Ten Years of DG Competition Effort to Provide Guidance on the Application of Competition Rules to the Licensing of Standard-Essential Patents: Where Do We Stand?

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I. Introduction

One of the most intractable competition issues for the European Commission (the "Commission") over the last ten years has been to define the circumstances in which the licensing conduct or litigation strategy of a standard-essential patent (often referred to as "SEP")[1] holders amount to an abuse of a dominant position in breach of Article 102 of the Treaty on the Functioning of the European Union (TFEU). This issue has been particularly difficult to handle, not only because of the complex nature of the legal and economic questions it raises, but also because of the significant business issues at stake. Hundreds of millions of dollars may be at stake in licensing negotiations.

A standard can be defined as a set of technical specifications which seeks to provide a common design for a product or process**.**[2] The welfare benefits deriving from the existence of standards are obvious. By allowing complementary or component products from different manufacturers to be combined or used together, they increase consumer choice and convenience, and reduce costs. Standards are typically created by voluntary organizations (generally referred to as standard-setting organizations, or SSOs) composed

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1 ETSI defines "Essential IPR" as meaning "that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, …… [to] comply with a standard without infringing that IPR." ETSI IPR Policy (version of 23 November 2005) at Art. 15.

2 See Herbert Hovenkamp, Mark D. Janis & Mark Lemley, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law*, (2003-04 Supplement) at 35.1.

of participants from a given industry (electronic components, communications, etc.).[3] They meet to discuss, analyze, refine, and ultimately adopt mutually acceptable standards, which ensure that competing and complementary products and components are compatible and can interoperate with one another. SSOs have thus gained importance over the years in technology-driven sectors.

Standards may, however, be encumbered by patents when the technologies they implement are proprietary. This is the case in the information technology (IT) industry, for instance, where a given standard may involve technologies protected by a very large number of patents, sometimes hundreds or even thousands.[4] Patents are exclusive rights which confer upon their owners two basic prerogatives: (i) the right to prevent any third party from applying or using the subject-matter of the patent; and, correlatively, (ii) the right to set the conditions of a license in consideration for use of the patent and as a reward for the innovative contribution made. This means that manufacturers are not able to implement a standard unless they obtain a license from the holders of patents essential to the standard in question. These patent holders have a right to obtain compensation, which can for instance take the form of an upfront cash payment, royalties, etc.

Most formal SSOs have IPR policies which generally encourage patent owners involved in standardization to disclose any patent(s) that they consider essential upfront, i.e., prior to the standard's adoption.[5] Early disclosure of patents "is likely to enhance the efficiency of the process used to finalize and approve standards" and "permits notice of the patent to the standards developer […] in a timely manner, provides participants the greatest opportunity to evaluate the propriety of standardizing the patented technology, and allows patent holders and prospective licensees ample time to negotiate the terms and conditions of licences […]."[6]

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[3] For instance, the European Telecommunications Standards Institute (ETSI), headquartered in Sophia Antipolis, France, was formed in 1988 by the European Conference of Postal and Telecommunications Administrations ("CEPT") and is officially recognized by the European Commission as the organization responsible for standardization of information and communication technologies within Europe. Its mission is to "develop globally applicable deliverables meeting the needs of the Information and Communications Technologies ("ICT") community." See, generally, Mark Lemley, "Intellectual Property Rights and Standard-Setting Organizations", 90 (2002) *California Law Review*, 1889.

[4] This is, for instance, the case of the WCDMA (3G) mobile standard. See Rudi Bekkers et al., Essential patents in industry standards: The case of UMTS, available at http://www2.druid.dk/conferences/viewpaper.php?id=5587&cf=32

[5] See Lemley, supra note 3, at 21 et. seq.

[6] See Guidelines for Implementation of the ANSI Patent Policy, at 3, available at http://www.ansi.org/

Once disclosure is made, or contemporaneously with disclosure, patent holders are typically asked to provide an assurance or commitment that, should their patent(s) be essential for a standard, they will license them on fair, reasonable and non-discriminatory (FRAND) terms to members of the SSO and outsiders. The IPR policies of most SSOs do not oblige owners of essential IPR to grant irrevocable licences thereto on FRAND terms. This would amount to compulsory licensing and would deter many owners of valuable technology from joining the SSO. But if the owner of SEPs seeks to have its technology included in a standard, there is an incentive but no obligation to provide the SSO with the contemplated assurance that it will license on (F)RAND terms.

Licensing negotiations between SEP holders and potential licensees, however, are conducted outside SSOs. For example, ETSI makes clear that such discussions will not take place under its standard development activities, holding the view that its role is directed to technical rather than commercial issues.[7] The "fair" and "reasonable" character of license terms must be addressed in a commercial context outside the standard-setting environment.[8] In other words, these terms cannot be determined in a vacuum, without reference to the specific situations of the SEPs holder and the standard implementer. Whether the royalties to be paid in the context of a given licensing agreement are FRAND, cannot be determined in the abstract. Moreover, royalties are but one element of the consideration agreed upon between the parties. Other elements susceptible of pecuniary valuation, such as a cross-licence to the licensees' intellectual property or an upfront fee, are taken into account and their value may be significantly higher than that the royalty itself.[9]

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7 ETSI's Guide on IPR provides that "specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI. Technical Bodies are not the appropriate place to discuss IPR issues. Technical Bodies do not have the competence to deal with commercial issues. Members attending ETSI Technical Bodies are often technical experts who do not have legal or business responsibilities with regard to licensing issues. Discussion on licensing issues among competitors in a standards making process can significantly complicate, delay or derail this process." ETSI Guide on IPR, Section 4.1.

