ruling and suspended its enforcement pending a decision on the merits¹¹⁸. It reasoned that if the theory advanced by the Mannheim Court were to be followed, an SEP holder could strategically prohibit sub-licenses with some distributors in its agreements with device manufacturers, so as to be able to conclude its own license with those distributors¹¹⁹. In the eyes of the Court, the possibility to sue distributors in these circumstances gives SEP holders an additional bargaining chip that would affect licensing negotiations, leading manufacturers to accept conditions that they would not otherwise agree to. Furthermore, to the extent that an SEP holder does so departing from his existing licensing practices, this could be considered to violate the FRAND commitment (and in particular its "ND" component). Once again, the concern articulated by the Appellate Court is one of exploitation, but it becomes an exclusionary theory of harm when channeled through the requirements set up by Huawei.

A similar outcome to the Regional Court of Mannheim's was reached by the Regional Court of Düsseldorf, in a parallel case brought by Saint Lawrence against device distributor Vodafone¹²⁰. Here, the Court ruled again allowed the SEP holder to seek an injunction against a distributor, as opposed to the manufacturer of the infringing product, but also accepted that a FRAND defense may be raised by the distributor with reference to dealings at another level of the chain¹²¹. What is striking about this case is that the case was brought by Saint Lawrence, a patent assertion entity who has in principle no interest in leveraging its

¹¹⁶ Although the Court did not address the issue, this interpretation appears to be required also by article 11 of the IP Enforcement Directive, which imposes Member States to "ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right". Thus, it is not surprising that another attempt to sue distributors for commercialization of SEP-infringing products was successful also in Italy: see *Sisvel v ZTE*, *Tribunale di Torino* [Court of Turin] 18 January 2016, R.G. 30308/2015.

¹¹⁷ Nadine Herrmann and Catherine Manley, "Germany: IP and Antitrust", *Global Competition Review* <http://globalcompetitionreview.com/reviews/72/sections/249/chapters/2922/germany-ip-antitrust/>

¹¹⁸ *Saint Lawrence Communications v Deutsche Telekom*, OLG Karlsruhe 23 April 2015, 6 U 44/15.

¹¹⁹ Herrmann & Manley, *supra* note 104.

¹²⁰ *Saint Lawrence v. Vodafone & HTC*, LG Düsseldorf 31 March 2016, 4a O 126/14

¹²¹ *Id.*, paras. 398-403.

position into secondary markets, and yet the theory of harm underlying the FRAND defense was framed as one of exclusion. This strand of cases thus well illustrates the importance of a clarification on the scope of the antitrust duty to license on FRAND terms, and of the correlative right to obtain a license on such terms, to prevent inconsistencies in the implementation of the *Huawei* principles.

In the absence of such clarification, national courts are likely to extending *Huawei* liability to scenarios of injunctions sought for mere disagreements on royalties, even where a proper *Huawei* procedure has been followed by the SEP holder¹²². A recent example is the UK High Court's ruling in *Unwired Planet v Huawei*¹²³. In this case, the Court explicitly addresses claims of excessive and discriminatory pricing, arising in the context of the injunction sought by Unwired against Huawei for the licensing of the three telecommunications SEPs it had acquired from Ericsson. Starting from the premise that there can only be one "true" FRAND rate that has been agreed upon as part of the FRAND commitment, the Court proceeded to examine Unwired's licensing offers on the basis of an identified FRAND benchmark, finding that the rates offered for 4G were about three times higher, while those offered for 2G/3G varied between one and a half and six times the benchmark rate¹²⁴. The Court examined the excessive pricing allegations under a demanding standard, requiring for a violation of article 102 (a) that rates be "so far above FRAND as to act to disrupt or prejudice the negotiations themselves"¹²⁵. In doing so, the Court acknowledged that this a high standard for excessive pricing claims, but justified by the risk that otherwise, implementers would simply "throw up their hands and refuse to negotiate at all"¹²⁶. However, in that same paragraph, judge Birss also rushed to reconcile this finding with *Huawei v. ZTE*, clarifying that the abuse would not be the demand of a non-FRAND rate, but rather to bring injunctive patent infringement proceedings prematurely: those above-FRAND rates could not have in any way "prejudiced" the negotiations when it comes to a large and sophisticated organization like Huawei, used to negotiating telecommunications licences and not unfamiliar with patent litigation¹²⁷.

In determining the FRAND benchmark, Judge Birss also considered the possible application of competition law to the imposition of discriminatory rates¹²⁸. In particular, he examined whether the non-discriminatory aspect of FRAND is coextensive with the competition law obligation, for the purpose of determining the scope of this obligation: does it merely require the treatment of all parties in line with the FRAND benchmark? Or does it also include a "hard-edged" component which entitles to the same treatment similarly situated competitors (in this case, Huawei and Samsung)?¹²⁹ Relying upon expert testimony, he ultimately dismissed the latter, broader interpretation¹³⁰ and noted that even if it were to be accepted, the hard-edged component could only be invoked where a "distortion of competition" in the sense of article 102 © can be identified¹³¹. In doing so, he rejected the applicability of a presumption of competitive disadvantage derived from the CJEU's judgment in *British*

¹²² The criticism expressed here is not just about attaching liability to such circumstances, but rather about the risk that national courts expand (or in the opposite scenario, restrict) the reach of *Huawei*, potentially undermining the harmonization that the ruling was supposed to have brought and significantly increasing the room for forum shopping. See *infra*, section 4.

¹²³ *Unwired Planet v Huawei*, EWHC5 April 2017, HP-2014-000005,

¹²⁴ *Id.*, at para. 773

¹²⁵ *Id.*, at para. 765

¹²⁶ *Id.*

¹²⁷ *Id.*, at para. 774

¹²⁸ *Id.*, at para. 484

¹²⁹ *Id.*, para. 488

¹³⁰ *Id.*, para. 501

¹³¹ *Id.*, para. 503

*Airways*¹³², on ground that the presumption in that case rested on the specific characteristics of the market for travel agents in the United Kingdom¹³³. Thus, while the judgment stands for the proposition that a FRAND obligation arising from commitment to an SSO (or more specifically, to ETSI) does not go beyond competition law, and does not prevent an SEP holder from granting some of its licensees a more favorable treatment, it also does not rule out a stricter interpretation of FRAND, which would pave the road for other courts to address *exploitative* discrimination.

b. Requirements for SEP holders and implementers

Other important questions were left open by *Huawei v ZTE*, both with regard to the conditions that its safe harbor imposes on the patent holder, and on the requirements that an implementer must satisfy in order to invoke article 102 in relation to an injunction sought for a FRAND-encumbered SEP (the implementer's safe harbor).

With regard to the SEP holder's conduct, the very first open issue is the amount of information that should be given to the implementer. Post-*Huawei* case-law suggested that the obligation to provide notice of the infringement can be fulfilled by submitting claim charts of the patents infringed¹³⁴, and subsequently clarified that even a sample of claim charts would be sufficient for portfolios; however, there is divergence on the interpretation of what constitutes a sufficient sample¹³⁵. Furthermore, more recent judgments both in Germany¹³⁶ and in the Netherlands¹³⁷ have been rather demanding with regard to the information included in an offer to license, requiring the SEP holder (specifically, Philips) to explain the calculation of the royalty rate. However, it should be noted that the potential significance of these discrepancies may be mitigated by the fact that certain courts admit the provision of the relevant information after the commencement of legal proceedings, which has so far happened in two cases¹³⁸. While in the first case this leniency towards the SEP holder might have been due to the transitional nature of the case (i.e., although the ruling was issued after the *Huawei* judgment, the facts occurred prior to it)¹³⁹, in the second and more recent case the UK High Court made a deliberate choice to view the *Huawei* criteria as illustrative, and therefore not strictly determinative of the amount of information to be provided at each step. In the words of the Court, the *Huawei* procedure did not seek to "set out a series of rigid predefined rules, [...] deviation from which is always abusive, all regardless of the circumstances"¹⁴⁰. This type of flexibility is thus likely to increase divergences in national and regional interpretation of *Huawei*, on this as well as other procedural elements identified in the safe harbors.

