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Standard Essential Patents and Competition Law

SUMMARY: 1. Introduction. – 2. Standard Essential Patents and Competition Law: a Transatlantic approach. – 3. Conclusions.

1. *Introduction*

Standard Essential Patents (SEPs) are at the heart both of the rapid evolution of information and communication technologies (ICT), and of the development of wider and deeper interconnectivity better known as the Internet of Things (IoT). Essentially, a SEP is a patent that covers a technology which is essential to use in order to comply with a technical standard, i.e. Bluetooth, Wifi, 5G.

The latter are very complex technologies that create tension instead of creating alliances and efforts to set a balance between the importance to reward inventions and the high stakes in enabling wider access to these technologies.

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To better understand what is at stake here, we should start by applying the traditional categories of patent law to these essential technologies. It is well known that a patent provides its holder «*the right to exclude others from making, using, offering for sale, or selling the invention*».² Therefore, the question to be asked now is what happens when this right is granted for an essential technology? Can the patent holder exclude the other stakeholders altogether? The answer to this question, although provided by the legislative framework relating to intellectual property, can undoubtedly also find a justification in the competition law.

The intersection between intellectual property and competition law has been discussed for so long to gain the epithet of ‘rhetoric’ of conflict.³

The contrast between the two systems lies in their very nature. The first is based on the concept of exclusivity, allowing the owner to maintain the competitive advantage gained through creative efforts; the second, on the other hand, is based on market pluralism.⁴ In other words, competition law aims to counteract any illegitimate form of monopoly derived from an intellectual property right, trying to ensure an efficient allocation of resources and, in doing so, avoiding a market failure.

At this point and before addressing the two main contents of the present analysis, it would be better to stress one specific point. From a legal point of view, patents reward invention rather than commercialization. Therefore, the owner of a patent is simply guaranteed the possibility of marketing a technology covered by exclusivity, and not the security that the latter has such a success that gives the patent holder a monopolistic power. In other words, «*the notion of exclusion in patent law is quite different from the notion of exclusion in anti-*

² 35 U.S. Code § 154

³ M.D. JANIS, «Transition in IP and Antitrust», *Antitrust Bulletin*, 253, 2002.

⁴ Among the conspicuous literature on the overlap between Intellectual Property and Antitrust Law, see L. KAPLOW, «*The Patent-Antitrust Intersection: A Reappraisal*», *Harv. L. Rev.*, 97, 1813, 1984; W. TOM, J. NEWBERG, «Antitrust and Intellectual Property: From Separate Spheres to Unified Field», *Antitrust L. J.*, 66, 167, 1997.

*trust law. In antitrust law, exclusion – as in exclusion of rivals – connotes an image of occupying a competitive sphere to prevent the incursion of rivals. [...] A patent merely grants the right to exclude others from making, using, or selling the invention [...], all you get is the right to exclude others from standing in the sphere of the invention – as long as they do not have their own rights to be standing in that sphere as well».*⁵

From an economic point of view, most of the products produced on the basis of a patent are not marketed in monopoly contexts thanks to the existence of substitutes on the market. Simply put «*There is no economic basis for inferring market power from the mere fact that the defendant holds a patent*».⁶

2. *Standard Essential Patents and Competition Law: a Transatlantic approach*

The standards can naturally be consolidated on the basis of the characteristics of the technological sector and the practice of companies, or be developed by specific standardization organizations, the so called Standard Setting Organizations (SSO).

The holder of a SEP is able to control access to an entire market. For competitors, for example, it would be too costly to invest in the development of an alternative network and it would be too difficult to convince millions of consumers to replace old devices with new ones.

To avoid that essential patents are used in an abusive manner, a solution consists in the irrevocable commitment, assumed by their holders towards the standardization bodies, to grant them under fair, reasonable and non-discriminatory conditions, i.e. under the FRAND

⁵ H. HOVENKAMP, M.D. JANIS, M.A. LEMLEY, *IP and Antitrust*, Aspen Law & Business, New York, 2001, pp. 1-11.

