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Technology Licensing: Evolving Antitrust Standards in the Smartphone and Other Sectors

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Technology Licensing: Evolving Antitrust Standards in the Smartphone and Other Sectors?

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I. AN INTRODUCTION TO THIS CHRONICLE

Antitrust review of business transactions involving intellectual property has never been entirely undisputed. On the one hand, there is a general belief that antitrust intervention in R&D-, intellectual property-, and innovation-intense industries should be centered on the preservation of innovation incentives. On the other hand, day-to-day practice demonstrates that even in sectors where the intellectual property landscape is relatively easily accessible, but where innovation is nonetheless important, the proper application of antitrust law is highly fact-specific and complex.

For instance, intuition tells us that grant-back clauses in technology licensing agreements may decrease licensees' incentives to innovate unless they are properly compensated for their innovative efforts. But it also obvious that appropriate compensation schemes for future innovations may be impossible to set up, and that some licensors may not be willing to license their technology, without grant-back clauses, as a result of which the positive welfare effects associated with technology licensing may not materialize to start with. How does one distinguish the good and the bad cases?[2]

And, to add a particularly topical example, how should one ensure that—given evidence of the ability and incentive to foreclose rivals—the acquisition of a portfolio of hundreds of Standard Essential Patents ("SEPs") relevant to wireless devices by Apple, Microsoft, or Google will not result in post-merger exclusionary conduct as a result of those companies repudiating prior fair, reasonable, and non-discriminatory ("FRAND") commitments, or a failure to adhere to those commitments in a meaningful manner as the prior owners would have done?

Faced with fast-moving, innovative industries, antitrust enforcement agencies are up against difficult tasks. Indeed, they need to have a well-informed opinion on the nature and drivers of innovation and the durability of market power, as well as the potential of the industry at hand to correct itself, especially in light of dominance. In these settings, over-enforcement resulting in the loss of valuable dynamic efficiencies is often a real risk, while devising and implementing adequate remedies is difficult and takes time. This certainly applies to the one

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[2] The treatment of grant-back clauses is discussed by Régibeau & Rockett in this issue of the *CPI Antitrust*

[2] The treatment of grant-back clauses is discussed by Régibeau & Rockett in this issue of the *CPI Antitrust Chronicle,* as well as by Coppi & Trento. *See*, respectively, Pierre Régibeau & Katharine E. Rockett, *Revising the Technology Transfer Guidelines*, 4(2) CPI ANTITRUST CHRON., (April, 2012) and Lorenzo Coppi & Stefano Trento, *Patent Wars and Technology Transfer Agreements: Should the EU Rules Change?,* 4(2) CPI ANTITRUST CHRON., (April, 2012).

sector that takes a prominent place in this issue of the *CPI Antitrust Chronicle*, the sector of mobile devices.

This issue comes at a critical time. Only a few weeks ago, on February 13, 2012, the Department of Justice ("DOJ") issued its closing statement following its investigations into three cases: Google's acquisition of Motorola Mobility, a manufacturer of smartphones and computer tables and the holder of a portfolio of approximately 17,000 issued patents and 6,800 applications; the acquisition by Rockstar Bidco (a partnership including, among others, Apple, Microsoft, and Research in Motion ("RIM")) of approximately 6,000 Nortel patents; and the acquisition by Apple of a portfolio of Novell patents. Each of these three acquisitions involved a large number of SEPs relevant to wireless devices, many of which the pre-existing owners had committed to license through their participation in Standard Setting Organizations ("SSOs") on FRAND terms.[3]

DOJ's concern with each of these three acquisitions of patent portfolios was that they could have resulted in exclusionary conduct in the form of abusive enforcement of SEPs included in each of the acquired portfolios if any of the acquirers—particularly Apple, Microsoft, or Google—exploited ambiguities in the SSOs' FRAND licensing commitments to hold up rivals. Among other anticompetitive practices, such hold ups could include raising the costs to rivals by demanding supracompetitive licensing rates, or seeking to prevent or exclude products practicing those SEPs from the market altogether.