¹³² Case C-95/04 P, *British Airways plc v Commission of the European Communities*, ECLI:EU:C:2007:166

¹³³ In particular, the fact that the fidelity-inducing rebates could lead to an exponential changes in the revenues of travel agents, who competed intensively, and that that ability to compete depended on two factors, namely 'their ability to provide seats on flights suited to travellers' wishes, at a reasonable cost' and, secondly, their individual financial resources. *Id.*, paras. 146 and 147.

¹³⁴ *Saint Lawrence v Vodafone & HTC*, supra note 120.

¹³⁵ See Georg Nolte & Lev Rosenblum, "Injunctions in SEP cases in Europe" (March 10, 2017). Available at SSRN: <https://ssrn.com/abstract=2984193>, 11 (referring to ruling by OLG Düsseldorf holding that three claim charts for a portfolio of 400 patents is insufficient) and 15 (referring to ruling by LG Mannheim holding that six claim charts for the portfolio was sufficient).

¹³⁶ *Philips v Archos*, LG Mannheim 1 July 2016, 7 O 209/15

¹³⁷ *Archos v Philips*, Rechtbank [District Court] Den Haag, 8 February 2017, ECLI:NL:RBDHA:2017:1025.

¹³⁸ *St. Lawrence v. Vodafone*, supra note 120. *Unwired Planet v. Huawei*, supra note 34

¹³⁹ This is the case of *St. Lawrence v. Vodafone*. In fact, for a diametrically opposite interpretation, see *Philips v. Archos* (a non-transitional case), supra note 136.

¹⁴⁰ *Unwired Planet*, supra note 34, para. 741.

A second aspect of uncertainty on the implementation of *Huawei* for SEP holders concerns whether it is acceptable to offer licenses to portfolios, and the connected question of whether a worldwide license can be offered, in particular in those situations where an implementer only requires license to an SEP and in a limited geographic area. Both questions were central in the UK dispute between Unwired Planet, a PAE who acquired 5 different SEPs from Ericsson, and Huawei. While Unwired offered a license to its worldwide portfolio of SEPs for 2G, 3G and 4G standards, defendant Huawei expressed an interest to take a license only for particular SEPs which were both valid and infringed, and only in relation to particular territories. In a preliminary ruling denying a motion for summary judgment¹⁴¹, Judge Birss reiterated the principles he laid out the previous year in *Vringo v ZTE*¹⁴², a case that was eventually settled¹⁴³. Those principles go in the same direction: on the one hand, they hold that any worldwide offer that is deemed FRAND need not be the *only* possible FRAND offer, which implies that a licensee is free to submit a counteroffer limited to certain territories, as long as the terms of the counteroffer are also FRAND¹⁴⁴. On the other hand, the principles recognize that the fact that a worldwide offer is FRAND does not necessarily mean that an implementer using a patent in one jurisdiction would be ‘forced to take a global portfolio licence in order to stave off a national injunction on that one patent’¹⁴⁵. As a result, Judge Birss does not find problematic in principle when SEP holders demand licenses broader than the ones strictly required by the activities of the relevant implementer, as long as they do not “insist on them”¹⁴⁶. In other words, asking for a broader license may be a legitimate attempt to expand the scope of the agreement as part of the regular course of negotiations, but it may be anticompetitive if it constitutes a condition for the grant of the required license¹⁴⁷.

A different approach to the geographical scope of licensing offers was taken by the Regional Court of Mannheim in *Saint Lawrence*¹⁴⁸, by holding that a worldwide portfolio license is admissible if submitted in “good faith” and “in accordance with commercial practice”. However, the Court did not specify whether the SEP holder was entitled to consider the implementer an “unwilling licensee” when the latter made a counteroffer limited to one or more specific territories. Would that counteroffer trigger the obligation to make a more limited FRAND offer, as judge Birss’ “insistence” criterion suggest, in order for the SEP holder to seek an injunction without falling foul of article 102 TFEU? This is another issue on which we are likely to see different approaches at the national level. This uncertainty is a consequence of the highly context-dependent nature of the implementation of the *Huawei* principles. The referring Court in *Huawei* had in fact asked the CJEU to clarify *inter alia* whether article 102 TFEU lays down any particular qualitative and/or timing requirements in relation to the willingness to negotiate. However, by referring to general concepts such as

¹⁴¹ *Unwired Planet v Huawei et al.* [2015] EWHC 1029 (Pat).

¹⁴² *Vringo Infrastructure Inc. v ZTE* [2015] EWHC 214 (Pat).

¹⁴³ Jack Ellis, “Vringo’s \$21.5 million global settlement with ZTE reflects the IP market’s new realities”, *IAM* (8 December 2015) <http://www.iam-media.com/blog/detail.aspx?g=16c03b05-cd13-46c3-9e55-eb0a57c99a57>.

¹⁴⁴ *Vringo Infrastructure Inc. v ZTE*, supra note 142, paras. 107-109. Judge Birss also mentioned practical considerations deriving from common licensing practice: first, there may be situations where a worldwide license results cheaper than multiple single-licenses for the various territories in which a licensee uses a patent. Second, there is an important distinction between the scope of licensed rights and the royalty-bearing event, such that the alleged inconsistency of requests for worldwide license and the manufacturing taking place only in specific countries would be a false dichotomy. See *Unwired*, supra n ... para 52

¹⁴⁵ *Vringo*, supra note 142, para 108.

¹⁴⁶ *Unwired Planet*, supra note 34, para. 790. In this particular case, the willingness of Unwired Planet to achieve an alternative licensing arrangement was explicitly indicated in the licensing offer. See *Id.*, para. 788.

¹⁴⁷ *Unwired Planet*, supra note 34, para. 28, citing *Windsurfing International v Commission*, Case 193/83 [1986] ECR-0611.

¹⁴⁸ *Saint Lawrence Communications v. Deutsche Telekom*, supra note 118.

“delaying techniques”, “good faith” and “in accordance with commercial practice”, the CJEU left the door wide open for diverging interpretations.

On the implementer’s side, the *Huawei* judgment left unclear whether the failure to diligently respond to an invitation to license an SEP constitutes a bar to a FRAND defense even where the SEP holder has not fulfilled himself the safe harbor requirements. A Düsseldorf district Court recently ruled in the affirmative, although limiting the applicability of this principle only to cases where it is *clear* that the implementer has not responded to an invitation to license in good faith¹⁴⁹. In this case, SEP holder Sisvel sought prohibitory injunction against device manufacturer Qingdao Haier Group and its parent company Haier for the alleged infringement of some of its over 350 SEPs, that had been declared essential for GSM, GPRS, UMTS and LTE standards and subject to an ETSI commitment. Haier’s evident failure in this case was to have provided security only at the oral hearing on 29 September 2015, despite having already rejected multiple offers and made counteroffers. In comparison to the procedure described in *Huawei*, the Court effectively reversed the order of the analytical process¹⁵⁰: instead of reviewing the ‘FRAND’-ness of the SEP holder’s offer, it first focused on the defendant’s counteroffer. It indicated that an implementer’s obligation to make a specific FRAND counteroffer arises as soon as the SEP holder makes any license offer that specifies the royalty to be paid and the way in which the royalty is calculated¹⁵¹. A similar approach was adopted more recently by LG Mannheim in *NTT DoCoMo v. HTC*¹⁵² and *Pioneer*¹⁵³.