⁶ Department of Justice, Federal Trade Commission, Brief as Amicus Curiae in *Independent Ink v. Illinois Tool Works*, 2005, 5.

regime. For example, under the rules of the European Telecommunications Standards Institute (ETSI), the companies involved in the standard setting process are required to promptly notify the organization of their essential patents and to commit to offer them under license on FRAND terms.

On the other hand, it would not be right to deprive the holder of a patent, even if essential, of the exclusivity and the right to resort to the injunction protection in case of violation. Without an injunction requiring the cessation of the use of the patented technology to the infringer, the latter, during the (longer) ordinary judgment of counterfeiting aimed at the compensation protection, could continue with impunity in the violation.

2.1 The Huawei v. ZTE case

The case was brought before the ECJ by the Dusseldorf Regional Court, in front of which there was a dispute between the two Chinese companies Huawei Technologies and ZTE Corp. On 4 March 2009, Huawei Technologies registered, in the Federal Republic of Germany, a patent⁷ bearing the title “Method and apparatus of establishing a synchronization signal in a communication system” and qualified as essential by the European Telecommunication Standards Institute (hereinafter ETSI). The ETSI is a European body responsible for determining technical standards for the telecommunications sector which identifies essential patents. The patent developed by Huawei Technologies was considered essential by the ETSI for the development of the Long Term Evolution (LTE) standard, provided that Huawei pledged to licensing it to third parties under fair, reasonable and non-discriminatory conditions (FRAND).

⁷ EP 2 090 050 B 1, available here: <https://data.epo.org/publication-server/pdf-document?pn=2090050&ki=B1&cc=EP>.

Between November 2010 and March 2011, it came to light that ZTE was marketing (in Germany) products based on the technology covered by the patent EP 2 090 050 B 1 without any authorization, and without ever paying any consideration to the holder. The two companies engaged a discussion on whether it was possible to conclude a licensing agreement under FRAND terms.

While Huawei indicated what it considered a reasonable royalty, ZTE sought a cross-licensing agreement. But in the end, no offer with regard to the license was finalized. Huawei Technologies decided to take action in 2011 against the German Landgericht Düsseldorf «seeking an injunction prohibiting the infringement, the rendering of accounts, the recall of products and award for damages».⁸

Since ZTE's defense was based on Huawei's abuse of dominant position under art. 102 of the Treaty on the Functioning of the European Union (TFUE), the real question here was whether the action brought by Huawei constitutes an abuse of that company's dominant position.

The judge, due to the great legal uncertainty on the matter, decided to suspend the proceeding referring several questions to the ECJ seeking clarifications on the circumstances under which an undertaking in a dominant position abuses that position by bringing an action for infringement.

The dictum was eagerly awaited as the ECJ would have to balance the two previous approaches.

⁸ European Court of Justice, C-170/13, available here:
<http://curia.europa.eu/juris/celex.jsf?celex=62013CJ0170&lang1=it&type=TXT&ancre>.

The first approach, also known as the Orange Book Standard,⁹ was provided by the German Courts and it was in favor of patent owners. The Bundesgerichtshof stated that the potential licensee should meet two conditions in order to avoid an injunction by a SEP holder:

- a) making an unconditional binding offer complying with FRAND terms;
- b) satisfying in advance the obligations ensuing from the future license agreement.

The second approach was established by the European Commission in 2014¹⁰ and it was favorable to license seekers. In particular, the Commission stated that *«the seeking and enforcement of injunctions cannot therefore, in itself, constitute an abuse of a dominant position. The exercise of an exclusive right by its owner may, however, in exceptional circumstances and absent any objective justification involve abusive conduct. The list of exceptional circumstances is not exhaustive»*.¹¹

The AG Wathelet opted for an intermediate solution, seeking a balance of interests between the German choice which attributes excessive protection to the holder of a SEP, and the completely contrary one made by the Commission. According to the AG, holding a SEP does not necessarily imply that a company has a dominant position.

Furthermore, the AG noted that the exercise of an exclusive right connected to an intellectual property right cannot itself be an abuse of a dominant position,¹² except in particular cir-

⁹ Bundesgerichtshof, Orange-Book-Standard (KZR 39/06), 6 May 2009, <http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&sid=acea256584d0e420272381a9d0c7a57a&nr=48134&pos=0&anz=1>

¹⁰ Case AT.39985 – Motorola – Enforcement of GPRS standard essential patents, C(2014) 2892 final, available here http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf; Case AT.39939 - Samsung - Enforcement of UMTS standard essential patents, C(2014) 2891 final, available here: http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf.

