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*Huawei Technologies: More
Certainty on SEP Injunctions, But
Not the End of the Story*

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***Huawei Technologies*: More Certainty on SEP Injunctions, But Not the End of the Story**

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I. INTRODUCTION

The issue of declared standard-essential patents (“SEPs”) and competition law has been a hot topic that has pitted holders of SEPs and users of SEPs against one another in a patent war game with Article 102 TFEU as ammunition. The long awaited judgment of the Court of Justice of the EU (“CJEU”) in *Huawei Technologies* (“*Huawei Technologies*”)² attempts to put an end to the war by striking a careful balance between protection for SEP holders on the one hand and undue delay for implementers in bringing their products to the market on the other.

The judgment builds on the previous decisions of the European Commission (“Commission”) in relation to previous cases involving Samsung and Motorola but provides more detailed guidance and welcome clarity to both SEP holders and implementers as to what steps each must take in order to retain either the right to request, or the right to object to a claim for, an injunction preventing use of an SEP. Significantly, it reaffirms that an alleged infringer cannot be criticized for challenging, or insisting on reserving the right to challenge, in any negotiations the essentiality or validity of the SEP(s) in question.

The judgment holds that an owner of SEPs who has given a fair, reasonable, and non-discriminatory (“FRAND”) undertaking may be abusing its dominant position by seeking an injunction against an alleged infringer, unless the SEP holder alerts the alleged infringer and provides a specific written offer for a license on FRAND terms. However, if the SEP holder follows these steps, it may seek an injunction if the other party continues to use the SEPs in question and fails to respond “diligently” to the SEP holder's offer “in accordance with recognised commercial practices in the field” and “in good faith.” If the alleged infringer adopts “delaying tactics,” then it will lose the right to object to a claim for injunctive relief as an abuse of a dominant position.

Furthermore, the alleged infringer may only allege that an action for a prohibitory injunction is an abuse of a dominant position once it has “promptly” submitted in writing a “specific counter-offer that corresponds to FRAND terms.”

Despite providing welcome clarifications, the *Huawei Technologies* judgment leaves a number of questions unanswered, however. Moreover, national courts (and eventually the Unified Patent Court (“UPC”)) will be required to apply the *Huawei Technologies* framework to the specific facts of each particular application for an injunction by a SEP holder. The possibility of further references to the CJEU therefore remains.

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² Case C-170/13.

II. WHAT ARE SEPS AND WHY ARE THEY IMPORTANT?

SEPs are patents declared by the patent owner as covering technologies which are essential components of products which comply with relevant industry standards agreed between manufacturers through standard-setting organizations (“SSOs”). The manufacture of any such products by a manufacturer which has not obtained a license from the SEP holder infringes the patent in question (assuming that the patent is valid, is actually essential to the standard, and it not the subject of a down-stream license or patent exhaustion). In principle, however, SEP holders undertake that if their patented technology is to be included in an agreed industry standard, they will license their SEPs to any third party on FRAND terms.

III. COMPETITION LAW ISSUES RELATING TO SEPS

It has been argued that holders of such SEPs may (i) have a dominant position in relation to the protected technology and (ii) be abusing their dominant position under Article 102 of the Treaty on the Functioning of the European Union (“TFEU”) by seeking, threatening to enforce, or actually enforcing an injunction against an alleged infringer who requires the technology to manufacture products that comply with the agreed standard and has shown willingness to negotiate a license on FRAND terms. The concern is that the threat of an injunction may enable the SEP holder to apply undue pressure on the alleged infringer and impose unduly onerous licensing terms (such as unfairly high royalties). Alternatively, if an injunction is obtained, there is a risk of the product disappearing from/not coming to the market.

IV. BACKGROUND TO HUAWEI TECHNOLOGIES

A. The Commission's Decisions in the Samsung and Motorola Cases

The Commission decisions in *Motorola*³ and *Samsung*⁴ of April 2014 were the first cases to provide some guidance from the Commission on the compatibility of SEP injunctions with the EU competition rules. The Commission opened its investigation into Samsung after Samsung had sought injunctive relief in the courts of various EU Member States against Apple based on alleged infringements of certain of its SEPs relating to 3G UMTS technology. The investigation into Motorola was opened after Motorola sought an injunction (also against Apple) in the German courts based on alleged infringements of its SEP relating to GPRS technology.

