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Antitrust Claims in a Standards Context

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Context

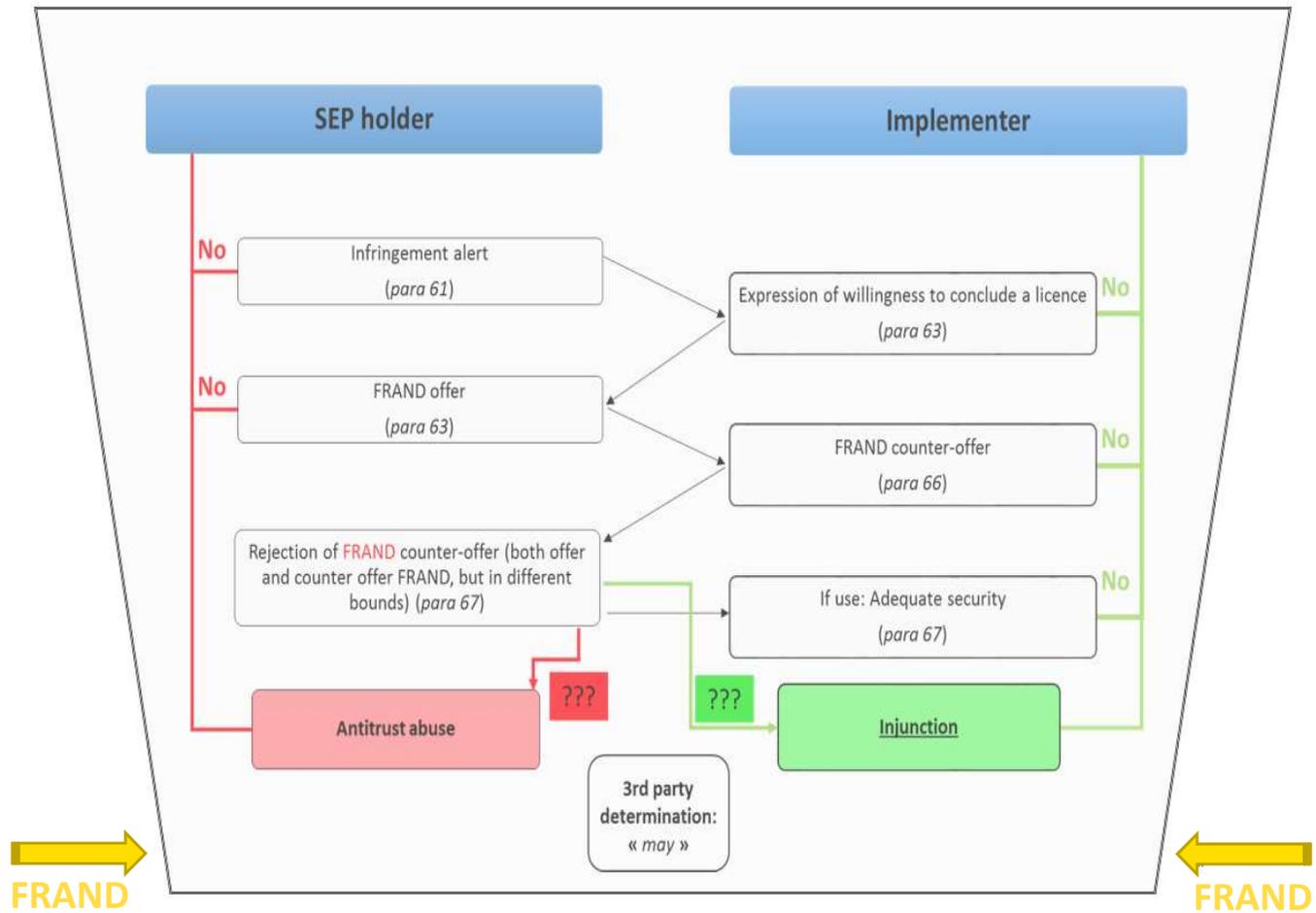
- ▶ *NTP v RIM* and other early cases fuel initial concerns of patent hold-up
- ▶ Alleged extraction of onerous royalties and cross licensing conditions through litigation (or threat thereof)
- ▶ Risk said to be exacerbated in relation to SEPs; perceived abstract nature of FRAND pledges given before SSOs
- ▶ Antitrust policy as “*White Knight*”?
 - ▶ Antitrust defenses before courts (*Orange Book Standard* (yet no SEP/no FRAND); *Huawei v ZTE*)
 - ▶ Complaints before antitrust agencies (*Motorola*; *Samsung*)
- ▶ *Ex post* empirical challenge
 - ▶ Anecdotic (revenue distribution) v systemic (royalty stack on the industry) issue
 - ▶ Reverse hold-up (or hold-out)
 - ▶ Assumption is pre *eBay* world + little empirical data on actual grant of injunction

Case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH

“In what circumstances the bringing of an action for infringement, by an undertaking in a dominant position and holding an SEP, which has given an undertaking to the standardisation body to grant licences to third parties on FRAND terms, seeking an injunction prohibiting the infringement of that SEP or seeking the recall of products for the manufacture of which the SEP has been used, is to be regarded as constituting an abuse contrary to Article 102 TFEU”

No antitrust abuse “as long as”

- ▶ Prior to bringing patent infringement proceedings in courts, it is for the patent holder “*to alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed*”;
- ▶ Second, the alleged infringer must express “*its willingness to conclude a licensing agreement on FRAND terms*”;
- ▶ Third, the patent holder must “*present to [the] alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated*”;
- ▶ Fourth, the alleged infringer must “*promptly and in writing*”, make “*a specific counter-offer that corresponds to FRAND terms*”. In particular, the alleged infringer must “*diligently ... respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics*”;
- ▶ Fifth, if the FRAND counter-offer is rejected, the alleged infringer must nonetheless behave as if he was already a licensee. In particular, “*it is for that alleged infringer, from the point at which its counter-offer is rejected, to provide appropriate security, in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit*”;
- ▶ In case of deadlock – ie “*where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer*” – the parties “*may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay*”.



Meaning of FRAND from an antitrust perspective

- ▶ FRAND creates “*legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms*” (>< AG Wathelet “*license of right*”)
 - ▶ Not on price level
 - ▶ Not that the SEP owner will never seek an injunction
 - ▶ But that SEP owner is prepared to enter into good faith negotiations with the ultimate objective of agreeing a licence on FRAND terms (“*will in fact*”)
- ▶ Best efforts to conclude licensing agreements also apply to implementer
- ▶ No antitrust liability for legal proceedings brought with a view to obtaining the rendering of accounts or an award of damages, §74
- ▶ Bottom line:
 - ▶ Two ways street, §42: “*Court must strike a balance between maintaining free competition ... and the requirement to safeguard that proprietor’s intellectual-property rights and its right to effective judicial protection*”
 - ▶ FRAND is comity device that generates bilateral *fair play duties* between the patent owner and prospective licensees

Loose ends

- ▶ Courts and reviewing authorities are those obliged to take a position on whether offer and counter offer are FRAND, and CJEU provides no guidance on this:
 - ▶ What if both offer and counter-offer are FRAND, and SEP owner refuses FRAND counter-offer: injunction/liability?
 - ▶ What if FRAND offer and no counter offer => Is the SEP owner bound by FRAND offer? No liability for implementer?
 - ▶ What if portfolio offer, and counter-offer refuses portfolio discussion? What if global offer v per country counter-offer?
 - ▶ What if implementer raises exhaustion defense? What amount of delay is permissible?
 - ▶ Is acceptance of third party determination presumably a FRAND counter-offer?
- ▶ Limited consideration of how negotiations should proceed beyond offer and counteroffer
 - ▶ “Escrow payment” in relation to the patent(s) in dispute or appropriate royalty for a (portfolio) licence?
 - ▶ “Recognised commercial practices” to differ depending on where case is litigated?
- ▶ Validity and essentiality to be established before Article 102 TFEU liability can be affirmed? (§62 “*not certain that the infringer of one of those SEPs will necessarily be aware that it is using the teaching of an SEP that is both valid and essential to a standard*” v §66: “*alleged infringer cannot be criticised either for challenging ... the validity ... and/or the essential nature ... or for reserving the right to do so in the future*)
- ▶ No antitrust liability for NPEs? See §52: concern that SEP owner “*can prevent products manufactured by competitors from appearing or remaining on the market and thereby reserve to itself the manufacture of the product in question*”

Post *Huawei/ZTE*: application by national courts?