In DOJ's analysis, the critical issue was whether the transactions would change the incentive and ability of the new patent holder to hold up its competitors, particularly through the threat of an injunction or exclusion order. However, DOJ's statement indicated that, in its view, the public pledges made by both Apple and Microsoft to not seek to prevent or exclude rivals' products from the market, in particular by seeking injunctive relief on such patents, were "clear," unqualified, and thus satisfactory.[4]

Meanwhile, in Europe, on January 31, 2012, the EC Commission announced the opening of a formal proceeding against Samsung to assess whether its enforcement of SEPs was in compliance with EU competition rules.[5] These proceedings are a direct response to the litigation started by Apple in April 2011 against Samsung claiming that Samsung's android devices infringed Apple's intellectual property rights. Apple's action was followed by counterclaims by Samsung for patent infringement as well as proceedings for injunctive relief by both parties in several jurisdictions, particularly in the Netherlands and Germany, to prevent the other party's products from being sold on those markets.

The Commission will investigate, in particular, whether Samsung, in seeking injunctive relief in various Member States' courts in 2011 against competing mobile device makers (based

[3] Dept. of Justice, *Statement of the Department of Justice's Antitrust Division on Its Decision to Close Its Investigations of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp., and Research in Motion Ltd.*, at 3 (Feb. 13, 2012), http://www.justice.gov/opa/pr/2012/February/12-at-210.html [DOJ letter].

[4] In contrast, Google's pledge was " less clear," qualified, and thus caused concern.

[5] European Commission, Antitrust: Commission Opens Proceedings against Samsung, IP/12/89, (January 31, 2012), http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/89.

on alleged infringements of certain of its patent rights which it has declared essential to implement European mobile telephony standards), has failed to honor 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 FRAND terms.

Then, on April 3, 2012, following complaints from Apple and Microsoft, the Commission opened two proceedings against Google-Motorola Inc. ("MMI").[6] Again, injunctive relief with regard to SEPs encumbered by a FRAND commitment is at the heart of the dispute. According to the Commission's press release, it will investigate, in particular, whether by seeking and enforcing injunctions against Apple's and Microsoft's flagship products such as iPhone, iPad, Windows, and Xbox on the basis of patents that they had declared essential to produce standard-compliant products, Motorola had failed to honor its commitments made to standard-setting organizations ("SSOs"). In these commitments, Motorola engaged to license those standard-essential patents on FRAND terms.

The Commission will examine whether Motorola's behavior amounts to an abuse of a dominant market position prohibited by Article 102 ("TFEU").

In sum, on both sides of the Atlantic the question has arisen whether, by seeking injunctive relief, a holder of SEPs acts in violation of its FRAND commitments and, in doing so, engages in anticompetitive conduct. Interestingly, though, in the United States that question has particularly been addressed by the DOJ in a merger context, while in Europe the Commission is investigating this matter under Article 102 TFEU.

Alongside the recently announced investigations into FRAND-related issues, the Commission has embarked on a consultation on the functioning of the Technology Transfer Block Exemption Guidelines.[7] As part of the consultation process, it requested Charles River Associates to provide an economic evaluation of the Technology Transfer Guidelines. The report, finalized in November 2011 and drawn up by two contributors to this issue of the *CPI Antitrust Chronicle*, Pierre Régibeau & Katharine Rockett, identifies a number of important developments in the industry and suggests several revisions, which, if adopted, are likely to result in significant changes in the treatment of patent pools, cross-licensing, and grant-back clauses in Europe.[8]

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[6] European Commission, Antitrust: Commission Opens Proceedings against Motorola, IP/12/345, (April 3, 2012), http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/345&format=HTML&aged=0&language=EN.

[7] Commission Notice - Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements Official Journal C 101, 27.04.2004, p. 2-42, http://ec.europa.eu/competition/antitrust/legislation/transfer.html The Technology Transfer Block exemption regulation Regulation 772/2004 will expire on 27 April 2014.

[8] Regibeau & Rockett, *Assessment of potential anticompetitive conduct in the field of intellectual property rights and assessment of the interplay between competition policy and intellectual property protection*, November 2011, prepared for the European Commission, http://ec.europa.eu/competition/consultations/2012_technology_transfer/study_ipr_en.pdf

II. THE CONTRIBUTIONS TO THIS CHRONICLE

In this issue of the *CPI Antitrust Chronicle* a number of expert authors with a variety of backgrounds offer their views on the smartphone patent disputes, FRAND licensing, and a number of related and unrelated technology-licensing issues.