While recognizing that seeking an injunction is a legitimate remedy against an alleged patent infringer, the Commission held that applying for an injunction based on SEPs *may* be an abuse of a dominant position where the patent holder has given a voluntary commitment to license its SEPs on FRAND terms and where the injunction is sought against a licensee who is “willing” to enter into a license agreement on FRAND terms.

In *Samsung*, the Commission accepted binding commitments from Samsung, for a period of five years, not to seek injunctive relief in the European Economic Area (“EEA”) in relation to all its SEPs for technologies implemented in smartphones and tablets against any company that

³ Commission decision of 29 April 2014, Case AT.39985 - *Motorola – Enforcement of GPRS Standard Essential Patents*.

⁴ Commission decision of 29 April 2014, Case AT.39939 – *Samsung - Enforcement of UMTS Standard Essential Patents*.

agrees to a particular licensing framework. The licensing framework consisted of a negotiation period of up to 12 months and a third-party (court or arbitrator) determination of FRAND terms.

In *Motorola*, the Commission concluded that Motorola had breached Article 102 TFEU by seeking and enforcing an injunction against Apple in Germany in relation to a smartphone SEP. The Commission also found that it was anticompetitive to force Apple, under threat of enforcement of injunction, to give up its rights to challenge the validity of Motorola's SEPs. However, it decided not to fine Motorola due to the lack of legal precedent.

These decisions provided a form of "safe harbor" for alleged infringers who are willing to submit to third-party resolution of FRAND disputes, and clarify that seeking to challenge the validity of a patent does not render an alleged infringer unwilling. However, they failed to provide any detailed explanation as to the criteria according to which it is to be judged whether an alleged infringer is, or is not, "willing."⁵

B. Huawei Technologies' Application for Injunctive Relief Against ZTE in the German Courts and the "Orange Book" Standard

Huawei and ZTE are both holders of a number of declared SEPs covering aspects of the LTE (Long Term Evolution or "4G") standard⁶ and had therefore made commitments within the ETSI framework to license those patents on FRAND terms.

In March 2013, the Regional Court of Düsseldorf made a preliminary reference to the CJEU in a case between Huawei, as the holder of certain SEPs covering aspects of the LTE/4G standard, and ZTE, as the alleged infringer of the patents. The reference to the CJEU in this case arose from the potential conflict between the approach taken previously by the German courts and the EU Commission's approach in the *Samsung* and *Motorola* cases.

The German decisional practice was based on what is known as the "Orange Book" case.⁷ The *Orange Book* case concerned a *de facto* standard for CD-Rs (recordable compact discs). The patent-holder, Philips, sought injunctive relief against several manufacturers and one of the defendants argued that, in doing so, Philips had abused its dominant position on the market for CD-Rs. However, the German Court found that this defense could only succeed in relatively limited circumstances and, in particular, only if the alleged infringer accepted the validity of the patent. The Orange Book Standard was therefore considered to be more friendly to SEP-holders than the Commission's approach in *Samsung* and *Motorola*, which found that the mere seeking of an injunction would constitute an abuse in many circumstances.

The German Court therefore decided to stay proceedings and ask the CJEU for clarification on the appropriate threshold for an abuse of dominance defense in the context of a SEP injunction and on the concept of a willing licensee.

⁵ More recently, the Commission carried out an industry wide consultation between October 2014 and February 2015 entitled "A modern framework for standardisation involving intellectual property rights, with the objective of gathering information and views on the interplay between standardisation and intellectual property rights (IPR) such as patents.

⁶ LTE/4G is a mobile network communication standard which is composed of more than 4,700 SEPs.