- ▶ *St Lawrence Communications v Deutsche Telekom*, Mannheim, 27 November 2015: no prior notice of infringement by SEP owner, no FRAND offer but unFRAND counteroffer, bc it referred to third party determination by the High Court of England and Wales: not “*specific*” within the meaning of §66 of *Huawei v ZTE*: **injunction granted** (bc patents were public and in a pool?)
- ▶ *Sisvel v Haier*, Düsseldorf, 3 November 2015: failure to provide adequate security in time, regardless of whether SEP owner offer was FRAND in first place, **injunction granted but enforcement stayed by Court of appeals (13 January 2016)**
- ▶ *St Lawrence Communications v Deutsche Telekom and HTC*, Mannheim, 10 March 2015: prior to *Huawei v ZTE*, implementer “*is undisputedly not willing to take out a licence*”, no reply for 5 months: **injunction granted**
- ▶ *Philips v Acer*, Regional Court Mannheim (7 O 23/14), 4 March 2016: Court must not assess whether offer is FRAND, instead whether it is obviously non FRAND, **antitrust defense rejected**
- ▶ *St Lawrence v Vodafone*, Düsseldorf, 31 March 2016: applies *Huawei v ZTE*, notice of infringement served on 15 August 2014, implementer replied on 12 January 2015; Offer was FRAND, comparable to other SEPs, portfolio was industry practice, **injunction granted**

SSOs set stricter FRAND rules: does breach trigger expansive antitrust liability?

- ▶ **HYPO: IEEE-SA revised patent policy**
- ▶ **April 2016 EU Communication on ICT Standardization Priorities for the Digital Single Market**
 - ▶ invites to “*work in collaboration with stakeholders including ESOs ... on the identification, by 2017, of possible measures to ... (ii) to clarify core elements of an equitable, effective and enforceable licensing methodology around FRAND principles*”
- ▶ **Example: SSPPU**
- ▶ *Non sequitur*: Antitrust is public policy statute (“*ordre public*”)
- ▶ Boundaries of antitrust liability not contingent on private ordering arrangements: otherwise firms should be free to eschew AT liability with contracts
- ▶ **Compare public order requirements (hard regulation) and industry requirements (self regulation)**
 - ▶ Prohibition on truck drivers to drive more than 6 hours in a row
 - ▶ Truck driver association decides to set a more demanding cap: no more than 4 hours in a row
 - ▶ Not an infringement of the law to drive 5 hours in a row

Example

- ▶ New antitrust defense in patent infringement cases or rate setting proceedings (incl. before UPC)?
- ▶ SSO patent policy recommends certain pricing and valuation methodologies on SEPs holders (*eg* SSPPU)
- ▶ SEP holder requests royalties that reflect the added value of the end product
- ▶ Article 102 TFEU defense by implementer: breach of “*legitimate expectations*” of third parties?
 - ▶ Not sure => SEP holder may not have signed the policy or accepted old one + §156 TTBER: “*In cases where the licensed technology relates to an input which is incorporated into a final product it is as a general rule not restrictive of competition that royalties are calculated on the basis of the price of the final product, provided that it incorporates the licensed technology*”
- ▶ Article 101 TFEU counter-defense? SEP owner to argue that SSO pricing and valuation rules are unlawful under the prohibition of anticompetitive agreement => patent policy not enforceable in court

Conclusions

- ▶ Outcome of first litigated cases suggests that *Huawei v ZTE* not too distant from *Orange Book Standard*; But German reading?
- ▶ Emerging risk of fragmentation at national courts level? Many practical issues unresolved
- ▶ EU Commission seems to consider antitrust debate exhausted; primarily an industry problem; Yet, ongoing antitrust case against NPE, very little information
- ▶ Conjunction of SEP friendly case-law + UPC => Global litigation to move towards EU
- ▶ Development of IEEE-SA type patent policies raises possible Article 101 TFEU allegations?
- ▶ SSO's patent policy initiatives have impact on attractiveness and membership
- ▶ Global standardization competition amongst nations (China?)

References

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- ▶ N. Petit, “The Smallest Salable Patent-Practicing Unit ('SSPPU') Experiment, General Purpose Technologies and the Coase Theorem”, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2734245