In many respects, the contribution by Régibeau & Rockett provides the groundwork. Their article, *Revising the Technology Transfer Guidelines*[9] revisits the main findings of their November 2011 Report for the EC Commission. Indeed, while the ultimate objective of their report is to inform the EC Commission with a view to making possible changes to the EC Technology Transfer Guidelines, they identify a number of developments in industry practice that are relevant for competition policy worldwide. One key development is the growth of patent thickets, i.e. situations where access to a large number of intellectual property rights owned by different patent owners are required to manufacture a product according to a specific technical standard. Obviously, the prime example is the smartphone industry where a mobile device incorporates hundreds of standards and even more SEPs.[10]

In a concise manner the authors identify the main effects generally associated with patent thickets, in particular royalty stacking[11] and increased transaction costs for prospective licensees, as well as the industry responses to alleviate these negative effects, which might, however, themselves raise significant antitrust issues. In this regard, Régibeau & Rockett make the point that cross licenses with output-related royalties may, in certain settings, result in higher downstream prices, or may diminish firms' incentives to compete intensely. Consumers are nonetheless better off with cross licenses if all patents in the thicket are essential.[12] Overall, Régibeau & Rockett advocate a stricter approach to cross licenses.

The contribution of Régibeau & Rockett also contains important and novel insights into the welfare effects of patent pools, which, as the authors note, are dependent on IP owners' rights to license their SEPs independently outside the pool and the ability of pool members to discriminate among themselves to reflect their different IP contributions. To my knowledge this is precisely what happens in many patent pools, although taking an independent outside license under specific SEPs may, for a variety of reasons, not always be popular with licensees.

Finally, Régibeau & Rockett touch upon an important feature in many technology-licensing agreements—grant-back clauses—and argue in favor of a stricter antitrust treatment of grant-back clauses for non-severable innovations.

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[9] *See supra*, note 2.

[10] Coppi & Trento note that "an average smartphone reads on more than 200,000 patents." *See* Coppi & Trento, *supra*, note 2.

[11] Royalty stacking involves the accumulation of royalty rates as a result of the fact that the manufacture of a single product may infringe on many patents and may this require many royalty-bearing licenses. *See* for instance Lemley & Shapiro, *Patent Hold-Up and Royalty Stacking*, (85)TEXAS L. REV., (2007) .

[12] It is questionable how realistic in practice this is. Indeed, essentiality is necessarily associated with one or more technical standards, while many firms tend to cross-license portfolios of patents relevant in a particular domain or field of use without necessarily identifying or being able to identify whether those patents are or may become essential in the future.

Lorenzo Coppi & Stefano Trento's contribution, *Patent Wars and Technology Transfer Agreements: Should the EU Rules Change*? provides a number of interesting and contrasting views. Their views differ from Régibeau & Rockett in that they consider patent thickets to be a much more serious problem in many technology sectors, which, as exemplified by the current patent wars in the wireless smartphone sector, leads to excessive strategic behavior and litigation. However, while their appreciation of the magnitude and seriousness of the problem may differ from that of Régibeau & Rockett, their perception of the problems that patent thickets may generate are substantially similar: increased probability of patent hold-up (potentially blocking the production and sale of products), patent ambushes, and unreasonably high license fees, increased transaction costs for licensees and royalty stacking.

Perhaps not surprisingly then, Coppi & Trento advocate a more lenient treatment of cross-licensing arrangements and observe that potential anticompetitive effects—artificially increased marginal production costs—may be eliminated by imposing netting out or upfront payments.[13]

Finally, Coppi & Trento offer differing views on two subjects that figure prominently in Régibeau & Rockett's contribution. First, they stress that the inclusion of complementary, non-SEPs in a patent pool may lead to foreclosure of rival technologies outside the pool and therefore merits a full effects-based analysis.[14] And second, Coppi & Trento argue—in my view convincingly—that especially in sectors where innovation is sequential grant-back clauses should not be treated more strictly, as Régibeau & Rockett advocate.

Donald Falk & Christopher Kelly bring us back to the United States and provide a helicopter view of the IP/antitrust landscape as shaped by, in particular, the Supreme Court, the DOJ, and the FTC. Their paper, *DOJ Merger Statement Renews Focus on Competitive Implications of Industry Standards,* discusses patent hold-ups in industry settings where products are standardized as well as SSOs efforts to minimize the risks of patent hold up by requiring participants in standard-setting processes to commit to license their SEPs on FRAND terms.[15] Noting that an outright refusal to license intellectual property is virtually immune under the Supreme Courts' *Trinko* decision, they point to two important developments that have led greater focus on the acquisition of IP as a basis for antitrust scrutiny.

First and significantly, Falk & Kelly argue that the DOJ's closing statements in recent patent portfolio acquisition cases may signal the agency's willingness to use the merger review process to discourage the (lawful) exercise of a patent holder's IP, even where the DOJ acknowledges that the acquisition itself may not be anticompetitive. This trend, if real, would potentially move the U.S. regime closer to the (more interventionist) European regime under Article 102 TFEU.

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[13] "Netting out" involves the comparison by IP licensors the width and relevance of their patent portfolio to be cross-licensed. In my experience, comparing the value of IP portfolios is an integral part of cross-licensing negotiations, although upfront payments appear rare in practice.

[14] Upon inspection, the differences between the two views may not be that great. See in this respect page 35 of the November 2011 Report, *supra*, note 8.

[15] Donald Falk & Christopher Kelly, *DOJ Merger Statement Renews Focus on Competitive Implications of Industry Standards,* 4(2) CPI ANTITRUST CHRON., (April, 2012_.

A second development concerns the rise of Non-Practicing Entities ("NPEs"), which may spur the dissemination of technology and innovation, but which may also upset the traditional rules of the cross licensing game.[16] Indeed, as the authors note: "[b]ecause non-practicing entities do not make or sell technology, they have no need (and thus no incentive) to cross-license with competitors and have no financial stake in the ultimate success or failure of any given standard." While this statement may not have universal validity—because NPEs may very well have a financial interest in the success of a standard—it is true that the acquisition of patent portfolios, in particular by NPEs, may change the balance under cross-license agreements. This is so despite the fact that under the eBay-doctrine it has become much more difficult for NPEs to obtain injunctions against patent infringers.[17]

In their paper, *Facing New Challenges at the Crossroads Between Competition and Intellectual Property in Europe: The Example of Korean Innovators*, Damien Geradin & Hee-Eun Kim shift the focus to the 2011 Free Trade Agreement between Korea and Europe, as well as the increasing importance of Korean companies in innovative industry sectors and, as a consequence, in terms of patent activity.[18] But, while illustrative, their contribution is particularly valuable for its discussion of the Google/ MMI merger decision of May, 13 2012, which, as the authors note, acknowledges on the one hand the legitimate right of SEPs holders to seek injunctions against a potential licensee which is not seeking to negotiate a patent license in good faith on FRAND terms but, on the other hand, suggests that injunctions against a licensee willing to negotiate in good faith on FRAND terms may not be legitimate. [19]

It would not be surprising if the Commission would seek to minimize the discrepancy between its approach in the Google/MMI and its future position in the Article 102 TFEU investigations against Samsung and Google/ MMI.[20]

A Roadmap to the Smartphone Patent Wars and FRAND Licensing, the article by Michael Carrier, ideally complements Geradin & Kim's observations on public antitrust enforcement in the area of FRAND in Europe as it provides a number of insightful observations on the numerous successive patent lawsuits and courts decisions regarding both smartphone SEPs and non-SEPs.[21] This greatly helps putting the Commission's enforcement actions in a proper perspective. With regard to SEPs, Carrier notes that both the District Court in the Hague (in October 2011) and the Karlsruhe Higher Regional Court (in February 2012) denied injunctive relief to, respectively, Samsung and MMI that would prevent Apple from utilizing four smartphone SEPs in its iPhones and iPads.

Carrier notes that, in contrast, courts are more willing to grant injunctions in cases involving non-SEPs. Apple has obtained two such injunctions against MMI in Germany, while

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[16] *See* on NPEs for example Subramanian, Patent trolls in thickets: who is fishing under the bridge?, E.I.P.R 2008, 30(5), 182-188.

[17] Ebay Inc.v. MerExchange, L.L.C., 547 U.S. 338 (2006).

[18] Geradin & Kim, *Facing New Challenges at the Crossroads Between Competition and Intellectual Property in Europe: The Example of Korean Innovators,* 4(2) CPI ANTITRUST CHRON., (April, 2012).

[19] Case No. COMP/M.6381 - Google / Motorola Mobility (February 13, 2012).

[20] See , *infra*, Section III.

[21] Michael Carrier, *A Roadmap to the Smartphone Patent Wars and FRAND Licensing,* , 4(2) CPI ANTITRUST CHRON., (April, 2012).

MMI has obtained one injunction against Apple in return. The author rightfully observes that the assurances of FRAND licensing play a crucial role in reducing the likelihood of injunctions that would remove products from the market. How individual national courts in the EU Member States approach this issue will be discussed in somewhat more detail below in Section III.

In their article, *Do We Need to Get Frantic About FRAND*?, Hobbelen & Oeyen add a number of down-to-earth and insightful observations to the debate on FRAND obligations.[22] Their paper traces the meaning and significance of FRAND under both Articles 101 and 102 TFEU and provides valuable observations on a number of key issues under EU competition law, most of which are also highly relevant under U.S. law. In particular, with respect to Article 102 TFEU, the authors observe that SEPs do not necessarily confer significant market power or a dominant position.

This is a strong reminder that a standardized context blocking power—the ability to hold up industry participants that want to manufacture the standardized product—can not, by definition, be equated with a dominant position. In this regard, the authors rightly point at a number of competitive constraints that holders of SEPs may face originating from rival standards and non-standardized products, royalty rates charged by owners of other SEPs, and a number of dynamic constraints.

Hobbelen & Oeyen then discuss the Commission's investigations into Rambus, Qualcomm, and IPCOM and conclude that the Commission has so far not taken a firm position that dominant firms are required to license on FRAND terms. This observation is correct and complements Geradin & Kim's statement that "[T]here is no precedent in national or EU law addressing the issue of whether, by having recourse to an injunction, an SEP holder breaches its FRAND commitment and/or Article 102 TFEU."

With respect to Article 101 TFEU, the Hobbelen & Oeyen highlight the prevailing uncertainty on the difficulties involved in determining the meaning of the different components of FRAND and express criticism, albeit modest, with regard to the application of the methods to establish the fairness and reasonableness of royalties under the Horizontal Guidelines.[23] However, because SSOs that do not require firms participating in standard-setting activities to license their patents on FRAND terms do not necessarily, on balance, act anticompetitively ,and because the state of the law under Article 102 TFEU is unsettled, Hobbelen & Oeyen conclude that companies "should perhaps not get overly frantic about FRAND."

While Hobbelen & Oeyen take a wait-and-see approach, the last paper in this issue of the *CPI Antitrust Chronicle* offers a radically different perspective. In his contribution, *Reasons to Reject a "No Injunctions" Rule for SEPs and FRAND-Obligated Patents*, Hill Wellford approaches the issue of whether holders of SEPs encumbered by FRAND obligations should be prohibited from obtaining injunctive relief head-on.[24] In his view, doing so would be clearly misguided. The

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[22] Hobbelen & Oeyen, *Do We Need to Get Frantic About FRAND*? , 4(2) CPI ANTITRUST CHRON., (April, 2012).

[23] Communication from the Commission - [Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011XC0114(04):EN:NOT), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011XC0114(04):EN:NOT

[24] Hill Wellford, *Reasons to Reject a "No Injunctions" Rule for SEPs and FRAND- Obligated Patents*, , 4(2) CPI ANTITRUST CHRON., (April, 2012).

scope and meaning of FRAND requirements is, in many respects, opaque and while there sometimes seems to be an important ideological component to the debate surrounding FRAND issues, Wellford's contribution is well-informed, well-argued, and at a minimum gives proponents of the "No Injunctions" rule—as well as the undecided—something to reflect on. Wellford lists five reasons to support his view.

First, adding a "no-injunctions" provision to a FRAND contract is in his opinion inconsistent with the freedom to contract as it upsets the commercial equilibrium of that agreement. Wellford's second argument touches upon the relationship between public and private antitrust enforcement and the proper role of courts and is two-fold: there is no room for a "No-Injunctions" rule because patent injunctions are rare and are not awarded indiscriminately and the "public interest" is explicitly factored into the courts' analysis. There is much to be said for this position. Indeed, if a general, categorical "No Injunctions" rule is misconceived or unwanted—as I believe it is—why not be satisfied with courts dealing with this matter on a case-specific basis, at least until there are clear signs of structural problems and non-consistent approaches and outcomes?

The author's third argument is that, if injunctions in this setting are generally unavailable, the incentives of IP holders and other parties to negotiate (cross) licensing agreements diminish, that number of proceedings for injunctive relief may actually increase, and that the value of FRAND-obligated patents would be compromised, thereby ultimately diminishing innovation. The fourth, related argument holds that innovative firms may be disincentivized to participate in SSO activities, while Wellford's fifth and final argument is of a practical nature: there is no empirical evidence of a serious inefficiency in technology markets that compels the eliminations of injunctions.

In sum, the contributions to this issue of the *CPI Antitrust Chronicle* are centered around a number of particularly controversial and issues and provide a variety of views on general technology licensing issues, as well as more specific topics that have recently come to the forefront in the recent patent portfolio acquisitions involving smartphone SEPs as reviewed by the DOJ, FRAND-related litigation in the United States, Germany, the Netherlands and a number of other jurisdictions, and, finally, the public enforcement actions by the Commission against Samsung and MMI under Article 102 TFEU.

III. SOME ADDITIONAL OBSERVATIONS ON INJUNCTIVE RELIEF AND THE INTERPLAY BETWEEN COURTS AND ANTITRUST ENFORCEMENT AGENCIES

Injunctive relief in the context of SEPs is important. Indeed, if a standard is widely accepted and implemented, injunctive relief gives the owner of SEPs the means to effectively block the infringing competitors' products from the market. Obviously, the effects of national injunctions are magnified if, as is the case in the smartphone sector, markets tend to be worldwide. This is particularly so, because many information and communications technology ("ICT") markets evolve quickly and market positions may change significantly in short time spans and may have long-lasting consequences. As a consequence, the threat of an injunction gives SEPs owners significant bargaining power.

Seeking injunctive relief on SEPs is not *a priori* objectionable; indeed, IP owners have a legitimate right to enforce their patents and infringers bear the risk of being prevented from using the IP owner's protected technology. This principle is firmly established in antitrust law. However, in specific circumstances seeking injunctive relief may be looked upon more critically. This is particularly so if the IP owner has promised to license its SEPs on FRAND terms, a mechanism often—but not generally—applied by SSOs to address future hold-up problems and to make essential technology accessible.

Would a holder of SEPs then, if there is no agreement with its prospective licensee on mutually acceptable (FRAND) licensing terms, still be allowed to obtain an injunction? Intuitively, the answer would be "yes:" as long as FRAND terms are effectively available for the candidate-licensee, the enforcement of valid IP rights should, in my view, prevail. But what if the IP holder would—in violation of his FRAND promises—impose overly strict conditions or request excessive royalties, something which may significantly raise its competitor's cost and which may not be immediately detectable in light of the difficulties involved in valuing IP and determining "reasonable" royalty rates? Conversely, how does one deal with opportunistic users of the protected technology who might not be willing to pay a fair royalty?

To date, there are no precedents or effective antitrust guidance on the question whether, and, if so, under which precise circumstances seeking an injunction involving SEPs, particularly in settings where the standard is important, might amount to an antitrust violation.

Only recently, in 2010, in the European Union, the Commission adopted a new set of Guidelines for the application of Article 101 TFEU to—inter alia—standard-setting agreements. The draft Guidelines, as well as the final EU Guidelines, were discussed in detail in two issues of the *CPI Antitrust Chronicle*.[25] As part of the public consultation on the future Guidelines, a number of leading ICT companies, Broadcom, Cisco Systems, Hewlett- Packard, IBM, Oracle, and RIM noted that, in their view, FRAND had not consistently proven a meaningful constraint on the hold-up value that essential patents or claims can attain. They further suggested that the Commission explicitly stipulated in the Guidelines that, to fall outside the scope of Article 101(1) TFEU, a SSO's intellectual property (FRAND) policy must contain a provision that explicitly clarifies that a participant's commitment to license essential patents on FRAND terms implies the obligation to surrender the right to enjoin the continued use of a patent it owns by implementers of a standard for which they claim their patent is essential.[26] The Commission decided not to follow the companies' suggestions and did not to include any references to injunctive relief in the Guidelines. [27]

As a result, to date the matter of injunctive relief on SEPs is largely in the hands of national courts and, as Michael Carrier discusses, a number of courts in the European Union

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[25] *See* 9(1) CPI ANTITRUST CHRON. (September 2010) and 2(1) CPI ANTITRUST CHRON. (February 2011).

