

Antitrust Issues of SEP Licensing

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The EU Approach to SEPs – Huawei, its aftermath and
potential developments

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Overview

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I. The enforcement of SEPs at the intersection of antitrust and IP law: navigating between patent hold-up and patent hold-out (1)

1. The need for a balanced approach

- “urgent need to set out key principles that foster a balanced, smooth and predictable framework for SEPs”
- two main objectives: “incentivising the development and inclusion of top technologies in standards, by preserving adequate return ...” and “smooth and wide dissemination of standardised technologies based on fair access conditions”.

Communication from the Commission of 29 November 2017

“Setting out the EU approach to Standard Essential Patents”

COM(2017)712 final

I. The enforcement of SEPs at the intersection of antitrust and IP law: navigating between patent hold-up and patent hold-out (2)

- Commission identifies mainly three obstacles to an adequate SEP licensing environment:
 - Lack of reliable and transparent information on SEP exposure
 - Uncertainties with regard to the valuation of patented technologies and the meaning of FRAND
 - Lack of a predictable enforcement environment for SEPs
- The judgment of the CJEU in Huawei v. ZTE (July 16, 2015) limited the availability of injunctive relief for SEP holders against the background of Art. 102 TFEU and created a negotiation framework with mutual obligations for the SEP holder and potential licensees in order to establish a balanced approach.
- Many open questions, room for interpretation, partly inconsistent case law in the member states.

II. The enforcement of SEPs at the intersection of antitrust and IP law: navigating between patent hold-up and patent hold-out (3)

- Approach of the Court of Justice to limit the use of injunctive relief is convincing since the threat to force a competitor out of the market of the standardised products gives the SEP owner maximum bargaining power and raises the danger of a patent hold-up.
- At the same time the Court considers the risk of a patent hold-out by unwilling licensees and also imposes on (potential) implementers of proprietary standards a duty to negotiate in good faith.
- The legal basis for the Court's approach is Art.102 TFEU.

2. Possible (alternative) approaches to avoid an undue enforcement of SEPs

Possible ways to prevent undue SEP enforcement

	Procedural solution	Substantive law
Patent law	Limit injunctive relief (e.g., “eBay-rule” of the U.S. Supreme Court)	Mandatory license in the public interest (sec. 24 German Patent Act) General license declaration vis-à-vis the nat’l Patent Office (sec. 23 GPA)
Private law (law of obligations /contract law)	FRAND Declaration as pactum de non petendo, or as duty to negotiate in good faith	FRAND Declaration as binding contract with the SSO and license seekers as third party beneficiaries
Competition law	Mutual obligations to negotiate in good faith (seeking injunctive relief as abuse of dominance)	Compulsory license under Art. 102 TFEU (refusal to license as abuse of dominance)

II. The judgment of the CJEU in Huawei v ZTE (1)

1. Core principles

- Case submitted to the Court as a preliminary reference under Art. 267 TFEU by the District Court of Düsseldorf
 - In view of the different approaches taken by the BGH in Orange Book and the EU Commission in Motorola and Samsung the Court was asked to clarify the conditions under which a SEP holder who has made a FRAND commitment may seek an injunction prohibiting the use of its patent without violating Art. 102 TFEU.
- The ECJ emphasized that the SEP holders exclusive right does not prevent him from seeking injunctive relief in general; only under “exceptional circumstances” the enforcement of the IPR could in itself constitute an abuse of a dominant position.
- As “exceptional circumstances” the Court acknowledged
 - the SEP status with regard to a technical standard set up by a SSO,
 - achieved in return for a FRAND commitment.

II. The judgment of the CJEU in Huawei v ZTE (2)

- In order to ensure a fair balance between the interests of the SEP holder and potential licensees, the Court established a framework of mutual duties of both parties designed to promote the conclusion of FRAND license agreements following negotiations in good faith.
- The SEP holder
 - (1) must inform the alleged infringer and specify the way in which the SEP had been infringed.
 - (2) If the infringer indicates its general willingness to conclude a licensing agreement, the SEP holder must present a detailed written offer for a license on FRAND terms, specifying in particular the amount of the royalty and the way in which it is to be calculated.

II. The judgment of the CJEU in Huawei v ZTE (3)

- The (potential) infringer should then respond to the offer
 - diligently, in good faith, and in accordance with recognized commercial practice in the field without engaging in delaying tactics, and
 - in case it does not accept the SEP holder`s offer, submit promptly and in writing a specific counter-offer that corresponds to FRAND terms.
 - If the alleged infringer already makes use of the SEP before a licensing agreement is concluded, it should provide appropriate security in accordance with recognized commercial practice in the field (e.g. by bank guarantee or deposit).
- If no agreement can be reached on the FRAND terms for a license, the parties can request that the royalty be determined by an independent third party.

II. The judgment of the CJEU in Huawei v ZTE (4)

2. Assessment of the underlying concept

a) Competition law approach

- A shift from a “compulsory license defense” to a less demanding “good faith negotiation defense”?
- Existence of a dominant position (not addressed by the Court in its decision because it was not at dispute) still a necessary precondition for a duty to deal; the mere violation of a FRAND commitment would not suffice to make the behavior an abuse of dominance under Art. 102 TFEU.
- Despite the Court’s emphasis on the FRAND declaration (which created legitimate expectations of third parties that the power to exclude competitors would not be abused), the approach does not rest on a contractual obligation of the SEP holder but on a clear and convincing competition law basis: FRAND commitment designed to ensure open access to the standard which in turn is required to ensure that the cooperative standard setting does not violate Art. 101 TFEU. Non-compliance with FRAND commitment may trigger application of Art.102 TFEU and will ensure that the SSO may still be regarded as complying with Art.101.

