



The European Commission's Safe Harbor Approach to the Seeking of Injunctive Relief on FRAND-Encumbered SEPs

By *Koren W. Wong-Ervin**

On April 29, 2014, the European Commission (EC) adopted two decisions, one involving Samsung Electronics Co., Ltd. and the other involving Motorola Mobility Holdings Inc. (“MMI”), that for the first time in the European Union (“EU”), establish a framework for determining whether and under what circumstances patent owners seeking to enforce standard essential patents (“SEPs”) in the European Economic Area (“EEA”) may violate EU antitrust laws. The decisions create a safe harbor approach from injunctive relief, under which implementers can demonstrate that they are a willing licensee by agreeing that a court or a mutually agreed arbitrator shall adjudicate the fair, reasonable and non-discriminatory (“FRAND”) terms in the event that negotiations fail. The decisions do not preclude injunctive relief for FRAND-encumbered SEPs per se.

The EC's Samsung Case

In January 2012, the EC commenced a formal investigation of Samsung to investigate whether the company violated Article 102 of the Treaty for the Functioning of the European Union (“TFEU”) (which prohibits the abuse of a dominant position that may affect trade or prevent or restrict competition in the EU). The investigation was based on allegations that Samsung had sought injunctions against a willing licensee, Apple, before the German, Italian, Dutch, UK, and French courts, aimed at banning certain Apple products from the market on the basis of several Samsung 3G SEPs, which it had committed to license on FRAND terms.

In December 2012, the EC issued a Statement of Objections informing Samsung that its conduct amounted to an abuse of a dominant position, stating that when a potential licensee has shown itself to be willing to negotiate on FRAND terms, then recourse to an injunction harms competition by distorting licensing negotiations unduly in the SEP-holder's favor.¹

* Koren W. Wong-Ervin is Counsel for International Antitrust in the Office of International Affairs at the Federal Trade Commission. The views expressed here are her own and do not purport to represent the views of the Commission or any of its Commissioners. The author thanks Randy Tritell for his helpful comments on this article.

¹ EC Press Release, Antitrust: Commission Sends Statement of Objections to Samsung on Potential Misuse of Mobile Phone Standard-Essential Patents (Dec. 21, 2013), available at http://europa.eu/rapid/press-release_IP-12-1448_en.htm.

To address the Commission's concerns, Samsung offered legally binding commitments, the final version of which was submitted to the EC in September 2013. It agreed not to seek injunctive relief in the EEA for a period of five years on any of its Mobile SEPs against licensees who commit to a specified licensing framework. Under Samsung's commitments, “Mobile SEP” is defined as “a patent (including existing and future members of its family in the EEA) granted in the EEA that is or may become, and remains, Essential to any Mobile Standard in at least one EEA Contracting Party and which has been declared as such to an SSO.”² Under the framework, after a negotiation period of up to twelve months, any dispute over FRAND terms for the Mobile SEPs in question will be resolved by a court, or if both parties agree, by an arbitrator.³

Under its commitments, Samsung is permitted to file a claim for injunctive relief if:

- (1) the potential licensee fails to agree or comply with the provisions of the licensing framework;
- (2) the potential licensee is facing imminent default (e.g., winding up or dissolution);
- (3) the potential licensee has filed and maintains a claim for injunctive relief in the EEA against Samsung or a customer of Samsung for a mobile device or component thereof that is made, marketed, distributed, or sold by Samsung, based on infringement of any of the potential licensee's Mobile SEPs, and Samsung offers to be bound by the licensing framework; or
- (4) Samsung terminates a unilateral license or cross-license in response to a potential licensee filing a claim for injunctive relief in the EEA against Samsung based on infringement of Mobile SEPs, where Samsung has offered to be bound by the licensing framework.⁴

The Commission formally accepted Samsung's commitments on April 29, 2014, rendering the commitments legally binding.⁵ An independent trustee will advise the EC on the proper implementation of the commitments.

² Samsung Commitments Offered to the EC, § G at 14 (Sept. 27, 2014), available at

http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1301_5.pdf.

³ *Id.* § A.1 at 2.

⁴ *Id.* § A.2 at 2-3.

⁵ EC Press Release, Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunctions (Apr. 29, 2014), available at http://europa.eu/rapid/press-release_IP-14-490_en.htm.



The EC's *MMI* Decision

In April 2012, the Commission opened a formal antitrust investigation against MMI following complaints by Apple that MMI, in contravention of commitments it gave to standard setting organizations, used its cellular SEPs (including patents related to the General Packet Radio Service ("GPRS") standard) to distort competition in the EEA by seeking and enforcing injunctions in a German court against Apple's products such as the iPhone and iPad.