⁷ KZR 39/06, Orange Book Standard, Judgment of 6 May 2009. [Check reference]

V. THE CJEU'S JUDGMENT IN HUAWEI TECHNOLOGIES

A. *The Need to "Strike a Balance"*

The CJEU stated that it was required to "strike a balance between maintaining free competition...and the requirement to safeguard [the SEP-holder's] intellectual property rights and its right to effective judicial protection," both of which rights the Court noted to be protected under the Charter of Fundamental Rights of the European Union ("the Charter").

In terms of the extent to which these rights can be fettered by competition law, the CJEU clearly was not of the view that an application for injunctive relief by an SEP-holder constitutes abusive conduct *per se* under Article 102 TEFU; rather, it noted that it is

"settled case law that the exercise of an exclusive right linked to an intellectual-property right... forms part of the rights of the proprietor of an intellectual-property right, with the result that the exercise of such a right, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute an abuse of a dominant position",

but also stated that

"it is also settled case-law that the exercise of an exclusive right linked to an intellectual-property right by the proprietor may, in exceptional circumstances, involve abusive conduct for the purposes of Article 102 TFEU."

B. *The Significance of the FRAND Undertaking by Huawei*

In considering how to strike this balance in the circumstances at hand, however, the Court noted, first, that the patent at issue was declared essential to a standard established by a SSO, meaning that Huawei could prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserve to itself the manufacture of the products in question. Second, the patent had been declared essential only in return for an irrevocable undertaking by Huawei to license it on FRAND terms, which created legitimate expectations on the part of third parties.

C. *The Framework With Which the SEP-holder Must Comply*

1. *Conduct of the SEP-holder*

According to the framework set out in the CJEU's decision, in order to avoid an infringement of Article 102 TFEU, SEP holders seeking injunctive relief must alert the alleged infringer to the infringement, designating the specific SEPs concerned and specifying the manner in which they have been infringed (due to the large number of SEPs composing a standard such as the one at issue, the CJEU considered it possible that the alleged infringer could be unaware that it was using technology protected by an SEP). No indication is given as to the level of detail required to be given, but it is assumed that, at the very least, examples of the alleged infringer's products said to infringe must be provided.

Whether details of exactly how it is alleged a product falls within the claims of the SEP must be provided is also unclear. The SEP-holder must also make a written licensing offer on FRAND terms, including the proposed royalty and an explanation of the way in which it is calculated. It must not seek to prevent the alleged infringer from challenging the validity and/or the essentiality of the SEPs in question or reserving the right to do so in future.

2. Conduct of the alleged infringer

As for the alleged infringer, if it continues to use the SEP concerned, then it is obliged to respond “diligently” to the SEP holder's offer “in accordance with recognised commercial practices in the field” and “in good faith.” This will be assessed objectively. However, the judgment does not give any criteria by which such an objective assessment should be conducted. The alleged infringer also must not adopt “delaying tactics.”

Furthermore, the alleged infringer may only allege that an action for a prohibitory injunction is an abuse of a dominant position once it has submitted a “specific counter-offer that corresponds to FRAND terms.” It is presumed that the alleged infringer may provide a counter-offer even if the SEP-holder's initial offer is within the FRAND range, although this is not explicit in the decision. It is also presumed that, as with the initial offer, any such counter-offer must also contain a proposed royalty and calculation methodology (though this is not stated expressly in the judgment).

A question in relation to this requirement is how it is intended that the alleged infringer judges what constitutes FRAND for these purposes, given the CJEU's reference in the decision to the opinion of the Advocate General, whose view was that the SEP-holder is better-placed to assess whether an offer complies with the FRAND requirement, particularly if it has already granted other licenses.

The judgment also suggests that, should the SEP holder reject such a counter-offer, then the infringer is obliged to provide appropriate security (e.g. a bank guarantee or deposit) in respect of past and future infringements, and render an account. The CJEU held that it cannot be abusive to seek damages or a rendering of accounts, since those remedies do not have a direct impact on products complying with the standard in question manufactured by competitors appearing or remaining on the market. The judgment does not, however, specify whether the amount of security should be calculated by reference to the royalty rate in the offer or the counter-offer. There is also a question mark as to whether this is a pre-requisite to avoiding injunctive relief; it does not feature in the operative ruling at the end of the judgment, but only earlier on in the text of the decision.