II. The judgment of the CJEU in Huawei v ZTE (5)

b) Procedural framework

- No attempt of the CJEU to specify the content of FRAND but design of a procedural framework or bargaining regime that promotes private agreement by imposing a mutual duty to negotiate in good faith on both parties
- Legal character:
 - Mere safe harbour in case of compliance? (Unwired Planet v. Huawei)
 - Infringement of Art. 102 TFEU in case of non-compliance?

II. The judgment of the CJEU in Huawei v ZTE (6)

c) Scope of application

Narrow by its wording:

- SEP holder must have made a FRAND commitment to a SSO.
- Covers only injunctive relief, claims for recall and demolition of illegal products, but does not relate to other actions by SEP holders such as claims for rendering of accounts in relation to past acts of use or for an award of damages.
- Restricted to injunctions against “competitors” of the SEP holder?
Probably not: non-practicing entities and any assignee of the patent holder should be bound in the same way even if the FRAND declaration of the original SEP holder has not explicitly been assigned to it.
- Application to SEP holders with regard to de facto standards where no FRAND declaration exists?
Pros and Cons

II. The judgment of the CJEU in Huawei v ZTE (7)

3. Preliminary result

- Balanced procedural framework for SEP licensing negotiations in good faith
- Restrains the use of injunctive relief by the SEP owner based on competition law (Art. 102 TFEU), but also addresses the risk of patent hold-out by unwilling licensees
- The concept should (with minor modifications) be extended to cases involving SEPs covering de facto standards.
- The different approach of the German courts in the aftermath of the “Orange Book Standard” case should be abandoned.
- Still many open questions with regard to details of the steps in the negotiation process.

III. Some antitrust law guard rails and their specification under national case law (1)

1. The negotiation process: formalistic step-by-step schedule or leeway for a more flexible approach?

- Does the CJEU's framework establish a rigid system under which the relevant steps must be examined in a strict consecutive order by the court when deciding on an injunction? If so, the duties of the infringer come into play only if the SEP holder has fulfilled his duties; e.g., the alleged infringer would not have to react to an offer of the SEP holder which is not FRAND (so Court of Appeal Düsseldorf; opposite view LG Mannheim: no decision on FRAND conformity of the SEP owner's offer necessary if counteroffer is not FRAND).
- A bit more flexibility seems appropriate: each party should react to any offer of the other party unless an offer is "so far above FRAND as to act to disrupt or prejudice the negotiations themselves" (Unwired Planet, par. 765).
- Can the SEP holder make up for a missing step at a later stage of the proceeding? At least during a transition period (suit filed before the CJEU's ruling in Huawei)? Criterion: no undue pressure on the license seeker.

III. Some antitrust law guard rails and their specification under national case law (2)

2. The license offer: who determines what is FRAND?

- No widely accepted substantive definition of FRAND.

- a) FRAND conformity of license terms: exact figure or range?
 - see the opposite views of the English High Court (J Birss) and the Court of Appeal in *Unwired Planet v Huawei*
 - If offer and counteroffer are both FRAND, the SEP owner must prevail (no abuse of dominance by seeking injunction). Burden of proof?

- b) The standard of judicial scrutiny
 - Assessment whether the offer is “obviously not FRAND”? LG Mannheim
 - Full scrutiny, but a certain leeway for the SEP holder to determine FRAND conditions? OLG Karlsruhe

III. Some antitrust law guard rails and their specification under national case law (3)

c) Methodology for substantiating FRAND terms

- What are accepted methods for calculating FRAND royalty rates? Standard approach for assessing prices in competition law cases is the comparable market concept, but there are a lot of uncertainties and weaknesses of this concept, in particular if applied in the SEP context.
- Alternative starting point: technical contribution of the individual SEP to the standard. But may only the value of the patented technology as such be taken into account or also the additional value associated with incorporating the patented technology into the standard?
- Problem of royalty stacking and competitive risks of patent pools

III. Some antitrust law guard rails and their specification under national case law (4)

- What is an appropriate base for determining a royalty rate? (smallest salable patent-practicing unit – SSPPU, or market value of the end product)
- Is a worldwide portfolio license FRAND? It depends:
 - Yes, if the implementer is active in many markets and needs licenses under several jurisdictions (see Court of Appeal, 23 October 2018, Unwired Planet v. Huawei).
 - Probably no, if license seeker is a SME doing business only in a single country.
 - No duty of licensee to accept non-SEPs.
 - Portfolio should not include competing technologies.

IV. Summary and conclusion

- The CJEU`s ruling in Huawei v ZTE is a landmark decision which establishes, on a competition law basis, a balanced framework for good faith negotiations between SEP holders and potential licensees. It is suitable to considerably reduce the risk of patent hold-up as well as opportunistic behavior of unwilling licensees, even though it still needs further specification.
- Despite Its focus on the FRAND declaration of the SEP holder the basic principles of the negotiation framework should also be applied to SEPs with regard to *de facto standards* (with minor adjustments where necessary).
- Apart from solving some questions with regard to details of the negotiation framework, the main challenge for creating a predictable enforcement environment for SPEs will be to further develop the methodology for substantiating FRAND terms. National case law, in particular in England and Germany, will play an important role in this regard. In appropriate cases the national courts should not hesitate to present them to the CJEU for another preliminary ruling according to Art. 267 TFEU.

Thank you very much for your attention !

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