8 The question of the meaning of the terms "fair" and "reasonable" contained in the FRAND promise has absorbed the attention of several legal and economic commentators in the last few years. See, e.g., Daniel Swanson & William Baumol, "Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power", (2005) 73 *Antitrust Law Journal* 1; 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", (2007) 3 *European Competition Law Journal*, 101 Most of the literature does not distinguish between "fair" and "reasonable", in part due to the fact that the term "fair" is specific to the EU context (US-based SSOs tend to refer to the concept of RAND as one variant, not FRAND).

9 For example, Grindley & Teece have found that in the fields of semiconductors and electronics cross-licensing is more complex than the exchange of individual property rights. Patent holders in these industries generally license a portfolio of patents within a field of use due to the transaction costs associated with negotiating and monitoring infringement of individual patents and the needed freedom to

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While SSOs and the standards adopted under their auspices have significantly contributed to the development of and growing competition within many technology-driven sectors, concerns have been expressed that owners of patents essential to a standard may be able to unduly capture some of the economic value that may be attributable not to the intrinsic value of those rights, but to the standardization itself.[10] The argument is that in certain cases, if members of an SSO had known the terms under which SEP owners would license their rights prior to establishing a standard, they might have chosen an alternative technology (provided, of course, such an alternative existed – which is not a given).[11] Once a standard is adopted and implemented, switching to an alternative technology may be too onerous for those using it. Because the bargaining power of the owner of essential patents will have thus increased, the owner may be able to extract more favorable licensing terms *ex post* standardization than would otherwise have been the case. This phenomenon, generally referred to as "patent hold-up", lends credence to the need to control the level of royalties charged by holders of SEPs. Whether or not patent hold-ups are frequent is not clear due to the lack of empirical studies, but there seems to be a growing consensus that this is a problem that needs to be addressed.

Concerns have also been expressed that the risk of "hold-up" is particularly significant when the SEP holder is able to seek a court injunction to block the shipment of infringing products.[12] Faced with the risk of being forced to remove their products from the marketplace (resulting in significant losses), implementers of standards may have no choice but to accept licensing terms that they would not otherwise accept. As the ability to exclude infringing products from the market is a well-recognized patent remedy, which is often sought by SEP holders, some have argued that SEP holders that have made a FRAND commitment should no longer be entitled to seek an injunction, and should have to limit themselves to obtaining damages if infringement is established.[13] On the other

design and manufacture without infringement. Negotiating a patent portfolio licence often involves negotiating a balancing of royalty payments according to the "value of the patent portfolios of each party" and the value of each party's exposed product sales. Peter C. Grindley & David J. Teece, "Managing Intellectual Capital: Licensing and Cross-Licensing in Semiconductors and Electronics", 39 (1997) *California Management Review*, 9.

10 See, Mark Lemley & Carl Shapiro, "Patent Holdup and Royalty Stacking", 85 (2007) *Texas Law Review* 1989.

11 This argument is, however, invalid when the licensing agreement was adopted prior to the adoption of the standard in question as is regularly the case. In that case, no hold up seems to be possible.

12 See, FTC, *The Evolving IP Marketplace : Aligning Patent Notice and Remedies with Competition*, March 2011, at pp. 225 et seq.

13 See Philippe Chappatte, FRAND Commitments – The Case for Antitrust Intervention, 5 (2009) European Competition Journal 320, 331.

hand, depriving SEP holders of the ability to seek injunctions in all circumstances might unduly reduce their bargaining power, hence creating a risk that they might be under-compensated.[14] In this context, a complete ban on injunctions independently of the context of the negotiations between an SEP holder and a potential licensee is excessive and may lead to a "reverse hold up". An intermediate approach consists in only authorizing the use of injunctions to enforce SEPs to situations where the potential licensee is "unwilling" to take a license. The difficult question is of course to determine what an "unwilling" licensee is.

Besides the complexity of the legal and economic questions, and the large amounts of money, at stake, one of the difficulties of addressing standard-related issues is that companies involved in licensing negotiations may have diametrically-opposed interests. For instance, "pure upstream" companies, whose revenues entirely (or at least to a large extent) depend on licensing fees, will generally want to maximize royalty revenues and thus enforce their patents vigorously.[15] "Vertically-integrated" companies, which both innovate and manufacture products, tend to have mixed incentives. On the one hand, they may want to maximize licensing revenues by aggressively licensing their SEPs portfolio. On the other hand, because they manufacture and sell products, they may be on the receiving end of royalty requests from other SEP holders. In this context, vertically-integrated companies tend to conclude cross-license agreements with each other with some limited royalty payments when one of the cross-licensee has a stronger patent portfolio than the other. "Pure manufacturers", which generate all (or almost all) of their revenues through the sale of products, will seek to minimize royalty payments since they represent a cost affecting their bottom line. Finally, equipment buyers tend to be concerned that "royalty-stacking"[16] may increase the prices of the equipment they need to source for their operations. As if things were not already sufficiently complicated, some companies have shifted their position on the burden created by licensing fees in recent years. For instance, while some vertically-integrated companies with large and successful manufacturing operations used to express concern and even litigated over the cost of licensing fees,[17] are

[14] See Damien Geradin & Miguel Rato, FRAND Commitment and EC Competition Law: A Reply to Philippe Chappatte, (2010) European Competition Journal 129, 150-53.

[15] In this paper, "pure upstream" companies are companies that focus their efforts on innovation. They will then license their technologies to manufacturers. Royalties are the life-blood of these companies. Pure upstream companies have to be distinguished from patent assertion entities, which do not innovate, but specialise in the enforcement of patents they may have acquired from other companies. These companies, also called "patent trolls", do not contribute much to welfare.

[16] Damien Geradin et al., "The Complements Problem within Standard Setting: Assessing The Evidence on Royalty Stacking", 14, (2008) *Boston University Journal of Science & Technology Law*, 144.