3. Determination by an independent third party if the SEP-holder and alleged infringer can't agree

The CJEU noted that the parties may “by common agreement” request that the FRAND royalty be “determined by an independent third party, by decision without delay.” However, it does not say anything about what happens to any ongoing litigation in the interim and, in particular, the availability of injunctions. Second, it is not clear whether this is optional or a mandatory requirement, given that the decision states that the parties “may” (rather than must) pursue this option, and it is not mentioned in the operative part of the judgment. It is also unclear what the implications would be if the parties could not reach agreement on a referral to a third party in principle, or on the identity of the third party.

VI. IMPLICATIONS AND FURTHER UNANSWERED QUESTIONS

A. *The CJEU Has Largely Endorsed the Commission's Approach in Samsung/Motorola Rather Than Orange Book*

As explained above, according to the Orange Book Standard, a competition law defense could only be relied on to prevent the grant of an injunction in relatively exceptional circumstances (in particular, if the alleged infringer waived its right to challenge the validity of the patent). In contrast, the CJEU in *Huawei Technologies* has broadly endorsed the findings of the Commission in *Samsung* and *Motorola* in holding that a SEP-holder will be viewed as abusing a dominant position simply by seeking an injunction if it does not adhere to the Court's framework.

However, it may not be correct to dismiss the Orange Book Standard as irrelevant post-*Samsung*, *Motorola* and *Huawei Technologies* because, as noted by the Advocate General in *Huawei Technologies*, there are significant factual differences between these cases. In particular, the patent at issue in *Huawei Technologies* was developed as a result of an agreement concluded between the undertakings (including Huawei and ZTE) involved in the standardization process within ETSI, whereas the standard at issue in the Orange-Book-Standard case was a *de facto* standard in relation to which the owner of the patent at issue had not given a FRAND licensing commitment.

B. *How Does Huawei Technologies Differ From the Principles Established in Samsung/Motorola?*

The CJEU's decision in *Huawei Technologies* is consistent with some of the key principles established in *Samsung and Motorola*. For example, (i) the SEP-holder can only be viewed as abusing a dominant position if the alleged infringer is not a willing licensee; (ii) where the parties are not able to agree on FRAND terms, the question may be decided by an independent third-party or court; and (iii) potential licensees of SEPs should remain free to challenge the validity, essentiality, or infringement of SEPs.

However, *Samsung* and *Motorola* provide very little practical guidance as to the ways in which the SEP-holder must conduct itself so as to comply with competition law and the criteria by which the alleged infringer should be judged to be “willing” (or not). As set out above, *Huawei Technologies* has gone some way to providing such guidance by setting out “specific requirements” with which the SEP holder needs to comply in order to be able to seek an injunction without abusing its dominant position. Equally, the CJEU has set out clear steps that an alleged infringer must take in order to show that it is a “willing” licensee.

C. *Key Commercial Implications of the Judgment*

SEP-holders may well consider that the framework set out by the CJEU limits their freedom to negotiate royalty rates freely. For example, they may feel that the requirement for their initial written offer to be FRAND goes against standard commercial practice—i.e. that the licensor would usually expect its first offer to be higher than the rate it ultimately expects to agree on. Similarly, alleged infringers may consider that they would normally expect their opening offer to be considerably lower than the amount that they expect to pay. However, this reflects the Court's desire to achieve a balanced approach. It should also be born in mind that it is inherent in

the CJEU's framework (simply by view of the fact that it envisages a counter-offer) that there would be a range of royalty rates which would be viewed as FRAND. Consequently, there is still scope for a negotiation.

It does, however, remain to be seen whether royalty rates for SEPs will decline significantly as a result of this framework (and, therefore, whether consumer prices will be affected). It is also unclear whether the threat of reduced royalty rates will have any sort of effect on incentives to innovate—in theory, this should not be the case in circumstances where SEP-holders were, in any event, happy to commit to licensing on FRAND terms.