[26] *See* Comments of Broadcom, Cisco Systems, Hewlett- Packard, International Business Machines, Oracle, and Research in Motion to Directorate- General of Competition of the European Commission,June 25, 2010, http://ec.europa.eu/competition/consultations/2010_horizontals/index.html The companies took the position that the right to seek an injunction would revive after an objective party, for example a court, would have determined that the patentee had offered to license the patent on reasonable (FRAND) terms.

[27] If it had followed the parties' suggestions, failure to commit to giving up the right to seek injunctive relief on SEPs, would have not automatically have resulted in a violation of Article 101 TFEU, but would have merely shifted the analysis to Article 101 (3) TFEU.

have recently been asked to rule on requests for injunctive relief regarding smartphone SEPs. Those courts have generally denied injunctions on SEPs.

Both in Germany and the Netherlands FRAND defenses involving SEPs are well-accepted. In Germany, the applicable "Orange-Book" standard requires that for a FRAND defense to be successful in a procedure for injunctive relief, the defendant/infringer must (i) have made an unconditional offer to the patent owner and (ii) must already comply with the terms of the patent license (including reporting obligations), and, in relation to past use, place adequate royalties in escrow.[28] In first instance, Motorola obtained an injunction in the District Court in Mannheim, because Apple's offer failed to meet the required Orange- Book standard as it did not also include a sufficiently specified acknowledgement of its obligation to pay for past use.[29] However, after having amended its offer in various respects, Apple's appeal at the Higher Regional Court Karlsruhe was successful. [30]

In the Netherlands, the judgment in Philips v. SK Kassetten establishes the principle that regardless of a patentee's FRAND obligations, the holder of an essential patent is in principle entitled to enforce such a patent against an infringing party. However, the existence of "special"circumstances may render the enforcement abusive.[31] These special conditions include the enforcement of SEPs pending good faith negotiations about a FRAND-license, or a failure to meet FRAND-obligations, e.g. refusing to negotiate, or demanding unreasonably high or otherwise unreasonable terms and conditions. In Samsung/Apple, the District Court in The Hague ruled on March 14, 2012 that—in light of the facts of the case—there was no "willingness" on Samsung's part to enter into a FRAND license, *inter alia,* because Apple had made a substantive, not a priori unreasonable, offer to which Samsung had not provided a substantive response.[32]

Proceedings for injunctive relief in national courts are highly-fact specific, may differ significantly in light of different national procedural rules governing those procedures, and have not yet addressed all relevant questions. However, while the point of departure of the analysis of Dutch and German courts differs, the divergence between the actual outcomes of these types of proceedings seems limited, if not small. One main reason is that in both regimes the principle of good faith plays an important role.

Much can be said about the recent Commission's enforcement action against Samsung and Motorola in light of the fact that national courts seem so far quite capable of adequately dealing with the issue of injunctive relief. One thing stands out though. In this issue of the *CPI Antitrust Chronicle* Geradin & Kim suggest that the language contained in the Google/ MMI decision might form the basis of a test that would determine the circumstances where recourse by a SEP holder for an injunction could be abusive. As Geradin & Kim show, the relevant parts in the Google/ MMI decision are built around the notion of "good faith" FRAND negotiations as

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28 Federal Supreme Court , 6 May 2009, BGHZ 180, p. 312- Orange Book Standard, GRUR 2009, p. 694.

29 District Court Mannheim, 9 December 2011, court ref. 7 O 122/11.

30 Higher Regional Court Karlsruhe, 27 February 2012, court ref. 6 U 136/11.

31 District Court the Hague, 17 March 2010, cases 08-2522 and 08-2524.

32 Prior to the proceedings on the merits, Samsung instituted four separate preliminary injunction proceedings. The claims were rejected, because Samsung was held not to be willing to conclude a FRAND- license.

well. As a result, it would indeed not be surprising—and perhaps desirable—if a future European antitrust standard for legitimate injunctive relief in FRAND settings, if any, would be based on that principle.