[17] For instance, in 2006, Nokia, Ericsson, and Motorola proposed that ETSI's IPR policy be revised in order to introduce the principles of "aggregated reasonable terms" and "proportionality" into the definition of FRAND. Pursuant to this proposal, called "Minimum Change, Optimal Impact",

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now trying to vigorously license their patent portfolio in order make up for the decreasing success of their products.[18]

The above issues have made headlines in the context of the "smartphone war", where the main device manufacturers (Google Motorola, Samsung, HTC, Nokia, etc.) have been litigating heavily in court, which is not surprising considering the size of, and the billions of dollars generated by, the mobile devices market.[19] For instance, the patent dispute between Apple and Samsung has generated over 50 lawsuits in a variety of jurisdictions. Some of these manufacturers have also filed competition complaints on both sides of the Atlantic, as well as in other jurisdictions. These complaints have, in turn, triggered investigations into the licensing conduct and litigation strategy of several SEP holders,[20] which will be discussed below.

Against this background, the purpose of this paper is to address the competition law issues that may be raised by the licensing conduct and/or enforcement strategy of SEP holders. Section II reviews the Commission's efforts in recent years to address the competition law concerns raised by SEPs. It will be shown that the Commission has used a variety of approaches to attempt to set some principles regarding the licensing of SEPs. The Commission still needs to create a precedent, which is probably its intention by sending a Statement of Objections to Samsung in December 2012. Section III contains a brief conclusion.

Aggregated Reasonable Terms would mean that "in the aggregate the terms are objectively commercially reasonable taking into account the generally prevailing business conditions relevant for the standard and applicable product, patents owned by others for the specific technology, and the estimated value of the specific technology in relation to the necessary technologies of the product." In turn, proportionality would mean that "compensation under FRAND must reflect the patent owner's proportion of all essential patents."

18 While as seen in the preceding note Nokia, Ericsson and Motorola wanted to keep to the minimum the level of royalties that SEP holders could charge to license their patents, in recent years these companies been some of the most aggressive enforcers of the standard-essential patents.

19 Charles Arthur, "Apple, Samsung, Google and the Smartphone Patent Wars - Everything you Need to Know", *The Guardian,* 22 October 2012, available at http://www.guardian.co.uk/technology/2012/oct/22/smartphone-patent-wars-explained

20 Antitrust: Commission opens proceedings against Samsung, IP/12/89, 31 January 2012, available at http://europa.eu/rapid/press-release_IP-12-89_en.htm ; Antitrust: Commission opens proceedings against Motorola, IP/12/345, 3 April 2012, available at http://europa.eu/rapid/press-release_IP-12-345_en.htm

II. **<u>Review of the Commission's efforts to address the competition law concerns raised by SEPs</u>**

This section reviews the earliest cases handled by the Commission (A), the standardization section of the Commission guidelines on horizontal cooperation agreements (B), the Google / MMI merger decision (C), and the more recent investigations against Samsung and Google/Motorola (D).

A. <u>The earliest cases: *Rambus* and *Qualcomm*</u>

The first two major Commission investigations into the licensing conduct of SEP holders concerned the American technology companies Rambus and Qualcomm.

In *Rambus*, the Commission sent Rambus a statement of objections, which alleged that Rambus had infringed Article 102 TFEU by abusing a dominant position in the market for Dynamic Random Access Memory (DRMA). In particular, the Commission considered that Rambus had engaged in a "patent ambush" by intentionally concealing during the formation of the standard that it had patents and patent applications which were relevant to technology used in the JEDEC standard, and subsequently claiming royalties for those patents.[21] Because "monopolization" (the acquisition of market power through anti-competitive means) is not an offense in EU competition law,[22] unlike in U.S. antitrust law, the violation of Article 102 identified by the Commission did not relate to the fact that Rambus had illegally acquired market power by concealing that it had patents reading on the JEDEC standard, but rather, that it had subsequently claimed unreasonable royalties for its patents. Because of the "monopolization gap" in EU competition law,[23] the Commission thus turned the alleged patent ambush case into a claim that Rambus had charged excessive royalties for its patents, a form of abuse that is contrary to Article 102. Eventually, in

21 See "Commission confirms sending a Statement of Objections to Rambus", MEMO/07/330, 23 August 2007, available at http://europa.eu/rapid/press-release_MEMO-07-330_en.htm

22 The plain language of Article 82 EC makes it clear that it only prohibits *abuses of* a dominant position. See Damien Geradin & Einer Elhauge, ANTITRUST LAW & ECONOMICS (2007), at 482. Thus, Article 82 EC does not sanction conduct aimed at acquiring market power and leading to the creation of a dominant position, even if such conduct is successful.

23 See, for instance, Lars-Hendrik Roeller, *Exploitative Abuses* in Claus-Dieter Ehlermann and Mel Marquis (eds.), *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC*, 2008 ("Article [102] only applies to firms that are already dominant. In other words, anticompetitive conduct that leads to a dominant position cannot be caught in Europe under Article [102] as an exclusionary abuse. This is an enforcement "gap", since it is precisely the way in which dominance is acquired that matters in terms of economic effects. I would suggest that antitrust enforcement against exploitative abuses can be used to close this important gap. That is, exploitative abuse cases should be based on acquiring a dominant position through anticompetitive exclusionary conduct.").

December 2009, the Commission adopted a so-called "Article 9" settlement Decision whereby it rendered legally binding the commitments offered by Rambus, that in particular capped the licensing fees that Rambus could charge for certain patents essential to JEDEC's standard for DRMAs' chips.[24] Because the case ended up with a settlement, the Commission was unable to develop a set of principles on the compatibility of certain licensing practices with EU competition law.

The *Qualcomm* case was also about excessive royalties, although the context was quite different. In that case, six firms active in the mobile phone equipment sector (Broadcom, NEC, Nokia, Panasonic, and Texas Instruments) filed complaints with the European Commission in the latter part of 2005, alleging that Qualcomm's licensing terms and conditions for its patents essential to the WCDMA standard did not comply with Qualcomm's own FRAND commitment and, therefore, breached EU competition rules.[25] These allegations were quite dubious, considering that the royalty rates and other licensing terms contained in Qualcomm's licenses had been negotiated at arm's length with these large and sophisticated corporations. The difficulty for the Commission was that, while Qualcomm's royalties were alleged to be high, it was not by any means easy to demonstrate that they were "exploitative" within the meaning of Article 102(a) TFEU. After a long and thorough investigation, the Commission eventually decided to close its formal proceedings against Qualcomm.[26] This was another frustrating outcome for the Commission since, unlike in the *Rambus* case, no commitments were extracted from Qualcomm. The Commission had invested significant enforcement resources on meritless complaints.[27]

The *Qualcomm* case illustrates the difficulty the Commission has in determining whether the royalty rates sought by SEP holders are "fair and reasonable" or "excessive" under the standard set by the European Court of Justice in *United Brands*.[28] As indicated above, there is no "magic formula" that would allow a competition authority or a court to determine what "fair and reasonable" royalties are since this determination is context-

24 See "Commission accepts commitments from Rambus lowering memory chip royalty rates", IP/09/1897, 9 December 2009, available at http://europa.eu/rapid/press-release_IP-09-1897_en.htm?locale=en

25 Antitrust: Commission initiates formal proceedings against Qualcomm, MEMO/07/389, 1 October 2007, available at http://europa.eu/rapid/press-release_MEMO-07-389_en.htm

26 "Commission closes formal proceedings against Qualcomm", MEMO/09/516, 24 November 2009, available at http://europa.eu/rapid/press-release_MEMO-09-516_en.htm

27 The author of this paper was part of the team that defended Qualcomm in the Commission's investigation.

28 Case 27/76, United Brands v. Commission, [1978] E.C.R. 207.

specific. Moreover, while determining whether the fairness and reasonability of the price of a physical product is excessive is already difficult, that task is even more complex with respect to non-physical constructs, such as intellectual property rights. Although a number of benchmarks were proposed to determine whether Qualcomm's royalties were "fair and reasonable", these benchmarks suffered from major weaknesses, either because they were theoretically unsound or because they would raise complex implementation issues.[29] The Commission thus rightly dismissed the complaints (or in fact asked the complainants to withdraw their complaints, which leads to the same result). The Commission would have made a mistake in turning itself into a rate-setting authority as it does not have the technical expertise to assume that role. Moreover, this would have encouraged the unhappy licensees to file large number of complaints to the Commission.

Despite two major investigations, by 2009, the Commission had thus not been able to adopt a precedent that would have set principles as to the compatibility of certain licensing conduct related to SEPs with EU competition law.[30] The issues (real or alleged) had, of course, not disappeared (quite the contrary given the patent war in the smartphone industry), hence the Commission needed to find another opportunity to provide guidance on the licensing of SEPs.

B. The Commission guidelines on horizontal cooperation agreements

It is against this background that the chapter of the horizontal cooperation agreements, "Guidelines dealing with standardization agreements", must be seen.[31] Although this chapter, which was considerably revised and extended compared to the earlier guidelines,

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29 On the other hand, Qualcomm proved that the licensing terms from agreements entered into before the WCDMA standard was adopted were generally comparable to the licensing terms from agreements after the standard was adopted. As the ex post terms were comparable to the ex ante ones, either Qualcomm did not obtain market power from its patents inclusion in the standard, or it did not exploit that market power.

30 It should be noted that the Commission also investigated the licensing conduct of IP COM following a complaint by Nokia. IPCom had acquired the mobile telephony patent portfolio developed by Robert Bosch GmbH (Bosch) between the mid-1980s and 2000, which included patents essential to the GSM and UMTS standards. As an ETSI member, Bosch took part in the GSM and UMTS (WCDMA) standard setting processes. Bosch had declared that it held essential patents in the relevant standards and committed to ETSI "to grant irrevocable licenses on fair, reasonable and non-discriminatory terms and conditions" for such patents. However, IPCom had subsequently reneged on the FRAND commitment made by Bosch. Eventually, under the pressure of the European Commission, IPCOM eventually declared that it would comply with this FRAND commitment. See Antitrust: Commission welcomes IPCom's public FRAND declaration, 12 December 2009; MEMO/09/549, available at http://europa.eu/rapid/press-release_MEMO-09-549_en.htm?locale=en

31 Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ C 11 of 14 January 2011.

deals with horizontal cooperation agreements falling under Article 101(1),[32] its content seeks to address some of the issues that could not be resolved in the *Rambus* and *Qualcomm* Article 102 cases, particularly as they relate to standards involving intellectual property rights.

The Guidelines observe that intellectual property laws and competition laws share the same objectives of promoting innovation and enhancing consumer welfare,[33] which is generally true. However, they express concern that a participant holding SEPs could, in the context of standard-setting, also acquire control over the use of a standard. This could allow companies to behave in anti-competitive ways, by "holding-up" implementers after adoption of the standard "either by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard."[34]

For those standardization agreements which risk creating market power, the Guidelines adopt a "safe harbour" approach, by setting the conditions under which such agreements would normally fall outside the scope of Article 101(1):

> "Where participation in standard-setting is **unrestricted** and the procedure for adopting the standard in question is **transparent**, standardisation agreements which contain **no obligation to comply** with the standard and provide **access to the standard on fair, reasonable and non-discriminatory terms** will normally not restrict competition within the meaning of Article 101(1)."[35]

Unrestricted participation and transparency **--** The Guidelines indicate that when (i) participation in standard-setting is unrestricted (all competitors in the market or markets affected by the standard can participate in the process leading to the selection of the standard) and (ii) the procedure for adopting the standard in question is transparent (stakeholders can inform themselves of upcoming, on-going and finalized standardization

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32 Because standardization agreements result from the collaboration between competitors and they can restrict competition (by eliminating some technological options), they can fall within the scope of Article 101(1) TFEU, which prohibits anticompetitive agreements.