In general, the ability to enforce intellectual property rights is crucial in order to incentivize innovation. It is important to remember that the CJEU found in *Huawei Technologies* that the seeking of an injunction by an SEP-holder will **not** constitute an abuse of dominance unless it fails to comply with the framework. It is, therefore, clear that the CJEU is not seeking to question the fundamental right of a patentee to enforce its rights; rather, it has sought to ensure that it does so in a way which addresses the legitimate concerns that injunctions can otherwise be used by SEP-holders to distort licensing negotiations, extracting excessively high royalties and thereby distorting competition on downstream markets. The decision therefore reduces the likelihood of products being blocked or withdrawn from the market in the EEA.

D. Key Questions That Remain Unanswered

A number of questions remain unanswered by the CJEU's judgment and some of the concepts built in to the CJEU's framework are clearly open to interpretation. There is therefore scope for Member States/national courts to interpret the decision differently. These questions include: Has the alleged infringer responded “diligently” to the SEP-holder's written offer, and was its counter-offer provided sufficiently “promptly?” What will happen if an alleged infringer does not respond at all to the offer by the SEP-holder? Will the court in question still need to assess whether the initial offer was on FRAND terms or can the application for an injunction be made in any event (e.g. because the alleged infringer is seen as “unwilling” or as using delaying tactics)? As set out in the following paragraphs, some more fundamental questions also remain unanswered.

1. Is a SEP-holder always dominant?

The question of a potential abuse under Article 102 TFEU only arises in circumstances where the party concerned is considered to be dominant. However, the referring German Court did not ask the CJEU whether, or in what circumstances, the SEP-holder should be viewed as dominant. The CJEU did not therefore express a view on this question. It is to be noted that in his opinion on the case, the Advocate General stated his view that

"If the fact that anyone who uses a standard set by a standardisation body must necessarily make use of the teaching of an SEP, thus requiring a licence from the owner of that patent, could give rise to a rebuttable presumption that the owner of that patent holds a dominant position, it must, in my view, be possible to rebut that presumption with specific, detailed evidence."

There is therefore clear scope for debate in future cases.

2. What does FRAND mean in the context of an SEP license?

Further, while the CJEU's framework accounts for the possibility for the parties to a negotiation to request that the FRAND royalty be determined by an independent third party, it does not provide any guidance as to definition of "FRAND" in this case or more generally. It may, therefore, be said that *Huawei Technologies* will not end the competition law disputes in relation to the seeking of injunctions in relation to SEPs; rather, it will simply change the nature of those disputes.

3. Can the CJEU's framework be applied to more complicated negotiations relating to patent portfolios and/or cross-licensing?

In many cases, negotiations relate to large numbers ("portfolios") of patents. The process and logistics of such negotiations can be particularly complex and it therefore remains to be seen whether it will be possible to meaningfully apply the CJEU's framework in such circumstances. Similarly, where the parties concerned are both intellectual property rights-holders and wish to enter into cross-licenses, the negotiation process will be even more complex, potentially raising further question marks over the practical utility of the CJEU's framework.

VII. HUAWEI TECHNOLOGIES IS NOT THE END OF THE STORY

It is, therefore, clear that there remains some scope for a divergence in the approach taken in different Member States. This risk may only exist until the Unified Patent Court is up and running, however (and the CJEU's decision in *Huawei Technologies* will give the UPC a helpful framework).

Further, the EU's Competition Commissioner stated recently that *Huawei Technologies* does not mark the end of the story on SEP licensing concerns under competition law, noting that the Commission has seen attempts to circumvent the decision; for example, where companies seek injunctions against companies active at other levels of the distribution chain (e.g. telecoms operators selling phones rather than the phone manufacturer).

In addition, it must not be forgotten that, while the CJEU has now set out a framework for SEP licensing negotiations, it will be up to the national courts to interpret and apply the CJEU's requirements. This will require case-specific and fact-intensive inquiries and leaves scope for diverging interpretations.

It seems that *Huawei Technologies* may be just a temporary truce in a war that is set to continue.