Following this interpretation, whether the SEP holder’s offer ‘is *substantively* FRAND’ only matters insofar as it has been established both that the licensee’s behavior is in accordance with good faith and commercial practices, and that his offer is not obviously un-FRAND. This turns the tables significantly in favor of the SEP holder, which can be a problematic default setting for the determination of FRAND: an alleged infringer typically does not have perfect information about the value of an infringed patent, such that he can make an adequate FRAND counter-offer. For this reason, the recent judgment rendered by the Düsseldorf appellate court overturning the lower court’s opinion and remanding for a proper *Huawei* assessment¹⁵⁴ is to be welcomed as a readjustment of the balance between the parties’ obligations. The appellate court explained that the obligations listed in the *Huawei* choreography are “sequential”, so that any implementer’s duty (in this case, the provision of appropriate security) is triggered by the fulfillment of the corresponding patentee’s obligations. This interpretation is in line with the conclusions reached by a number of other courts, including the OLG Karlsruhe in *Sony v. Acer*¹⁵⁵ and *Pioneer*¹⁵⁶, the OLG Düsseldorf in *Sisvel v Haier*¹⁵⁷ and the LG Mannheim in *NTT DoCoMo v. HTC*¹⁵⁸.

¹⁴⁹ See *Sisvel Wireless Patent Portfolio v. Qingdao Haier Group*, 4a O 93/14 and 4a O 144/14 (Landgericht Düsseldorf Nov. 3, 2015).

¹⁵⁰ Once again, it should be noted that this was a transitional case, therefore there was strictly speaking no obligation to follow *Huawei*.

¹⁵¹ See Rufus Pichler and Holger Kastler “First German Decisions Applying the CJEU’s *Huawei v. ZTE* Framework on Injunctions for Standard Essential Patents”, *Morrison and Forester Client Alert* (18 February 2016) <<http://www.mofo.com/~media/Files/ClientAlert/2016/02/160317HuaweivZTE.pdf>> p. 6.

¹⁵² *NTT DoCoMo v. HTC Germany*, LG Mannheim 29 January 2016, 7 O 66/15.

¹⁵³ *Pioneer v. Acer*, 8 January 2016, 7 O 96/14.

¹⁵⁴ *Sisvel Wireless Patent Portfolio v. Qingdao Haier Group*, OLG Düsseldorf 13 January 2016, 15 U 65/15.

¹⁵⁵ *Sony v Acer*, OLG Karlsruhe 8 September 2016, 6U 58/16.

¹⁵⁶ *Pioneer v Acer*, OLG Karlsruhe 31 May 2016, 6 U 55/16.

¹⁵⁷ OLG Düsseldorf 13 January 2016, *supra* note 154.

¹⁵⁸ *Pioneer v. Acer*, *supra* note 153, para. 92-93.

One might see this line of cases as conflicting with the judgments handed down by the Mannheim district court in *Saint Lawrence v Deutsche Telekom* and in *NTT DoCoMo v HTC*¹⁵⁹. In *Saint Lawrence*, the court discarded out of hand a FRAND defense without even assessing the FRAND-ness of patentee's offer, on the ground that the submitted counter-offer was insufficiently specific¹⁶⁰. In *NTT DoCoMo*, the same court adopted a similar approach dismissing a FRAND defense for a number of reasons, including the absence of an obvious non-FRAND offer and the implementer's failure to provide security and delay (18 months) in submitting the counteroffer¹⁶¹. In fact, these judgments can be reconciled by drawing a distinction between *substantive* and *procedural* FRAND obligations, the former referring to the accuracy of the calculation of the royalty amount, and the latter to the fulfillment of various requirements imposed on each party for enjoyment of their safe harbor¹⁶². The difference in outcome between these two strands of cases suggests that *substantive* FRAND-ness analysis only constitutes the last step in the chain of obligations defined in the *Huawei* procedure.

However, whether this view will be followed by other courts throughout Europe remains to be seen. What is apparent is that national courts are left with a significant margin of flexibility in defining the concrete operation of the *Huawei* criteria, including (and perhaps most troublingly) when it comes to establishing the fulfillment of the requirements of the FRAND offer which triggers the *Huawei* choreography. Whether it is the SEP holder who bears the burden of proving FRANDness or the implementer who needs to show unFRANDness and under what standard (for example, only when "manifest", as required by German) make a significant difference in the significance and application of the safe harbors devised by the CJEU. As this survey of post-*Huawei* cases has shown, even once the choreography is triggered, a variety of gaps remain for courts to fill, such as the amount of information that an SEP holder must provide in its notice of infringement, the validity and sufficiency of broad (such as portfolio and worldwide) licensing offers and more limited licensing counteroffers, the timing of counteroffers and the expression of willingness to license. To that, one should add the risks of divergence that lie outside the safe harbors, namely the type of conduct giving rise to liability and the possibility for an SEP holder to escape such liability even without following the exact steps of the *Huawei* choreography. In addition to potentially undermining the uniformity that the *Huawei* judgment was supposed to bring, each of these elements can be a significant driver of litigation to one or more particular fora of jurisdiction, encouraging strategic use of legal system to achieve the most profitable outcome. The following section demonstrates that the rules of private international law hardly provide a backstop to this behavior.

¹⁵⁹ *NTT DoCoMo v. HTC Germany*, supra note 152.

¹⁶⁰ In particular, because it remanded for the royalty amount to a third party determination. *Saint Lawrence Communications GmbH v. Deutsche Telekom*, supra note 118, para. 353.

¹⁶¹¹⁶¹ As already mentioned with regard to the SEP holder's duties, timing remains a material issue for interpretation. With regard to the counteroffer, in addition to this ruling, it should be noted that a Düsseldorf District Court found five months to be also too long (*Saint Lawrence v Vodafone and HTC*, supra note 120). German courts have also been strict with regard to the timing of the expression of willingness to take a license: a span of five months (*Saint Lawrence v Vodafone and HTC*, supra note 120) and even more than three months (*Saint Lawrence v Deutsche Telekom and HTC*, supra note 118) after gaining knowledge of the alleged infringement has been considered excessive.

¹⁶² See in this sense *NTT DoCoMo v HTC Germany*, supra note 152, holding that an SEP holder 's offer is sufficient for triggering the implementer's obligation as long as it is not *evidently* in breach of FRAND requirements.

4. Forum shopping for SEP injunctions in the EU: private international law considerations

To summarize the argument made so far: the variety of issues left open by *Huawei* creates the twofold risk of inconsistent treatment of SEP disputes across EU and of concentration of litigation in the most patent-favorable fora. This arguably exacerbates an existing feature of the patent system in EU: as discussed in paragraph 2.1, while a certain level of harmonization on IP enforcement across the EU was obtained through the IP Enforcement Directive, significant disparities remain at the national level. Unfortunately, the intrinsically related problem of coordination in a system of differentiated national procedures is only partly addressed by the Brussels I Regulation¹⁶³, which created a uniform system of rules on jurisdiction, recognition and enforcement of judgments in civil and commercial cases. Nor has the situation significantly improved under the Brussels Recast Regulation,¹⁶⁴ which replaced Brussels I in 2015. The present section provides a summary of the salient provisions in those two Regulations, illustrating the room for manouver left under the current system for the so called “forum shopping”, i.e the ability of a litigant initiating legal proceedings to select the forum of litigation on strategic grounds: for example, the expected duration of proceedings, the available remedies or the amount of damages that are likely to be recovered in that country¹⁶⁵.

4.1 General and special rules of jurisdiction

As a general principle, the common rules of private international law in EU provide that jurisdiction is established on the basis of the defendant’s domicile.¹⁶⁶ In addition, specific rules for ‘special jurisdiction’ establish alternative *fora* based on the type of dispute which is brought before a court (for example, depending on whether it is a contractual matter¹⁶⁷ or one of tort, delict or quasi-delict¹⁶⁸) or on the existence of multiple correlated actions (for example, when there are multiple defendants and the claims against them are so closely connected that it is expedient to deal with them together to avoid the risk of irreconcilable judgments)¹⁶⁹. The criteria identified by these alternative *fora* are more flexible, facilitating patent holders’ choice between different venues: for example, the identity of the legal actions brought against multiple defendants is not an indispensable requirement for the consolidation

¹⁶³ Council Regulation No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters [2001] OJ L12/1 (Brussels I Regulation).

¹⁶⁴ Regulation (EU) 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters [2012] OJ L351/1 (Recast Regulation).

¹⁶⁵ Other grounds include the availability of discovery and rules of evidence and whether issues of infringement and validity are heard together or in separate proceedings; the convenience of the particular forum, including such factors as the location and language of proceedings; the the importance of the relevant territory as a market for the patentee’s technology or products. See Stuart J.H. Graham & Nicolas Van Zeebroeck, “Comparing Patent Litigation Across Europe: a First Look” *Stanford Technology Law Review* 17 (2014): 674; David Perkins & Garry Mills, “Patent Infringement and Forum Shopping in Europe”, *Fordham Journal for International Intellectual Property Law & Policy* 3 (1998): 26; Marketa Trimble, “GAT, Solvay and the Centralization of Patent Litigation in Europe” *Emory International Law Review* 26 (2012): 519.

¹⁶⁶ Article 2 Brussels I Regulation, article 4 Recast Regulation. It should be noted that the absence of jurisdiction on the substance of the matter does not prevent the application to a court in any Member State: see article 24 Brussels I Regulation, article 35 Recast Regulation.

¹⁶⁷ Article 5(1) Brussels I Regulation, article 7(1) Recast Regulation.

¹⁶⁸ Article 5(3) Brussels I Regulation, article 7(2) Recast Regulation.

¹⁶⁹ See article 6(1) Brussels I Regulation, article 8(1) Recast Regulation.

of the respective claims¹⁷⁰. Similarly, the existence of differences in the spectrum of rights conferred by the respective national laws does not preclude the possibility that separate proceedings would give rise to irreconcilable judgments¹⁷¹, so long as those defendants are accused of having committed the same infringements with regard to the same products in the same Member States¹⁷². The ultimate requirement, in order for decisions to be regarded as potentially contradictory so as to warrant rejoinder, is that of possible divergence concerning the outcome, and in the context of the same situation of law and fact.¹⁷³ As the CJEU clarified more recently in the context of multinational cartel infringements, there is a sufficiently close connection where the unlawfulness of the defendant's conduct is determined by EU law¹⁷⁴. It follows that it is technically possible for an SEP holder to file an action for infringement in one country and subsequently obtain rejoinder of related proceedings initiated in other countries (including any counterclaim of abuse of dominance for having sought an injunction for the same SEP), as long as there is no material difference between the laws of the countries in question.

An additional flexibility exists with regard to the special *forum* for tort, delict or quasi-delict, which is established on the basis of the place 'where the harmful event occurred or may occur'¹⁷⁵: first, the CJEU clarified in its early jurisprudence that the requirements of this provision (*rectius*, the equivalent provision in the Brussels Convention)¹⁷⁶ can be fulfilled basing jurisdiction either on the place where the event giving rise to the damage occurred or the place where the damage actually occurred.¹⁷⁷ Second, the Brussels I Regulation added the wording '*or may occur*' – suggesting that even the mere *likelihood* of infringement is sufficient to establish jurisdiction. At the same time, the Court specified that such formulation cannot encompass just *any* country where adverse consequences could be felt of an event which has already caused damage elsewhere, as it requires the existence of a particularly close connecting factor between the dispute and courts other than those of the State of the defendant's domicile.¹⁷⁸ In the context of patent law, commentators understood this to imply that the scope of jurisdiction grounded on this provision can extend to foreign activities only if the infringing product was *manufactured* in the forum, and will be limited to domestic activities if it is based merely on the *circulation* of the damaging product within the territory of the State¹⁷⁹.

This is no insignificant distinction: as a practical matter, the use of the jurisdictional hook of art 5 (3) of Brussels I (7 (3) Recast) is intrinsically connected to the geographical scope of the remedies that can be granted by the courts in question. However, EU law is still somewhat in motion concerning this matter, as illustrated by the recent opinion of Advocate General Boek in *Svensk Handel*¹⁸⁰. There, the Advocate General recommended an abandonment of the so

¹⁷⁰ Case C-98/06, *Freeport plc v. Arnoldsson*, [2007] EU:C:2007:595, paras.38–47. Case C-145/10 *Painer v Standard* [2011] ECR I-12533, paras. 80-81.

¹⁷¹ Case C-616/10, *Solvay SA v Honeywell* [2012] ECLI:EU:C:2012:445.

¹⁷² *Id.* See also Case C-352/13, *Cartel Damage Claims (CDC) Hydrogen Peroxide SA v. Akzo Nobel NV, Solvay SA/NV, Kemira Oyj, FMC Foret SA*, [2015] EU:C:2015:335.

¹⁷³ See case C-539/03, *Roche Nederland BV and others V Frederick Primus, Milton Goldberg* [2006] ECR I-6569 para. 26.

¹⁷⁴ Case C-352/13, *CDH Hydrogen Peroxide SA*, *supra* note 172.

¹⁷⁵ See article 5(3) Brussels I Regulation, 7(2) Recast Regulation.

¹⁷⁶ See article 5 (3) of Brussels Convention on jurisdiction and the enforcement of judgments in civil and commercial matters. Consolidated version OJ C 27, 26.1.1998, p. 1–27.

¹⁷⁷ Case 21/76, *Handelskwekerij G.J. Bier v Mines de Potasse d'Alsace SA* [1976] ECR 1735, 1747 ; Case C-228/11 *Melzer* [2013] ECR, para 25.

¹⁷⁸ Case C-364/93, *Antonio Marinari v Lloyd's Bank plc and Zubaidi Trading Company* [1995] ECR I-2719.

¹⁷⁹ Perkins & Mills, *supra* note 165.

¹⁸⁰ Case C- 194/16, *Bolagsupplysningen OÜ Ingrid Ilsjan v Svensk Handel AB, Request for Preliminary Ruling*,

called “mosaic approach” to jurisdiction developed in *Shevill*¹⁸¹, whereby courts exercising jurisdiction on the basis of article 5 (3) for distribution of an infringing product are only competent in relation to injuries suffered domestically. To be sure, much of the Advocate General’s opinion discusses the specifics of these two cases, in particular concerning reputational damage via printed media (in *Shevill*) and via the Internet (in *Svensk Handel*); it noted that the Internet has “democratized publication” and thus rendered obsolete the need for a stronger protection for individuals *vis a vis* publishers for infringement of their personality rights¹⁸², which was the justification in *eDate*¹⁸³ for creating a special and full head of jurisdiction grounded upon the plaintiff’s “centre of interest”, and alternative to the “mosaic jurisdiction” based on the online distribution or accessibility of the infringing content. However, the Advocate General’s argument for extending this basis for jurisdiction to “Internet-related tortious claims” could apply *mutatis mutandis* in intellectual property cases¹⁸⁴: first, he submitted that the “centre of interests” test is in line with the “high predictability of jurisdictional rules” that the Recast Regulation pursues, as opposed to the existing test which involves a contextual assessment of the existence of a “close connecting link” between the subject matter of the measures sought and the territorial jurisdiction of the court. Secondly, he argued that granting merely “mosaic jurisdiction” for Internet-related torts means granting the forum to a large number of jurisdictions simultaneously¹⁸⁵, which not only is difficult to reconcile with the objective of predictability of jurisdictional rules and sound administration of justice, but also leads to a fragmentation of claims that doesn’t help either party¹⁸⁶. While it is hard to tell whether the CJEU will follow this thought-provoking opinion, one could imagine the same arguments being advanced with regard to the use of SEPs, particularly in relation to globally commercialized products reading on the standard, in light of the “democratization” of technology that standardization has generated, the costs of unpredictability and the inconvenience caused to both parties by the fragmentation of legal proceedings. All in all, it is not inconceivable that the *eDate* approach might soon extend to intellectual property cases, which would significantly increase the attractiveness of the special forum for torts for its ability to offer “full” (as opposed to “mosaic”) jurisdiction on EU-wide infringements.

Finally, and even if the CJEU were to reject Advocate General Boek’s recommendation to expand the “centre of interest” approach, a further opportunity for strategic litigation is offered by the evolving role of accessibility of a product on the Internet as a basis for tort jurisdiction¹⁸⁷. This area has been recently reformed by a case originated from a preliminary

Opinion of Advocate General Boek, 13 July 2017, ECLI:EU:C:2017:554.

¹⁸¹ Case C-68/93, *Shevill and Others* [EU:C:1995:61].

¹⁸² Paras. 62 and 67.

¹⁸³ Joined cases C- 509/09 and C- 161/10, *eDate Advertising and Others* [EU:C:2011:685].

¹⁸⁴ This would imply an overruling of the current distinction between personality and intellectual property cases, with the latter type of cases requiring jurisdiction limited to the territory of the Member State of registration. See Case C 523/10 *Wintersteiger* [2012] ECR. However, this overruling is not so far fetched, if one thinks that the same approach has been adopted in multijurisdictional competition cases: see Case C-352/13, *Cartel Damage Claims (CDC) Hydrogen Peroxide SA v. Akzo Nobel NV, Solvay SA/NV, Kemira Oyj, FMC Foret SA*, EU:C:2015:335, para. 54.

¹⁸⁵ *Id.*, para. 78.

¹⁸⁶ *Id.*, paras 79, 80 and 88.

¹⁸⁷ See, for instance, in the copyright field *Peter Pinckney v KDG Mediatech AG*, Case C-170/12, CJEU, 3 October 2013. This case has expanded the definition of accessibility of infringing content, overruling a previous line of cases that held mere accessibility to be insufficient in the absence of targeting. See Joined Cases C-585/08 and C-144/09 *Peter Pammer* [2010] ECR I-12527; Case C-5/11 *Titus Donner*, 21 June 2012; Case C-173/11 *Sportradar*, 18 October 2012; Case C-144/09 *Hotel Alpenhof*. For a critical commentary see Martin Husovec, “Jurisdiction on the Internet after Pinckney”, *International Review of Intellectual Property and Competition Law(IIC)*, 9, 2 (2014) 9 (2): 108-109.

reference made by the French *Cour de cassation*,¹⁸⁸ questioning the lower court's interpretation of article 5 (3) of the Brussels Regulation that jurisdiction for a prohibitory injunction against the sale of a product on foreign websites can only be obtained where those websites specifically target the public in the country of application.¹⁸⁹ Specifically, the French court asked the CJEU to clarify whether article 5(3) is to be interpreted as 'meaning that, in the event of an alleged tortious interference (i.e., a manufacturer failing to respect the conditions of a selective distribution network) by means of online offers for sale on a number of websites operated in various Member States, an authorized distributor which considers that it has been adversely affected has the right to bring an action seeking an injunction prohibiting the resulting unlawful interference in the courts of the territory in which the online content is or was accessible', or whether 'some other clear connecting factor' must be present¹⁹⁰. Having ruled in favor of the former approach, i.e. that accessibility of content in a particular country is sufficient, the Court provided one further incentive for selective patent enforcement venues. Following this interpretation, SEP holders could pick the most favorable forum for their infringement lawsuits simply on the premise that goods implementing the standard are sold on a website that is accessible from that jurisdiction, and subsequently obtain a rejoinder of connected proceedings initiated elsewhere in EU.

4.2 Exclusive rules

The Brussels Regulations also contain rules on *exclusive* jurisdiction: in certain specific cases, jurisdiction *must* be based in a certain member state, irrespective of the concurrence of criteria identified by the rules for general or alternative fora. Article 22 of the Brussels I Regulation (24 Recast Regulation) contains a list identifying such fora in which jurisdiction must be based. For patent disputes, the relevant section is paragraph 4:¹⁹¹

“in proceedings concerned with the registration or validity of patents, trade marks, designs, or other similar rights required to be deposited or registered, *irrespective of whether the issue is raised by way of an action or as a defense*, the courts of the Member State in which the deposit or registration has been applied for, has taken place or is under the terms of a Community instrument or an international convention deemed to have taken place.”¹⁹²

¹⁸⁸ Case C-618/15, *Concurrence Sàrl v Samsung Electronics France SAS, Amazon Services Europe Sàrl* [ECLI:EU:C:2016:976].

¹⁸⁹ The dispute at the root of this preliminary reference originated from an alleged breach by Concurrence (a retailer specialized in consumer electronics) of a prohibition on resale of Samsung's products outside a selective distribution network and a marketplace. Concurrence claimed not to be bound by the contractual clause on which Samsung based its claim, as it was not imposed to other members of the selective distribution network, particularly Amazon. After the Court ruled in favor of Amazon, rejecting that defense, Concurrence initiated proceedings against Amazon to request removal of Samsung's goods from several European domain names of its website (French, German, English, Spanish and Italian). The French *Cour d'appel* in Paris declared that the case did not fall within its jurisdiction because of the foreign character of Amazon's domain names, which were not targeted at the French public exclusively.

¹⁹⁰ *Id.*

¹⁹¹ Article 22(4) Brussels I Regulation, article 24(4) Recast Regulation.

¹⁹² Emphasized text was amended with the Recast Regulation. This was mainly a codification of an earlier judgment made by the CJEU in Case C-4/03, *Gesellschaft für Antriebstechnik mbH & Co. KG v Lamellen und Kupplungsbau Beteiligungs KG (GAT v Luk)*, [ECLI:EU:C:2006:457], in which the CJEU decided that a court may not decide on the validity of a foreign patent, regardless of the way in which the issue of validity arises in the proceedings.

Clearly, the rationale for the existence of this category is that the grant of such rights constitutes exercise of national sovereignty, a determination of which should not be left to the determination of foreign courts. This is primarily ensured by the mechanism established by article 25 Brussels I Regulation (27 Recast), according to which any court seized with a matter over which courts of another member State have exclusive jurisdiction shall declare inadmissibility of its own motion. However, the absence of a clear stand on whether a court in such circumstances should decline jurisdiction or merely stay the proceedings waiting for the outcome of the validity challenge has led to different applications of the ruling across Europe: for example, the Dutch Supreme Court has held that it simply *may* stay the proceedings if the applicant asks so¹⁹³, while the UK High Court took the stricter stance of requiring suspension¹⁹⁴. The midway approach of requiring suspension for a limited time¹⁹⁵ was suggested by the European Commission's Hess Report, recommending:

“To vest the courts seized with infringement proceedings with power to monitor the interdependence of infringement proceedings and proceedings aimed at the declaration of invalidity of intellectual property right.[...] Should they have substantial prospect of success the court may suspend its proceedings for a limited period of time for the defendant to obtain a judgment on the invalidity issue¹⁹⁶”.

Since this approach was not taken up by the Recast, there is a concrete advantage for patent holders suing for infringement in those countries that, like the Netherlands or like Germany (due to the bifurcated nature of its proceedings)¹⁹⁷, require some evidence of the likelihood of success of a claim of patent invalidity before suspending infringement proceedings.

4.3 Prorogation of jurisdiction

Parties may also choose by agreement the court that will have jurisdiction in case of a dispute: ‘if the parties, regardless of their domicile, have agreed that a court or the courts of a Member State are to have jurisdiction to settle any disputes (...), that court or those courts shall have jurisdiction (...). Such jurisdiction shall be exclusive unless the parties have agreed otherwise.’¹⁹⁸ This provision thus allows an SEP holder and an implementer to determine upfront the courts of which member state will have jurisdiction for any conflicts arising in the negotiation process. Even more latitude in this regard is offered under the Recast Regulation, which, unlike Brussels I, does not require any party to be domiciled in the member state of the chosen *forum*. From a patent law perspective, it is not hard to imagine that this will lead

¹⁹³ *Hoge Raad* [Dutch Supreme Court] November 30, 2007, *Roche v Primus*. It should be noted that this solution would appear in contrast with both the letter of the article 25 (referring to “shall”) and its spirit (namely, the fact that the imperative nature of the rule of exclusive jurisdiction empowers a Court to take such decision irrespective of a corresponding request by the defendant).

¹⁹⁴ *Coin Controls Ltd v Suzo International (UK) Ltd* [1999] Ch 33.

¹⁹⁵ This approach towards invalidity defenses was adopted also in Switzerland by a Swiss Commercial Court e, ordering a stay of the (trademark) infringement proceedings for six weeks in order to allow the defendant to file action for invalidation s before the OHIM, but directing proceedings to resume in case of failure to do so in the allotted time. See Commercial Court (Handelsgericht) Zurich, judgment of 23 October 2006, HG 050410, *Eurojobs Personaldienstleistungen SA v Eurojob AG*, 2006, 854; confirmed by the Swiss Federal Court, judgment of 4 April 2007, I. *Zivilabteilung* 4C,439/2006.

¹⁹⁶ Burkhard Hess, Thomas Pfeiffer and Peter Schlosser, “Report on the Application of Regulation Brussels I in the Member States”, September 2007, p. 822. Available at http://ec.europa.eu/civiljustice/news/docs/study_application_brussels_1_en.pdf.

¹⁹⁷ Graham & Van Zeebroeck, *supra* note 150, p. 672.

¹⁹⁸ Article 23 Brussels I Regulation, article 25 Recast Regulation.

to an increasing number of patent infringement cases in Germany (already receiving approximately 66% of patent litigation in Europe)¹⁹⁹ and more specifically the LG Dusseldorf, which already reportedly receives 50% of cases in Germany²⁰⁰.

4.4 Provisional measures

For provisional measures, parties can start proceedings before the courts of any member state which allows such measures, even if the courts of another member state have jurisdiction as to the substance of the matter.²⁰¹ This is the case even if the courts of another Member State have exclusive jurisdiction as to the substance of the matter. Logically, in these circumstances the court seized for the injunctions will have to apply the law of the state where the patent was issued, and determine accordingly the probability of success on the merit and the likelihood of irreparability. Yet what wasn't clear until the CJEU's judgment in *Solvay v. Honeywell*²⁰² was whether a court would be entitled to enter a preliminary injunction in the presence of a validity challenge raised as counterclaim.²⁰³ The CJEU responded that such injunction may be granted nonetheless, unless the court seized considers that there is a reasonable, non-negligible possibility that the patent invoked would be declared invalid by the competent court²⁰⁴. Though representing a surprise for those who viewed jurisdiction for provisional measures as independent and separate from the substantive merit of the claims²⁰⁵, this judgment constitutes a welcome step towards a sensible management of multi-jurisdictional claims, making it more feasible for patent holders to seek provisional measures where they see fit.

At the same time, the *Solvay* judgment was disappointing in failing to address to the important question raised by the referring Dutch court concerning the definition of the "connecting link" required between the subject-matter of the provisional measures sought and the territorial jurisdiction of the EU Member State of the court seized²⁰⁶. While the Advocate General referred to the need to consider primarily the likely effectiveness of the measures (especially if extraterritorial), and therefore the enforcement procedure of the Member State of the court seized²⁰⁷, the silence of the CJEU on this specific point raised by the referring court leaves the matter rather nebulous, opening opportunities for patent holders to show creative "connecting links" to bring proceedings before the most advantageous courts.

4.5 *Lis pendens*

Specific rules govern the ability of courts to hear disputes which are either identical or related

¹⁹⁹ Ralph Minderop, Arwed Burrichter and Natalie Kirchhofer, "Cross-border patent litigation in Europe: change is coming", *IAM* (<http://www.iam-media.com/intelligence/IAM-Life-Sciences/2015/Articles/Cross-border-patent-litigation-in-Europe-change-is-coming>).

²⁰⁰ Graham and Van Zeebroeck, *supra* n 165, 671.

²⁰¹ Article 31 Brussels I Regulation, article 35 Recast Regulation.

²⁰² Case C-616/10, *Solvay v. Honeywell* [ECLI:EU:C:2012:445].

²⁰³ As mentioned, in case of proceedings about the registration or validity of deposited or registered rights, the courts of the member state of registration have exclusive jurisdiction. See article 22(4) Brussels I Regulation, article 24(4) Recast Regulation.

²⁰⁴ *Solvay v. Honeywell*, *supra* note 202, paras. 49-50.

²⁰⁵ See Paul L.C. Torremans, "The Way Forward for Cross-Border intellectual Property Litigation: Why GAT Cannot Be the Answer", *Intellectual Property and Private International Law*, S. Leible and A. Ohly ed., (Tübingen, Mohr Siebeck 2009): 203.

²⁰⁶ Case C-391/95, *Van Uden* [1998] ECR I-7091.

²⁰⁷ Opinion of Advocate General Cruz Villalon [2012] EUR-Lex CELEX 62010CJ0616, para. 53.

actions are pending in the courts of another Member State. The decision to exercise jurisdiction in the latter situation is a matter left to judicial discretion, conceivably on the recognition of the complexity of defining what constitutes a sufficiently related case.²⁰⁸ In contrast, if proceedings between the same parties and involving the same cause of action are brought before the courts of different member states, the dispositive rule is that the first court seized *shall* have jurisdiction (save in those circumstances in which parties have agreed to attribute disputes to the exclusive jurisdiction of another court)²⁰⁹, whereas any court other than the first seized *shall* of its own motion stay its proceedings until the court first seized established jurisdiction, and courts that were later seized *shall* decline jurisdiction.²¹⁰ Unfortunately, the automatism generated by this set of rules also gives rise to dilatory litigation techniques, including so called “torpedoes”²¹¹, consisting in filing actions for declaratory judgment in States where the proceedings to decide on jurisdiction and/or on the merits is likely to take a significant amount of time (typically, Italy and Belgium). The problem of torpedoes has been a key issue in the discussions for the reform of the Regulation²¹². The Commission proposed in 2012 to have the court first seized establish jurisdiction within 6 months, unless exceptional circumstances make this impossible. However, the proposal did not make it to the final text of the Recast Regulation, which addressed only part of the problem by creating an exception to the general rule of priority for the court first seized: where a seized court has jurisdiction based on contractual agreement between parties²¹³, that court has priority regardless of which court was first seized.²¹⁴ According to that provision, ‘any court of another Member State shall stay the proceedings until such time as the court seized on the basis of the agreement declares that it has no jurisdiction under the agreement’, and shall decline jurisdiction after the court designated in the agreement has established jurisdiction.²¹⁵ This exception was deemed necessary in order to ‘enhance the effectiveness of exclusive choice-of-court agreements and to avoid abusive litigation tactics’²¹⁶, but left the problem of torpedo actions unaddressed as far as other cases of *lis pendens* are concerned. The result is that patent holders have a strong incentive to include favorable exclusive forum selection clauses in their licensing agreements, while they are still exposed to infringers’ forum shopping in case where there is no licensing or specific agreement on forum selection.

4.6 Conclusion

This section surveyed the rules of private international law set up by the EU to coordinate enforcement, including with specific regard to intellectual property cases. As documented, despite the efforts to streamline jurisdiction in EU through the Recast Regulation and some

²⁰⁸ Article 28 Brussels I Regulation, article 30 Recast Regulation.

²⁰⁹ Article 25 Brussels I Regulation, article 27 Recast Regulation.

²¹⁰ Article 27 Brussels I Regulation, article 29 Recast Regulation.

²¹¹ The name was coined in an article in the mid-nineties by Italian scholar Mario Franzosi. See Mario Franzosi, “Worldwide Patent Litigation and the Italian Torpedo”, *European Intellectual Property Review* 7 (1997): 382.

²¹² See European Commission, 14.12.2010, COM(2010) 748 final, 2010/0383 (COD), “Proposal for a Regulation on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters”http://ec.europa.eu/justice/policies/civil/docs/com_2010_748_en.pdf.

See also Ian Bergson, “The death of the torpedo action? The practical operation of the Recast's reforms to enhance the protection for exclusive jurisdiction agreements within the European Union”, *Journal of Private International Law*, 11,1 (2015): 1-30.

²¹³ Based on article 25 Recast Regulation and 27 Recast Regulation.

²¹⁴ Article 29(1) Recast Regulation in combination with article 31(2) Recast Regulation.

²¹⁵ Article 31(2) and 31(3) Recast Regulation.

²¹⁶ Recital 22 of the Recast Regulation.

leading decisions taken by the CJEU, significant room remains for forum shopping by patent holders. The rightholder whose rights are (allegedly) infringed can readily choose between several *fora* to initiate legal proceedings: for example, courts of the member state where the defendant is domiciled; courts of the place where a contract is performed; courts for the place where the harmful event of tort, delict or quasi-delict occurred or may occur; or courts for the place where one of the defendants is domiciled -provided that the claims against multiple defendants are closely connected and there is a risk of irreconcilable judgments. Additionally, parties may select the forum they wish to have jurisdiction by contractual agreement, regardless of their domicile, although that agreement cannot replace *fora* of exclusive jurisdiction – exposing patent holders to possible “torpedoes” actions by implementers. Finally, and very importantly in the case of SEPs where a central role is played by preliminary injunctions, provisional measures can be requested to the courts of any forum under which jurisdiction can be established, with the caveats that a “connecting link” must exist between the measure sought and the territorial jurisdiction of the court seized, and that jurisdiction for such provisional measures *may* (but must not) be affected by validity challenges raised by the defendant. And while for the time being, the attractiveness of extraterritorial jurisdiction is limited by the geographical scope of the remedies that a seized court can impose, there are indications that these limitations may be faltering, in which case the magnitude of forum shopping in patent litigation is likely to increase significantly.

5. Summary and Conclusions: The Need For A Uniform EU Position

This article has reviewed the evolving legal framework for SEP disputes in Europe, with specific focus on the antitrust treatment of conduct by an SEP holder consisting in seeking injunctive relief for a FRAND-encumbered patent. As outlined in section 1, the importance of defining the antitrust treatment of this particular issue is paramount given the crucial role of both patents and standards in promoting innovation, as well as the inherent tendency of FRAND to generate disputes in relation to the enforcement of SEPs.

A review of the legal framework (section 2.1) and the EU case-law prior to the rise of SEP disputes (section 2.2 (a)) revealed two elements of difficulty in the application of article 102 to the aforementioned conduct: the identification of a dominant position in SEP markets, and a consistent theory of harm. In particular, it is not clear how the traditional definition of dominance applies to markets construed through “artificial” tools such as declarations of essentiality of SEPs and FRAND commitments to SSOs, and it is unclear what exact circumstances warrant antitrust intervention in these peculiar markets.

The case-law on injunctive relief and abuse of dominance for SEPs prior to *Huawei v ZTE* offered two diametrically opposite approaches to the latter issue, one more patent-friendly (*Orange Book*, section 2.2 (b)) and another more implementer-friendly (*Motorola* and *Samsung*, section 2.2 (c)), thus leading the German Supreme Court to ask the CJEU in *Huawei* which approach was to be favored as a matter of EU law. Section 3.1 explained that CJEU addressed the question providing *some* clarification, in two different ways: first, by ruling that the line of case-law on refusal to license intellectual property is applicable, and identifying two exceptional circumstances that warrant the systematic imposition of a duty to license: the standardization process -which plays a fundamental role in fostering follow-on innovation through interoperability- and the existence of a FRAND commitment –which creates legitimate expectations on third parties. Despite the welcome clarification, however, the ruling also muddled the waters in circumscribing the theory of harm to a situation in which an SEP holder can “prevent products manufactured by competitors from appearing or

remaining on the market and, thereby, reserve to itself the manufacture of the products in question”²¹⁷. This is because it remains open to interpretation whether an SEP holder is considered to be a “competitor” in all markets relying on the use of an SEP (as reference to legitimate expectation of “third parties” would suggest), and whether the CJEU only addressed one manifestation of abuse of dominant position without ruling out the applicability of another line of cases, namely that of exploitative abuses. National courts’ subsequent interpretation of *Huawei* illustrates the significance of these uncertainties, vacillating between exclusionary and exploitative theories of harm (section 3.2 (a)).

Secondly, the *Huawei* ruling attempted to provide legal certainty by defining a safe harbor both for SEP holders to escape liability, and for standard implementers to be able to raise a FRAND defense in the context of infringement proceedings. However, as illustrated by section 3.2 (b), the high level of abstraction in which the safe harbors have been defined raises questions of effectiveness of the protection they are supposed to confer. For example, while the SEP holder is advised to send a notice to the implementer about the alleged infringement of its SEP and make an offer to license on FRAND terms, it is not clear how much information should be provided at each step of the process, so that the implementer can verify the existence of infringement and the FRAND-ness of the offer received; similarly uncertain is the meaning of the implementer’s safe harbor of “diligently responding in accordance with recognized commercial practices and in good faith”, especially with regard to whether it is triggered independently from the SEP holder’s duty to make a FRAND offer. Further interpretative questions arise on the acceptability of portfolio license offers and counteroffers, and the permissibility of conduct outside the safe harbor. In addition, one may wonder about whether the implementer’s safe harbor devised in *Samsung*, resting on the submission of FRAND to determination by an independent third party, retains any relevance in a post-*Huawei* world.

All these interpretative issues create fertile ground for divergent interpretations across the EU, paving the road for forum shopping. Section 4 documented the malleability of jurisdiction in the applicable EU rules on private international law, in particular the Brussels Recast Regulation and the case-law interpreting its predecessors (the Brussels Convention and the Brussels I Regulation). An analysis of those rules shows that SEP holders are able to pick the most favorable forum for their infringement lawsuits on multiple grounds, including the place where the harm occurred or may occur, the place where the relevant licensing agreement (if any) is performed, the place where the defendant or even just one of the defendants is domiciled, and perhaps most crucially, the place designated by the parties via agreement. On the other hand, the Brussels Recast also fails to resolve the potential issues arising from strategic litigation by the alleged infringers, who are able to stall litigation in certain *fora* by invoking exclusive jurisdiction for validity challenges and taking advantage of the automatism of the rules on *lis pendens*, although in certain countries more effectively than others.

Regrettably, this fragmented panorama leaves us with a troubling prospect: first, the inconsistencies between various national legal systems might drive more litigation than optimal, diverting resources away from research and development. Second, the lack of legal certainty can have significant chilling effects both on SEP holders and on potential implementers, thereby undermining trust in the standardization process and the ability of the EU to promote incremental innovation, as well as the ability of EU consumers to enjoy standard-based technologies. It is therefore of crucial importance for the EU legal framework for SEP disputes to ensure a minimum of consistency.

²¹⁷ *Huawei v ZTE*, supra note 32, para. 52.

The EU has three options at its disposal to increase harmonization: progressive development of the case-law via preliminary references, legislative intervention, and administrative priority-setting. The first option is *ideally* preferable, as it leaves room for national experimentation and allows the law to develop organically, taking into account pros and cons of different solutions and with reference to the peculiarities of national frameworks, which are otherwise difficult to accurately capture. However, this process is by nature haphazardous -because the issues brought to the CJEU depend on the arguments made by litigating parties- and remarkably slow²¹⁸, which is problematic in dealing with fast-pacing technologies. Arguably, this route is the most appropriate to deal with questions of internal consistency of EU competition law, such as the role of exploitative abuses in SEP disputes, which are bound to come to the CJEU given the present lack of clarity.

Evidently, not all issues can be solved under a competition law framing, and thus a legislative solution might be preferable create a level playing field for all SEP holders, independently from the existence of a dominant position or even of a specific FRAND commitment²¹⁹. However, legislation suffers from the opposite problem compared to jurisprudential development, as it risks overreacting to a perceived problem and freezing its understanding of technology to a particular state, which quickly becomes obsolete in light of technological development²²⁰. This is exacerbated by the fact that legislations are often the result of compromises between contrasting positions, with the risk of legislators being informed by an imperfect understanding of market processes. Such concern is particularly pronounced for a legislation that would steer towards a particular methodology for the evaluation of FRAND terms, or prescribe the rules that should form part of the IPR policy of an SSO²²¹.

Given all the above, the administrative route appears to be the most suitable option for bringing uniformity to the framework for SEP disputes: by identifying priorities and best practices, administrative action could provide the necessary guidance to enhance predictability without simultaneously running into the problems of rigidity and obsolescence. In particular, the European Commission could address the outstanding issues by adopting soft law, and promoting its adoption at the national level through the European Competition Network and other interactions with national contact points. For this reason, the Commission's publication on 10 April 2017 of a Roadmap for "Standard Essential Patents for a European digitalised economy²²²" should be welcomed as a concrete step in the right direction. That initiative, taken jointly by DG Growth and DG Connect and supposedly leading to a Commission Communication in the second quarter of 2017 (sic), is consistent with other Commission's initiatives on standardization²²³ and with the prominent importance

²¹⁸ The average duration of a preliminary reference procedure is 15 months. See "Statistics concerning judicial activity in 2016: the duration of proceedings continues its downward trend, to the benefit of citizens", CJEU Press Release No 17/17, available at <https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-02/cp170017en.pdf>.

²¹⁹ See in this sense Larouche & Zingales, *supra* note 25.

²²⁰ This is typically known as the Collingridge dilemma, also known in regulatory theory as the "pacing problem", or "regulatory disconnection". See Pierre Larouche and Anna Butenko, "Regulation for Innovativeness or Regulation of Innovation?", *Law, Innovation and Technology* 7, 1 (2015): 65.

²²¹ See in this sense Koren W. Wong-Ervin, Joshua D. Wright, Bruce H. Kobayashi, Douglas H. Ginsburg, "Comment of the Global Antitrust Institute, Antonin Scalia Law School, George Mason University, on The Communication from The Commission on Standard Essential Patents for a European Digitalised Economy" *George Mason University Law & Economics Research Paper Series 17-22*, available at <https://ssrn.com/abstract=2960291>.

²²² Roadmap for "Standard Essential Patents for a European digitalised economy", GROW F5 (CNECT F3 ASSOCIATED).

²²³ E.g. Communication "ICT Standardisation Priorities for the Digital Single Market" (COM(2016)176 of 19.4.2016); and Communication "Digitising European Industry. Reaping the full benefits of a Digital Single

placed by the Commission on interoperability standards²²⁴. The Roadmap specifically commits to providing “guidance complementing existing jurisprudence on enforcement in areas such as mutual obligations in licensing negotiations before recourse to injunctive relief, portfolio licensing and the role of alternative dispute resolution mechanisms”, which certainly would go a long way to assuage the concerns flagged in this article about the implementation of *Huawei*.

It is more concerning however that, in the pursuit of the aim of improving interoperability and trust in the standardization process, the initiative promises to go beyond the already challenging task of tackling “risks of uncertainty in enforcement”. In particular, it raises some eyebrow that the Commission announces its intention to deliver, in the same Communication to be published in the summer: (a) a guidance on “the boundaries of FRAND and core valuation principles”; and (b) a set of “best practice recommendations to increase transparency on SEP exposure, including to SSOs to improve value and accessibility of SEPs databases and to bring more precision and rigour into the essentiality declaration”. Valuation of FRAND rates and identification of patent essentiality are both complex and intrinsically context-dependent issues, which require accurate reflection of the characteristics of the markets in question. On the one hand, providing guidance on core FRAND principles could dispel some of the confusion in the definition of reasonable royalties, for example concerning the possibility to account for the network effects derived to the patent from its incorporation in the standard, or the use of a benchmark of hypothetical *ex ante* negotiation between licensor and licensee in a context in which the decision to adopt the standard was made collectively by the SSO (thus potentially reflecting a different willingness to pay of implementers). On the other hand, in doing so the Commission should be wary of the risks involved with replacing –even if merely in the form of recommendation– decisions that belong to the marketplace, such as the choice of the most appropriate FRAND methodology for a given set of circumstances²²⁵. Favoring one option over another can have serious distributional consequences among affected stakeholders, potentially interfering with legitimate business models²²⁶. By the same token, while increasing transparency on SEP exposure and bringing more precision and rigour into essentiality declarations undoubtedly constitute a laudable goal, the implications of encouraging a more “hands on” approach by SSOs may be significant, most notably in terms of the associated costs for implementers and the accessibility of standardization more generally²²⁷. Formulating best practices can pave the way for virtuous competition between SSOs, but at the same time, if strongly pushed by the

Market (COM(2016) 110 of 19.4.2016).

²²⁴ See, in addition to the above-mentioned policy documents, the Commission’s decision in *Motorola*, para. 416.

²²⁵ This was the case for instance with the Federal Trade Commission’s Study on Patent Remedies, which among other recommendations cautioned against the application of the Entire Market Value Rule. See Federal Trade Commission, *The Evolving IP Marketplace*, supra note 8, p 211.

²²⁶ An example of this is the withdrawal in the standardization process by IEEE Standard Association’s members following the Association’s patent policy update, which recommended to base FRAND on the “value of the relevant functionality of the smallest saleable compliant implementation” of a patent, as opposed to the more conventional basis in the industry of the final product incorporating the patent. See Ron Katznelson, ‘Decline in non-duplicate licensing Letters of Assurance (LOAs) from Product/System companies for IEEE standards’, Presentation at IEEE GLOBECOM, San Diego (December 2015) <https://works.bepress.com/rkatznelson/80/>. See more generally, N Zingales & O Kanevskaia, supra note 10.

²²⁷ By way of illustration, the costs identified by a recent Report prepared on behalf of the European Commission in relation to a preliminary review of patent essentiality are of €1800 to 2600 per patent, which is then likely to be shared or trickled down through licensing prices to implementers. See Pierre Régibeau, Raphaël De Coninck and Hans Zenger, “Transparency, Predictability, and Efficiency of SSO-based Standardization and SEP Licensing: A Report for the European Commission” (June 2016), p 57, 90.

Commission's agenda, it may end up limiting SSOs' ability to formulate their requirements catering to different needs and types of undertakings²²⁸.

Defining core principles for these complex issues without forcing one's hand is a concrete challenge that the Commission has set itself up to, and one that can affect the chances of success in the adoption of the entire Communication at the national level. As explained above, one size does *not* fit all for tackling the challenges of SEP disputes; accordingly, the Commission's Communication may well provide an illustration of both the benefits and the dangers of using soft-law to address complex issues of private regulation, in particular with regard to practices where the market has not yet found its *ubi consistam*.

²²⁸ One of the most significant changes stemming from the adoption of a more stringent approach to essentiality declarations would be the departure from the longstanding policy of SSOs to maintain "lightweight" due diligence requirements, by not requiring any patent searches. See Keith Maskus and Stephen A. Merrill, *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communication Technology* (National Academy Press 2013), p. 41.