33 Id. at § 269.

34 Id.

35 Id. at § 280. The Guidelines specify that the failure to fulfil any or all of the conditions set out for a standardization agreement to benefit from the safe harbour does not lead to any presumption of a restriction of competition within Article 101(1). This case, however, requires a self-assessment to establish whether the agreement falls under Article 101(1) and, if so, if the conditions of Article 101(3) are fulfilled. Id. at § 273.

work in good time at each stage of the development of the standard), standardization agreements which contain no obligation to comply with the standard and provide access to the standard on fair, reasonable and non-discriminatory terms will normally not restrict competition within the meaning of Article 101(1).[36]

Good faith disclosure **--** The IPR policy of the SSOs under the auspices of which the standard would be adopted would also need to require "good faith" disclosure by participants of the patents that they believe are essential for the implementation of the standard under development.[37] The Guidelines do not require participants to carry out a burdensome search of their portfolio, but merely require that the disclosure obligation be based on "reasonable endeavours" to identify IPR reading on the potential standard. This disclosure requirement does not apply to royalty-free standards.

FRAND commitment **--** As noted above, the IPR policies that are traditionally adopted by SSOs typically require that participants wishing to have their patent-protected technologies included in the standard provide an irrevocable commitment in writing to offer to license their essential patents to all third parties on fair, reasonable and non-discriminatory terms. This commitment, which is of a contractual nature,[38] should be given prior to the adoption of the standard, and shall bind undertakings to which essential patents might later be transferred.[39] In order to avoid compulsory licensing, the IPR policy should allow patent holders to exclude specified technology at an early stage in the development of the standard from the standard-setting process and thereby from the commitment to offer to license.[40]

According to the Guidelines, "FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that

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36 Id.

37 Id. at § 286.

38 Roger Brooks and Damien Geradin, "Taking contracts Seriously: The Meaning of the Voluntary Commitment to Licence Essential Patents on "Fair and Reasonable" Terms, in S. Anderman & A. Ezrachi, *Intellectual Property and Competition Law: New Frontiers*, Oxford University Press 2011. See also Joseph Miller, "Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm",(2007) 40 *Indiana* Law Review 351 ('The RAND promise, embedded in SSO bylaws to which participants agree, is primarily a matter of contract law.'); Mark Lemley, "Intellectual Property Rights and Standard-Setting Organizations" (2002) 90 *California Law Review* 1889, 1909 ("SSO IP rules have legal significance only to the extent they are enforceable. Because the IP policies are at base agreements by members of the SSO to abide by certain rules regarding IP ownership, their enforceability is initially a question of contract law.").

39 See the Guidelines, supra note 31, at § 285.

40 Id.

standard on fair, reasonable and non-discriminatory terms and conditions."[41] This is a particularly careful formulation as many observers claimed that the role of the FRAND commitment was to prevent "hold up" by imposing a constraint on the ability of SEP holders to monetize their patents.[42] Others wanted to read into the FRAND commitment that by making such a commitment, the SEP holders would waive to seek its ability to seek injunctive relief in patent infringement. As will be seen below, this issue has become particularly topical in more recent investigations.[43]

As we have seen, one of the most complex issues with respect to FRAND requirements is the assessment of whether the licensing terms offered by an essential patent holder to a standard implementer is indeed "fair and reasonable". Pursuant to the Guidelines, such an assessment "should be based on whether the fees bear a reasonable relationship to the economic value of the IPR", in other words, whether it meets the *United Brands* test.[44] The Guidelines recognize that different methods can be used to make this assessment, including: (i) a comparison of 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*);[45] (ii) an independent expert assessment of the objective centrality and essentiality to the standard at issue of the relevant IPR portfolio;[46] and, when appropriate, (iii) a reference to *ex ante* disclosures of licensing terms in the context of a specific standard-setting process.[47] The last two methods also assume that the comparison can be made in a consistent and reliable manner. These methods were, however, not meant to be exhaustive

41 Id. at § 287.

42 See Chappatte, supra note 13.

43 See Joseph Farrell et al., 'Standard Setting, Patents, and Hold-Up', (2007) 74 *Antitrust Law Journal* 603, 638 ("[A] patent holder that has made a commitment to license on a FRAND basis should not be able to get (or threaten) an injunction against use of the technology to comply with the standard."); Maurits Dolmans, "Standards for Standards", (2002) 26 *Fordham Int'l L J* 163 ("[o]wners of essential IPR for *de facto* or *de jure* standards (and especially those who have committed to FRAND licensing in order to obtain an exemption under Article 81(3) EC) should limit themselves to suits for damages and refrain from requesting injunctive relief against implementers."); Joseph Miller, "Standard Setting, Patents, and Access Lock-in: RAND Licensing and the Theory of the Firm", (2007) 40 *Indiana Law Review* 351; Philippe Chappatte, supra note 13, at 329.

44 Id. at § 289.

45 Idem.

46 Id. at § 290.

47 Idem.

as other mechanisms can also be used to determine whether licensing terms are fair and reasonable.[48]

In sum, frustrated by its inability to use the *Rambus* and *Qualcomm* cases to lay out principles regarding the compatibility of certain SEP licensing practices with EU competition law, the Commission took the opportunity offered by the review of the horizontal cooperation agreements guidelines to set some such principles. While the initial draft of the standardization section guidelines was heavily criticized by some, the version finally adopted by the Commission represents a fairly good balance between the interests of licensors and licensees. Due to the nature of the document and the need to compromise between different interest groups, it however provided limited guidance on how the compatibility of certain licensing conducts by SEP holders.

C. The Google / MMI merger decision

In addition to the above-mentioned guidelines, the Commission also used the decision which cleared the merger between Google and Motorola Mobility Inc. (MMI) to further express its views on FRAND and, in particular, the use of injunctions by SEP holders having made FRAND commitments in the context of patent litigation.[49] The issue was of particular relevance to this merger, since it was widely understood that Google's main objective in acquiring Motorola Mobility was to gain access to its very significant trove of SEPs. [50] Google argued at the time that it needed to acquire these patents for defensive purposes, i.e. in order to protect its Android mobile operating system from the attacks of

48 For instance, other methods might be borrowed from patent law principles for determining a "reasonable royalty" for the purpose of awarding damages. For instance, American courts today give great weight to 15 factors that were employed to determine a reasonable royalty in the seminal *Georgia-Pacific* case. Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Inc., 446 F.2d 295 (2nd Cir. 1971).

49 Case No COMP/M.6381 - GOOGLE/ MOTOROLA MOBILITY, Commission decision of 13/02/2012.

50 Patent acquisition deals have become increasingly frequent in the IT industry. See, e.g., Shira Ovide and Geoffrey A. Fowler, "Facebook Buys AOL Patents From Microsoft for $550 Million", *The Wall Street Journal*, 23 April, 2012, http://online.wsj.com/article/SB10001424052702303592404577361923087607762.html; Robin Wauters, "US Department of Justice approves Nortel patents purchase by Microsoft, Apple-led 'Rockstar Consortium'", March 12, 2012, http://thenextweb.com/us/2012/03/12/breaking-us-department-of-justice-approves-nortel-patents-purchase-by-rockstar-consortium/; Quentin Hardy, "Google Buys Motorola For Patent Parts", *Forbes*, 15 August 2011, www.forbes.com/sites/quentinhardy/2011/08/15/google-buys-motorola-for-patent-parts/ Kelly Clay, Microsoft Buys 800 Patents For $1.1 Billion From AOL - But What's Next For AOL?, Forbes, 9 April 2012, www.forbes.com/sites/kellyclay/2012/04/09/microsoft-buys-800-patents-for-1-1-billion-from-aol-but-whats-next-for-aol/

competitors.[51] Some of these competitors were not convinced by this rationale and claimed that there was a risk that Google would use these newly acquired patents for anti-competitive purposes. Hence, it is not surprising that the Commission decision contains a number of important statements.

In particular, the Commission observes that while "FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees",[52] they "cannot be considered as a guarantee that a SEP holder will not abuse its market power."[53] In other words, "[a]lthough a FRAND commitment may influence a company's incentives to significantly impede effective competition, it remains true that the company would still have some ability to do so."[54] This suggests that the Commission believes that there are situations where it should intervene to prevent the abuse of SEPs, especially as some companies may be tempted to breach their FRAND commitment.

As to the risks created by the use of injunctions in the context of SEP-related patent litigation, the decision observes that:

> "Depending on the circumstances, it may be that the threat of injunction, the seeking of an injunction or indeed the actual enforcement of an injunction granted against a good faith potential licensee, may significantly impede effective competition by, for example, forcing the potential licensee into agreeing to potentially onerous licensing terms which it would otherwise not have agreed to. These onerous terms may include, for example, a higher royalty than would otherwise have been agreed. Another concern would be that the SEP holder may force a holder of non-SEPs to cross-license those non-SEPs to it in return for a license of the SEPs. To the extent that injunctions are actually enforced, this furthermore may have a direct negative effect on consumers if products are excluded from the market."[55]

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51 Shira Ovide, "Google-Motorola: It's All About the Patents", *WSJ Blog*, 15 April 2011, available at http://blogs.wsj.com/deals/2011/08/15/google-motorola-its-all-about-the-patents/ ("The word 'patent was mentioned 24 times on Google's conference call this morning to discuss the Motorola Mobility deal. Over and over, Google newbie CEO Larry Page and other executives talked about how Motorola Mobility's portfolio of thousands of patents will help protect Google and its Android phone software from "anti-competitive threats" from Microsoft, Apple and other companies.")

52 Id at § 105.

53 Id. at § 113.

54 Id.

55 Id. at § 107.

In other words, the Commission takes a prudent position. While it does not suggest that patent holders who have made a FRAND commitment should *always* be prohibited from seeking injunctions (which would be an excessive position), it recognizes that *there may be circumstances* where the seeking of an injunction may be abusive, especially when such injunctions are used to coerce "good faith" licensees to accept licensing terms that it would not accept but for the injunction.

The Commission decision, however, leaves entirely open the question of what a "good faith" licensee is. Some consider that a good faith potential licensee is a standard implementer that is "willing" to take a license, although it may consider that the terms of proposed by the SEP holder are not FRAND. But this does not help as it still requires defining the circumstances in which a potential licensee is really "willing" to take a license. For instance, when a potential licensee clearly indicates that it will never accept to pay any form of consideration for obtaining a license, it is quite clear that this potential licensee is "unwilling". Few potential licensees will, however, take such a blunt approach. Instead, they will offer royalties that are so low that they are clearly unacceptable to a reasonable licensor. The difference between royalties that are unreasonably low and royalties that are just low are, however, in the eyes of the beholder. Considering this difficulty, a better approach to distinguish between willing and unwilling potential licensees is to look at the negotiation industry between the SEP holder and the potential licensee. It seems indeed clear that a potential licensee that has rejected all attempts to by the SEP holder to negotiate or that has refused that, in case of disagreement, the licensing terms be determined by an independent third party, such as a court or an arbitration tribunal, should be considered as being "unwilling", and the SEP holder should be allowed to seek an injunction in court as a last resort.

D. The *Samsung* and *Google/Motorola* investigations

While the Commission used the guidelines on horizontal cooperation agreements and the *Google/MMI* merger decision to convey its views on the compatibility of some licensing/litigation strategies used by SEP holders with EU competition law, it still needed an antitrust precedent to develop more specific guidance. Such an opportunity arose in the context of the "patent war" pitting several major technology companies against each other.[56]

[56] This section focuses on the two investigations that have been initiated by the Commission (against Samsung and Google Motorola). Complaints have, however, been filed by other companies. For instance, Huawei filed a complaint to the Commission against InterDigital for anticompetitive licensing behaviour in May 2012. See Daniel Cooper, "Huawei files EU antitrust complaint against InterDigital", 28 May 2012, available at http://www.engadget.com/2012/05/28/huawei-eu-antitrust-interdigital/

In the first half of 2012, the Commission initiated proceedings against two SEP holders active in the mobile device industry. First, in February 2012, the Commission opened a formal investigation to assess whether Samsung Electronics (hereafter, "Samsung") abusively used certain of its SEPs to distort competition in European mobile device markets in breach of EU competition rules.[57] The Commission indicated at the time that it would investigate whether, in seeking injunctive relief in various Member States' courts against competing mobile device manufacturers based on alleged infringements of certain of its SEPs, Samsung "ha[d] failed to honour its irrevocable commitment given in 1998 to the European Telecommunications Standards Institute (ETSI) to license any standard essential patents relating to European mobile telephony standards on fair, reasonable and non-discriminatory (FRAND) terms", as well as whether such behaviour amounted to an abuse of a dominant position prohibited by Article 102 TFEU.

The circumstances of this case are unusual. First, Samsung is one of Apple's main component suppliers.[58] The two companies are thus key commercial partners, which probably (still) need each other. Second, Apple initiated the patent battle between the two companies by filing a complaint in the United States District Court for the Northern District of California in April 2011 alleging that several of Samsung's Android phones and tablets infringed on Apple's intellectual property: its patents, trademarks, user interface and style.[59] Samsung immediately retaliated by suing Apple for breach of its SEPs in a number of jurisdictions, including some Member State patent courts.[60] This patent dispute is thus part of a broader commercial war between the world's most successful smartphone and tablet manufacturers; hence, it is questionable whether the Commission is well advised to intervene in this war.

A few weeks later, in April 2012, the Commission opened two formal investigations against Google's MMI to determine whether MMI has abusively used certain of its SEPs to distort competition.[61] Following complaints by Apple and Microsoft, the Commission indicated that it would investigate whether, by seeking and enforcing injunctions against

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57 Antitrust: Commission opens proceedings against Samsung, IP/12/89, 31 January 2012, available at http://europa.eu/rapid/press-release_IP-12-89_en.htm

58 Apple and Samsung's symbiotic relationship Slicing an Apple, *The Economist*, August 10, 2011, http://www.economist.com/blogs/dailychart/2011/08/apple-and-samsungs-symbiotic-relationship

59 *Apple, Inc. v. Samsung Elecs. Co., Ltd.*, N. D. Cal., 5:11-cv-01846

60 See List of 50+ Apple-Samsung lawsuits in 10 countries, FOSS Patents, 28 April 2012, available at http://www.fosspatents.com/2012/04/list-of-50-apple-samsung-lawsuits-in-10.html

61 Antitrust: Commission opens proceedings against Motorola, IP/12/345, 3 April 2012, available at http://europa.eu/rapid/press-release_IP-12-345_en.htm

Apple's and Microsoft's flagship products (such as iPhone, iPad, Windows and Xbox on the basis of its SEPs), Google's MMI failed to honour its FRAND commitments and breached Article 102 TFEU. In addition, the Commission indicated that it would also assess the allegation by both Apple and Microsoft that Motorola offered unfair licensing conditions for its standard-essential patents in breach of Article 102 TFEU.

In the context of the Samsung investigation, two important developments occurred in December 2012. First, on 18 December 2012, Samsung announced its decision to withdraw all of its requests for sales ban against Apple products on the basis of alleged violations of standard-essential patents (SEPs) on a Europe-wide basis.[62] Although Samsung did not explain the rationale behind its decision, it must have been part of a last minute effort to convince the Commission not to proceed to the next stage of its investigation by sending it an SO. In any event, as the world' largest manufacturer of electronic products it is probably in Samsung's best long term interest to join the "no injunction in SEP-related cases" camp. Indeed, while the circumstances where Samsung may sue other manufacturers for infringement of its SEPs, it is likely to be a prime target for non-practicing entities of all sorts given its very deep pocket.

This strategy did not bear fruition, as a few days later on 21 December 2012, the Commission sent a Statement of Objections to Samsung in which it indicated its preliminary view that "under the specific circumstances of this case, where a commitment to license SEPs on FRAND terms has been given by Samsung, and where a potential licensee, in this case Apple, has shown itself to be willing to negotiate a FRAND licence for the SEPs, then recourse to injunctions harms competition."[63] The Commission, however, indicated that its Statement of Objections "does not question the availability of injunctive relief for SEP holders outside the specific circumstances present in this case, for example in the case of unwilling licensees."[64] Hence, the Commission seems to maintain its reasonable position that injunctions should remain available when the SEP holder is faced with a potential licensee that is unwilling to take a license at FRAND terms.

While the sending of this SO may appear surprising as it came a few days after Samsung decided to withdraw the injunctions that were the source of the Commission investigation, the most likely explanation for this SO is that, as noted above, the Commission wants to

62 Jessica E. Lessin, "Samsung Drops Attempts to Block Apple in EU", *Wall Street Journal*, 18 December 2012, available at http://online.wsj.com/article/SB10001424127887324407504578186344181725204.html

63 Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents, Commission Press Release, 21 December 2012.

64 Id.

establish a precedent allowing it to define the circumstances in which the injunctions in SEP-related patent litigation are acceptable from a competition law standpoint.[65] As noted above, the statements made by the Commission in its *Google / MMI* merger decision left many questions open.