¹¹ Motorola decision, C(2014) 2892 final, paragraph 278.

¹² SIDAK, *The Meaning of FRAND, Part II: Injunctions*, 261, noted that: *«When a SEP holder is bound by a FRAND commitment, the implementer can ask the court to determine FRAND licensing terms if the implementer asserts that the SEP holder's offer is not FRAND. An implementer's ability to seek the court's determination effectively precludes the SEP holder from exercising market power. Consequently, a SEP holder may have*

cumstances, but also that the right to request an injunction is not a fundamental right and therefore must be reconciled with the competition rules because it could restrict the competition.

Finally, he observed that, on the one hand, making a commitment to license to a third party under FRAND terms does not mean that the patent holder gives up the right to seek an injunction, but, on the other hand, if the license seeker is “willing” to conclude a license then asking for an injunction will constitute an abuse of dominant position.

Among these questions on whether a SEP holder is dominant in the relevant market or on whether seeking an injunction is an abuse of that dominant position, there is still one question left to be asked and, probably, unanswered: depending on the case and on the particular SEP, how would it be possible to consider a SEP holder really dominant thanks to just one SEP knowing that a mobile phone manufacturer must license several SEPs in order to comply with a specific standard?

As said, there is no answer (yet) for this question, but rather for those explained above there are a few provided by the AG.

The latter has identified a number of conditions under which the negotiation of a SEP must take place, and these have been welcomed by the ECJ, which acknowledged the balance to be struck between maintaining free competition and protecting the SEP holder’s IP rights.

The Court ruled that: *«Article 102 TFEU must be interpreted as meaning that the proprietor of a patent essential to a standard established by a standardisation body, which has given an irrevocable*

less market power than a holder of an inessential (implementation) patent. Therefore, there is no valid justification to introduce a rebuttable presumption that a SEP holder possesses market power».

undertaking to that body to grant a licence to third parties on fair, reasonable and non-discriminatory ('FRAND') terms, does not abuse its dominant position, within the meaning of that article, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used»,¹³ provided that some conditions are met.

The Court stated that in order for an injunction to be granted, firstly the SEP holder should have alerted the potential infringer specifying which and how the patent is infringed. Once the alleged infringer has confirmed his willingness to agree to a license under FRAND terms, the SEP holder should have proposed him a concrete and written offer, specifying the royalty and the way in which it is to be calculated.

Secondly, the potential infringer should not have responded diligently to the offer and should not have behaved according to common commercial practices and according to good faith, for example by putting in place delaying tactics.

Some clarity on the conditions under which an injunction application can be brought by an SEP holder without infringing competition law has been provided by the ECJ. The topic is crucial for innovation in the telecommunication and information technology sectors, because the possibility to enforce a SEP could have an impact on its value.

The “middle path” offered by the ECJ will provide a reasonable balance between the interests of SEP holders and potential licensees. The main reason behind this approach is to ensure some genuine commercial discussions, with the aim to reduce the recourse to patent enforcement actions or the use of competition rules as weapons against competing technology companies.

¹³ ECJ, C170/13, para. 77.

However, some issues have been left voluntarily open by the court.

Firstly, it remains subject to a “case by case” approach how to determine FRAND terms. This outcome will likely produce an increase of litigations in order to have a third party addressing what is considered FRAND.

Secondly, in the case at hand the ECJ skipped a very relevant question because *«the questions posed by the referring court relate only to the existence of an abuse»*:¹⁴ is the owner of a SEP always dominant? As said, the European Commission¹⁵ addressed this topic stating that in order to assess if a SEP holder has dominance in the relevant market we shall look at two factors that *«are of particular importance for this assessment: first, the indispensability of the [...] standard on which (...the SEP) reads for manufacturers of standard-compliant products, and, second, the industry lock-in to that standard»*.¹⁶

Recently, European Commission published a very important communication¹⁷ which was long awaited in the hope that it would have addressed what is FRAND, but the Commission decided this problem to be left open. However, the EC has proved to be aware of the importance that standards have in the current technological and legal context, with particular regard to the Internet of Things (IoT).

In the end, in order to have more clarity on what is FRAND and on how this license mechanisms will comply with antitrust laws, stakeholders and commentators have to wait for a future ECJ ruling.

2.2 The “Antitrust Guidelines for the Licensing of Intellectual Property” issued by the Department of Justice (DOJ) and the Federal Trade Commission (FTC).

¹⁴ ECJ, C170/13, para. 43.

¹⁵ See above, note 9.

¹⁶ See above, note 10.

¹⁷ European Commission, COM(2017) 712 final, “Setting out the EU approach to Standard Essential Patents”.

The intersection between IP and Antitrust, in particular the position of a SEP holder in the relevant market, has been recently debated on the other side of the Atlantic sea. As background in the American legal framework, we must notice that IP rights and Antitrust rules share the common aim of encouraging innovation and promoting consumer welfare.

More specifically, even if *prima facie* patent law and antitrust laws seem to be incompatible, *«the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition»*.¹⁸

The analysis will now focus on the “Antitrust Guidelines for the Licensing of Intellectual Property”¹⁹ issued by the Department of Justice (DOJ) and the Federal Trade Commission (FTC). A revised version has been published in January 2017, but perhaps it is most notable for what they excluded. Although the relation between SEPs and Antitrust received great attention by the two Agencies, the new Guidelines do not mention it.

In addition to this, the fact that The FTC and DOJ have allowed public comments to be posted on their website for a certain amount of time gave us the opportunity to read what institutions, commentators and big companies think of SEPs.

In general, the Agencies *«do not presume that intellectual property creates market power in the antitrust context»*, because it is likely that there will be *«sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power»*.²⁰ Does it mean that when there are no “close substitutes”, like in a case of a standard technology, the SEP holder has market power in the Antitrust meaning? Unfortunately, the Agencies did not provide a specific answer, as said. But, many commented on this exclusion, so we are still able to gen-

¹⁸ Atari Games Corp. v. Nintendo of Am. Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990).

¹⁹ Available here:

https://www.ftc.gov/system/files/documents/public_statements/1049793/ip_guidelines_2017.pdf

²⁰ III. Tool Works Inc. v. Indep. Ink, Inc., 547 U.S. 28, 45-46 (2006).

erally determine whether SEPs deserve a specific discipline in light of the Antitrust legal framework.

Some commentators applauded the exclusion such as the Global Antitrust Institute (GAI) and some tech companies like Nokia and Ericsson. The GAI noted that *«the Agencies correctly reject the invitation to adopt a special brand of antitrust analysis for SEPs in which effects-based analysis is replaced with unique presumptions and burdens of proof. [...] the antitrust framework is sufficient to address potential competition issues involving all IP rights, including SEPs and non-SEPs. [...] SEP holders, like other IP holders, do not necessarily possess market power in the antitrust sense and conduct by SEP holders, including breach of voluntary assurance to license its SEP on FRAND terms, does not necessarily result in harm to the competitive process or to consumer»*.²¹ The fact that SEPs do not need any special regulation in order to comply with the Antitrust framework is also confirmed by the FTC Chairwomen Edith Ramirez, that stated that *«the same key enforcement principles [found in the 1995 IP Guidelines] also guide our analysis when standard essential patents are involved»*.²²

Also, some companies with a strong patent portfolio and huge licensing revenues positively commented on this exclusion. Nokia supported *«the Agencies' decision not to include [a specific section on SEPs and FRAND] in the guidelines»*;²³ Ericsson recommended to include the

²¹ Comment of the Global Antitrust Institute, Antonin Scalia Law School, George Mason University, on the U.S. Antitrust Agencies' Proposed Update of the Antitrust Guidelines for the Licensing of Intellectual Property (Sept. 2016), available here:

https://www.ftc.gov/system/files/documents/public_comments/2016/09/00003-128906.pdf