In May 2013, the Commission issued a Statement of Objections against Motorola expressing the Commission's preliminary view that "dominant SEP holders should not have recourse to injunctions ... in order to distort licensing negotiations and impose unjustified licensing terms on patent licensees."⁶

On April 29, 2014, the EC issued a 99-page decision finding that, "in the exceptional circumstances of this case and in the absence of any objective justification, Motorola has infringed Article 102 TFEU and Article 54 of the EEA Agreement by seeking and enforcing an injunction against Apple before the courts of the Federal Republic of Germany ... on the basis of a ... SEP reading on the ... GPRS standard, which it has committed to the European Telecommunications Standards Institute ("ETSI") to license on ... FRAND terms."⁷ The EC explained that the "exceptional circumstances" are "the GPRS standard-setting process and Motorola's commitment to license the GPRS SEP on FRAND terms..."⁸ The EC described the absence of objective justification as "relat[ing] to the fact that Apple was not unwilling to enter into a licence agreement on FRAND terms..."⁹ The EC ordered MMI to "eliminate any anti-competitive effects resulting" from its conduct.¹⁰

The EC also found anticompetitive MMI's insistence, under the threat of the enforcement of an injunction, that Apple give up its rights to challenge the validity or infringement of MMI's SEPs. The EC reasoned that there is a strong public interest in fostering challenges of patent validity and infringement because royalty payments for SEPs that are either invalid or not used may unduly increase production costs, which in turn may lead to higher prices for consumers.

⁶ EC Press Release, Antitrust: Commission Sends Statement of Objections to Motorola Mobility on Potential Misuse of Mobile Phone Standard-Essential Patents (May 6, 2013), available at http://europa.eu/rapid/press-release_IP-13-406_en.htm.

⁷ Commission Decision of 29.04.2014, Case AT.39985 - Motorola - Enforcement of GPRS Standard Essential Patents, para. 1, at 2, available at http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf.

⁸ *Id.* para. 2, at 2.

⁹ *Id.* paras. 2-3, at 2.

¹⁰ *Id.* at 98.

The decision sets legal precedent introducing a "safe harbor" approach for potential licensees who are willing to agree that a court or a mutually agreed arbitrator will adjudicate the FRAND terms, and to be bound by such determination. Under the EC's approach, the burden is on the implementer to show that it is a willing licensee, for example by taking advantage of the safe harbor. The EC's decision precludes injunctions only in the EEA, and only on patents granted in the EEA. The EC did not fine MMI, reasoning that there is no EU case law on the issue and European national courts have reached different conclusions on the issue.¹¹

Market Power

The EC concluded that the licensing of the technologies, as specified in the GPRS standard technical specifications on which MMI's SEP reads, constitutes a separate relevant product market, and that MMI holds 100% of that market.¹² According to the EC, industry players are locked-in to the GPRS technology due to the widespread adoption of GPRS in the EEA and the need of operators and device manufacturers to base their services and products on the same air interface technology so that devices can communicate with the network.¹³

The EC rejected MMI's contention that it does not hold a dominant position, at least vis-à-vis Apple, due to Apple's countervailing bargaining power.¹⁴ The EC explained that its assessment of whether MMI enjoys a dominant position is based on the economic strength MMI enjoys as the holder of the GPRS SEPs with relation to the market as a whole, and not on the basis of its negotiating position with one or more customers.¹⁵ The EC further reasoned that, even if one or more potential licensees were to have bargaining power as regards the licensing of their patents (SEPs or non-SEPs), this could not be considered a sufficiently effective constraint on the dominance that MMI holds given the lack of substitutes for MMI's GPRS SEPs.¹⁶ Under EU law, one of the key elements of countervailing bargaining power is the buyer's ability (or credible threat) to switch to competing suppliers, which Apple does not possess.¹⁷

¹¹ *Id.* at para. 561, at 97-98.

¹² *Id.* paras. 184-213, at 36-41.

¹³ *Id.* para. 231, at 44.

¹⁴ *Id.* paras. 239-253, at 46-48.

¹⁵ *Id.* para. 241, at 46.

¹⁶ *Id.* para. 242, at 46-47.

¹⁷ *Id.* para. 243, at 47.



Hold-Up and Hold-Out Concerns

The EC based the injunction portion of its decision on hold-up concerns, i.e., the potential problem that arises when a SEP holder has made a commitment to license on FRAND terms and then seeks to use injunctive relief as leverage in negotiations to obtain an unjustifiably higher royalty than would have been possible *ex ante*. While the EC's decision recognizes hold-out (or reverse hold-up) concerns—which it describes as the situation when a potential licensee is able to impose upon the SEP holder terms and conditions that would prevent the SEP holder from obtaining appropriate remuneration for its patented technology—the EC rejected MMI's contention that the EC's decision is likely to create a negative effect on standard-setting by creating a risk of reverse-hold up.¹⁸ The EC reasoned that the risk of reverse-hold up by Apple “does not arise in this case” because “Apple explicitly agreed to enter into and be bound by a licence agreement at a FRAND royalty rate set by the competent German court, which ensures that [MMI] will be appropriately remunerated for the use of its SEPs.”¹⁹