This is exactly what the FTC did in its January 2013 settlement with Google and its subsidiary MMI.[66] The Proposed Consent Order is, according to the FTC, "tailored to prevent Google – through its wholly owned subsidiary, Motorola – from using injunctions or threats of injunctions against current or future potential licensees who are willing to accept a license on FRAND terms."[67] This Order prohibits Google and MMI from continuing or enforcing existing claims for injunctive relief based on FRAND-encumbered SEPs. Google and MMI are also prohibited from bringing future claims for injunctive relief based on FRAND-encumbered SEPs. For both current and future claims for injunctive relief, Google and MMI must follow specific negotiation procedures, described at great length in the Order, which are intended to protect the interests of potential willing licensees while allowing Google and MMI to seek injunctions only if the licensee refuses to engage in the negotiation process. The definition of such a process is probably the main contribution of the Consent Decree.

However, the Order accepts that if a potential licensee indisputably demonstrates that it is not willing to pay Google a reasonable fee for use of Google's FRAND-encumbered SEPs, Google is permitted by this Order to seek injunctive relief.[68] In practice, Google is permitted to seek injunctive relief only in the following four narrowly-defined circumstances: "(1) the potential licensee is not subject to United States jurisdiction; (2) the potential licensee has stated in writing or in sworn testimony that it will not accept a license for Google's FRAND-encumbered SEPs on any terms; (3) the potential licensee refuses to enter a license agreement for Google's FRAND-encumbered SEPs on terms set for the parties by a court or through binding arbitration; or (4) the potential licensee fails to assure Google that it is willing to accept a license on FRAND terms."[69]

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[65] This will by no means however be an easy case for the Commission since the right to seek injunctions is a well-recognized remedy in the Member States patent law.

[66] Analysis of Proposed Consent Order to Aid Public Comment, In the Matter of Motorola Mobility LLC and Google Inc., File No. 121-0120, p 6

[67] Id. at 7.

[68] Id.

[69] Id.

Rather than merely saying that Google will be allowed to use injunctions against "unwilling licensees", the Order defines the circumstances in which injunctions will remain available to Google. These circumstances appear to be so limited that in practice, it will be hard for Google to resort to injunctions to enforce its SEPs in the future. Note that some of Google's direct competitors, including Apple and Microsoft, but also other companies, such as Cisco,[70] voluntarily declared that they would not seek injunctions when enforcing their SEPs.[71] This initiative was meant to encourage other companies to make similar declarations, hence creating an injunction-free environment for the licensing of SEPs. The majority of large technology companies have, however, refrained to "disarm" in a similar fashion, although the Google Consent Decree may give them an incentive to do so.

While the above Consent Order is obviously Google-specific, it will certainly have a significant influence on the licensing/litigation strategies of other SEP holders. It would be surprising if the European Commission decided to take a different approach in its investigation of Google's licensing practice and enforcement conduct. Although the future is always difficult to predict, it seems quite likely that the use of injunctions will be strictly circumstances to narrowly defined circumstances. This will certainly affect the dynamics of licensing negotiations.

III. Conclusions

In its settlement with Google/MMI, the FTC has very clearly laid out the limited circumstances in which these companies will be allowed to seek injunction to enforce its SEPs and has described the process that it will have to follow in its licensing negotiations with standard implementers, but no such guidance currently exists under EU competition law. While it would be surprising if the Commission decided to take a (radically) different approach in its own investigation against Google/MMI, it will have to set its own principles and guidance in its investigation of Samsung's licensing behaviour. Whether this will be done through a settlement or an infringement is hard to predict as it depends in great part on the strength of the Statement of Objections it sent to Samsung, which is not public.

70 Cisco letter to ETSI, 31 January 2012, available at http://www.scribd.com/doc/80985517/12-01-31-Cisco-Letter-to-ETSI-Endorsing-Apple-Position

71 See Apple's letter to ETSI, 11 November 2011, available at http://www.scribd.com/doc/80899178/11-11-11-Apple-Letter-to-ETSI-on-FRAND; Microsoft's Support for Industry Standards, 8 February 2012, available at http://www.microsoft.com/about/legal/en/us/IntellectualProperty/iplicensing/ip2.aspx

While it is impossible to prejudge how the Samsung investigation will evolve, it is likely that the objective of the Commission will be to lay out in greater detail the circumstances in which SEP holders are allowed to seek injunctions against standard implementers. So far, the Commission has indicated that injunctions may be problematic when they are sought against good faith standard implementers that are willing to take a license (i.e., "willing licensee"). The question is, of course, to determine what a "willing licensee" is. The FTC addressed this problem by strictly defining the circumstances in which standard implementers should be considered as "unwilling" to take a FRAND license. Like the FTC, the Commission may also decide to develop a process describing the various steps that SEP holders would have to follow when negotiating a license. While such an approach may be helpful, it is important that it does not excessively rigidifies the licensing process, as one size is unlikely to fit all.

In any event, whatever the Commission decides to do, it needs to take an approach that will balance the interests of both SEP holders and standard implementers. While "over-compensation" may be an issue, "under-compensation" is not desirable either, as it would reduce companies' incentives to invest.

As to the issue of what a "fair and reasonable" (the "FR" of FRAND) is, it is not clear that the Commission will want to give more guidance than what has been expressed in the standardization chapter of its guidelines on horizontal cooperation agreements. First, it is quite clear that the Commission is not a rate-setting agency and has little appetite to become one. Second, courts and arbitration tribunals are the right institutions to handle issues such as whether a given royalty rate or other licensing terms are fair and reasonable, and they can do so based on a variety of benchmarks. In the wake of the Google Consent Decree, it is likely that a growing number of licensing disputes will be dealt by courts or arbitration tribunals. One issue on which the Commission may be better able to intervene is whether licensing terms are "discriminatory" (the "ND" of FRAND). Although the Commission would be misguided to take an approach whereby all licenses granted by an SEP holder should look the same (each licensor / licensee relationship is indeed specific), some blatant cases of discrimination may deserve to be investigated.