²² E. RAMIREZ, Chairwoman, FED. TRADE COMM'N, «Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective», 10 September 2014, available at:

https://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf

²³ Comments of Nokia on the Proposed Revisions of the Antitrust Guidelines for the Licensing of Intellectual Property, 26 September 2016, available at: www.ftc.gov/system/files/documents/public_comments/2016/09/00013-128925.pdf

following in these Guidelines «*the general analytical antitrust framework for analysis of licensing related to standard-essential patents is the same for patents that are not essential to a standard*».²⁴

On the other hand, some others criticized this omission like the high-profile group of commenters composed by Joseph Farrell (former director of the FTC's Bureau of Economics), Richard Gilbert and Carl Shapiro. They expressed concerns that «*a revision of the Guidelines that ignores [SEPs] might be seen as a retreat from the Agencies' policy statements and enforcement actions in these areas*».²⁵

Furthermore, a broad cross-section of industry such as Apple, Cisco, HP, Intel, Tesla and others commented these Guidelines. The group demonstrated great awareness on the importance of SEPs and on the implications that these may have in the Antitrust context, but they did not (openly) criticized this document, but rather they seemed to understand the reason why there has been this omission: «*We recognize that standard essential patent (SEP) issues, and associated promises to license on fair, reasonable and non-discriminatory (FRAND) terms, are not expressly addressed in the draft Guidelines. We note, however, that there is already substantial guidance on these issues provided by the Agencies and US Courts [...]. There are pending cases in US courts involving SEPs, including cases raising antitrust issues, that may shed additional light on the interplay between SEPs, patent law, and antitrust*».²⁶

²⁴ Ericsson Comments on the Department of Justice and Federal Trade Commission's Proposed Update to the Antitrust Guidelines for the Licensing of Intellectual Property 26 September 2016, available at: www.ftc.gov/system/files/documents/public_comments/2016/09/00019-128944.pdf

²⁵ J. FARRELL, R. GILBERT, C. SHAPIRO, «Proposed Update of DOJ/FTC IP Licensing Guidelines», 7 September 2016, available at: www.ftc.gov/system/files/documents/public_comments/2016/09/00002-128904.pdf

²⁶ Microchip Technology Inc., ip.access, Cisco Systems, Inc., Tesla Motors, Inc., Telit Communications SpA, Juniper Networks, Inc., HP Inc., ACT | The App Association, VIZIO, Inc., Apple Inc., Intel Corporation, Sierra Wireless, Inc., Multi-Company Response to DOJ/FTC Consultation re Licensing Guidelines, available at: www.ftc.gov/system/files/documents/public_comments/2016/09/00021-128948.pdf.

In conclusion, it is arduous to interpret the silence, but the reason for the exclusion seems to be the uselessness of a specific guidance on SEPs. The Agencies wanted to reaffirm the idea that the flexible licensing framework foreseen for IPRs applies to all IPRs, including SEPs.

3. *Conclusions*

The analysis carried out made it possible to briefly observe how the European and US legal framework approach the intellectual property rights in the Antitrust context, with particular regard to the position of a SEP holder.

Firstly, it seems that the two systems coincide in not assigning a market power per se to an IPR holder. Having supracompetitive profits coming from a superior product confers a market power that is solely *«a consequence of a superior product, business acumen, or historic accident»*, thus does not violate the antitrust laws.

Secondly, the two systems do not seem to coincide with regard to whether a SEP holder deserves or not a special regime under the Antitrust law. In general, both propose to seek and put into practice a balance that protects the interests of SEPs holding companies and companies that for the sake of technological progress wish to strike a licensing agreement from such patents.

But, if on the one hand the ECJ and the European Commission recognize and publicly acknowledge how the situation of a SEP holder is delicate from an Antitrust law point of view deserving specific guidelines, on the other hand the FTC and the DOJ do not seem to think the same way. However, in both legislative systems there is no lack of information

documents, reports and opinions that can guide the licensing and enforcing activities in order to respect the Competition Laws.

There is no doubt that SEPs play a fundamental role in the technological progress, especially nowadays with the advent of the Internet of Things, for which the connection must not only be between devices, but also between companies, especially with regard to intellectual property and taking into consideration the presence of the “Big Brother eye” of the Antitrust authorities.