The Orange Book Decision

The EC described the German *Orange Book* judgment and discussed its application in the SEP context, explaining that although the *Orange Book* decision did not involve SEPs, the judgment has been developed and applied to SEPs by lower German courts in proceedings between Motorola and Apple.²⁰ In the *Orange Book* judgment, the court ruled on the conditions under which a defendant in a patent infringement case can rely on a competition law defense under German and EU law against an injunction claim, stating that a “patent proprietor is only culpable of abusive behaviour if the defendant has made ... an unconditional offer to conclude a licence agreement which the patent proprietor cannot reject without violating the prohibition of discrimination or anti-competitive behaviour, and if the defendant, for the time that he is already using the subject matter of the patent, complies with the obligations that the licence agreement yet to be concluded imposes in return for the use of the licenced subject matter.”²¹

The EC found that, in the course of the German injunction proceedings initiated by MMI, Apple made a total of six *Orange Book* licensing offers, i.e., offers made with a view to availing itself of the competition law defense established by the *Orange Book* judgment. The EC concluded that as of Apple's Second *Orange Book* Offer, Apple established that it

was a willing licensee because Apple's second offer allowed MMI to set the royalties according to its equitable discretion and according to the FRAND standard in the industry, without limitations, and also allowed for full judicial review of the amount of FRAND royalties.²²

Anticompetitive Effects

The EC concluded that MMI's choice to enforce the German court injunctions following Apple's Second *Orange Book* Offer “was capable of having the following anti-competitive effects: [1] a temporary ban on the online sale of Apple's GPRS-compatible products in Germany; ... [2] the inclusion in the Settlement Agreement of licensing terms disadvantageous to Apple,” including hindering Apple's ability to contest its obligation to pay royalties and damages for the product on appeal and in the rate setting process; and [3] “a negative impact on standard-setting,” including undermining confidence in the process and allowing hold-up.²³

Objective Justifications

The EC offered the following non-exhaustive list of situations in which a SEP holder that has committed to license on FRAND terms is entitled to seek and enforce an injunction against a potential licensee:

- (1) the potential licensee is in financial distress and unable to pay its debts;
- (2) the potential licensee's assets are located in jurisdictions that do not provide for adequate means of enforcement of damages; or
- (3) the potential licensee is unwilling to enter into a licence ... on FRAND terms ... with the result that the SEP holder will not be appropriately remunerated for the use of its SEPs.²⁴

The EC rejected MMI's objective justifications—namely, that its conduct was necessary to protect its commercial interests, it acted in line with applicable German case law, and the ETSI Intellectual Property Rights Policy does not prescribe a waiver of the right to seek injunctions—on the grounds that they did not fall into any of the three categories listed above. The EC further reasoned that, while an undertaking with a dominant position is permitted to take reasonable steps as it deems appropriate to protect its commercial interests, it must refrain from behavior “the specific purpose of which is to strengthen its dominant position and abuse it.”²⁵ Furthermore, the fact

¹⁸ *Id.* para. 419, at 74.

¹⁹ *Id.* para. 420, at 74 (internal footnote omitted).

²⁰ *Id.* paras. 80-84, at 15-16.

²¹ *Id.* para. 82, at 15 (translating from German, Bundesgerichtshof Case No KZR 39/06 of May 6, 2009).

²² *Id.* para. 303, at 55.

²³ *Id.* para. 311, at 56; paras. 415-420, at 74; paras. 322-383, at 58-68.

²⁴ *Id.* para. 427, at 75.

²⁵ *Id.* para. 426, at 75 (citations omitted).



that MMI complied with German law cannot absolve it from responsibility under Article 102 because acting in line with German law is not the same as being required to do something such that the undertaking's actions are not autonomous. Here, MMI is in a dominant position and thus has a "special responsibility" not to allow its conduct to impair competition.²⁶ With respect to whether ETSI's Intellectual Property Rights Policy permits injunctions, the EC concluded that it has "no bearing on the existence of an abuse under Article 102."²⁷

Conclusion

The EC's *Samsung* and *MMI* decisions establish that SEP holders will be liable for violating Article 102 for abusing their market power through hold-up by seeking injunctions against willing licensees.²⁸ While the EC recognizes reverse hold-up concerns, it has concluded that such concerns do not arise when a potential licensee has explicitly agreed to enter into and be bound by a license agreement at a FRAND royalty rate set by a court or mutually agreed upon arbitrator. While the EC offered examples of situations in which a SEP holder may appropriately seek and enforce injunctions on FRAND-encumbered SEPs, the list of examples was non-exhaustive and thus leaves open the possibility of additional permissible situations.

²⁶ *Id.* para. 468, at 82.

²⁷ *Id.* para. 474, at 82-83.

²⁸ EC, Competition Policy Brief: Standard-Essential Patents, (June 2014) 5, available at http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf.