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I. INTRODUCTION

On July 16 2015, the European Court of Justice (the “ECJ”) issued its much-awaited decision in the *Huawei-ZTE* matter (“Decision”),² in reply to questions referred by the German Landgericht Düsseldorf court. The Decision involved a Standard Essential Patent (“Essential Patent”) dispute between two telecommunications companies manufacturing smartphones.³

The main questions addressed by the Decision focused on: (1) whether, or under what circumstances, an Essential Patent holder (“Licensor” or “Innovator”) who provided a Fair Reasonable and Non-Discriminatory (“FRAND”) access assurance may abuse a dominant market position, where it enjoys one, if it brings an action for injunction against an infringer who has declared itself willing to negotiate towards a license; (2) what are the particular qualitative and/or time requirements needed to substantiate the infringer’s “willingness to negotiate;” and (3) what are the particular requirements for the Essential Patent holder’s initial offer, if any.

Notably, these questions were raised against the background of the German *Orange-Book-Standard* decision,⁴ which focused only on the willingness of an infringer to conclude a license on FRAND terms in considering whether an “abuse of dominance” defense is available. However, the ECJ chose not to adopt the *Orange-Book* standard. Instead, the Decision provides a new procedural framework that looks at both the Essential Patent Holder and the infringer’s behavior. On the one hand, where infringers fail to comply with the new ECJ framework, they lose the opportunity to allege a Licensor’s injunctive relief action is potentially abusive. On the other hand, the Decision creates a “safe harbor” in which Licensors may freely seek injunctive relief without potential competition concerns if they comply with the procedural framework. This new framework aims to prevent an increasingly prevalent practice known as patent hold-out, which involves lucrative long-term infringement of Essential Patents by calculated technology users who are unwilling to take a license under FRAND terms.

This note identifies the underlying principles and boundaries of the Decision. It then highlights certain circumstances that are highly specific to the Decision, before examining the

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² Case C-170/13 *Huawei Technologies Co. Limited v. ZTE Corp.* (Fifth Chamber, 16 July 2015) available at <http://curia.europa.eu/juris/document/document.jsf?jsessionid=9ea7d2dc30ddec4f949241db44d296cc9739f41099c5e34KaxiLc3qMb40Rch0SaxuRa3j0?text=&docid=165911&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=747013>.

³ Fair, reasonable and non-discriminatory terms (FRAND) are a licensing obligation that is often required by standard setting organizations for members that participate in the standard-setting process.

⁴ KZR 39/06 *Orange-Book-Standard* (Federal Court of Justice of Germany, May 6 2009).

constructive guidance and safe harbor framework that the Decision establishes. We conclude by expressing cautious optimism that the ECJ's new framework may diminish the patent hold-out problem.

II. UNDERLYING PRINCIPLES AND BOUNDARIES OF THE DECISION

Under EU competition law, the assessment of whether an undertaking has abused its dominant position under Art. 102 TFEU requires a *rule of reason* test comprised of three elements: (1) evaluating whether the undertaking holds a dominant position also known as “market power;” (2) finding of an anticompetitive foreclosure; and, where the two preceding elements are found (3) the target may demonstrate that its conduct is “objectively necessary” or produces substantial efficiencies which outweigh any anticompetitive effects on consumers.⁵

The emphasis of the Commission's enforcement activity in this area “is on safeguarding the competitive process ... and ensuring that undertakings which hold a dominant position do not exclude their competitors.”⁶ In light of this competition analysis context it is useful to note the following.

A. Essential Patents Do Not Necessarily Convey Market Power

The Commission has made it clear that “there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power” noting that “[t]he question of market power can only be assessed on a case by case basis.”⁷ This approach is consistent with U.S. antitrust law.⁸ The Decision explicitly avoids delving into this matter because, in the referred case, the existence of a dominant position was not contested.⁹

B. Right to Seek Injunctive Relief is a Fundamental Right

The Decision recognizes that European Law “provides for a range of legal remedies aimed at ensuring a high level of protection for intellectual-property rights” and for “the right of

⁵ 2009/C 45/02 Communication from the Commission — Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, 2009 OJ C 45/7 (24 February, 2009) available at [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52009XC0224\(01\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52009XC0224(01)&from=EN), §§ 9-18, 19-26, and 28.

⁶ *Id.* at §6.

⁷ EC Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011 OJ C 11/1 (14 January 2011), §269, available at [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011XC0114\(04\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011XC0114(04)&from=EN).

⁸ Under U.S. antitrust law, patents and other intellectual property rights should not be viewed as necessarily conveying market power. See *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006); U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* (April 6, 1995) §2.2. In the context of Essential Patents, there is similarly no presumption that they create market power but, rather, market power must be established in each case basis, see *ChriMar Systems, Inc. v. Cisco Systems*, 72 F.Supp.3d 1012, 1019 (N.D. Cal. 2014) (rejecting the argument that “to the extent that the...Patent is essential to the 802.3af and the 802.3at standards, no viable technology substitutes exist and ChriMar has monopoly power over the [relevant] [t]echnology Market”; explaining instead that there are other necessary elements that need to be proven “in order to prove market power”).

⁹ Decision at § 43 (“As the referring court states [...] the existence of a dominant position has not been contested before it by parties[.]. Given that the questions posed by the referring court relate only to the existence of an abuse, the analysis must be referred to the latter criterion”).

access to a tribunal.”¹⁰ In particular the ECJ notes that “[T]he proprietor of the essential patent at issue has the right to bring an action for a prohibitory injunction or for the recall of products.”¹¹ Consequently, the ECJ found that this right can only be limited in particular circumstances. Indeed, the ECJ ensures that it is for the national court to assess whether a claim for an injunction gives rise to an antitrust defense, but that the Essential Patent holder should not be barred from bringing the claim in the first instance. Effective prohibitions on the ability to seek a judicial remedy are not recognized by the ECJ.

C. The Decision Does Not Define What is FRAND

While interested parties may attempt to interpret the Decision as applying to the meaning of the term “FRAND,” such attempts are not supported by the Decision. Rather, the Decision is clearly limited to potential Art. 102 TFEU analysis of actions seeking injunctions for the infringement of Essential Patents.¹²

III. SPECIFIC CONTEXT OF THE DECISION

The case referred to the ECJ by the German Landgericht Düsseldorf court was fact-specific. It remains unclear to what extent the Decision will be applicable to cases whose facts would be distinguishable. Important case-specific aspects include the following.

A. The Decision Involved Two Direct Competitors

The Decision reiterates, in multiple places,¹³ that its competition analysis refers to a scenario where the innovating Essential Patent holder tries to prevent standard compliant products that are “manufactured by **competitors** from appearing or remaining on the market.” Since, as noted by the Commission, Art. 102 TFEU enforcement focuses on attempts to exclude **competitors**, it is unclear what the analysis would be where the parties to an Essential Patents licensing dispute are not competitors. Potential competitive harm is always a greater concern where the scenario is a horizontal one, i.e. one in which a party has an interest in excluding a competitor from the market, and less of a concern otherwise.

Notably, a June 2015 decision by Brazil’s competition agency (CADE) that involved an Essential Patent owner who sought an injunction against a strategic opportunistic infringer, and where such injunction was granted, made it clear that one of the many reasons CADE did not find competitive harm and therefore closed the competition case, was the fact that the parties to the dispute were not competitors.¹⁴

¹⁰ *Id.* at § 57.

¹¹ *Id.* at § 52.

¹² *Id.* at § 39.

¹³ *Id.* at §§ 49, 52, 64 and 73-74.

¹⁴ Decision No. 08700.008409/2014-00, TCT v. Ericsson (1 June, 2015), § 20 available at <http://goo.gl/2tZozo>; Appeal denied on July 7 2015 and available at http://sei.cade.gov.br/sei/institucional/pesquisa/documento_consulta_externa.php?CBqAUEI9nI3CEIsrjzOScrVPZyHJe9UNqzDNROL8OzOf3qPrlowO7tQcfSQqwRPQcjDUI3vfpNISFSbhjDDGxw.

B. The Decision Concerned One Single Essential Patent

This is relevant because many Essential Patent licensing disputes involve sizeable global portfolios of multiple patents. That is the context in which the prevalent problem of patent hold-out often materializes; for example, through attempting to force licensors to litigate the merits of each patent in its extensive portfolio on a patent-by-patent basis as a prerequisite to taking a FRAND license.

Such opportunistic behavior exploits the fact that litigation is very expensive and takes years to consummate, and hence it is practically impossible for a significant contributor of standardized technology to timely and cost-effectively litigate its entire global Essential Patents portfolio through national courts. As a result, such calculated infringers attempt to force Essential Patent holders to license their Essential Patents on sub-FRAND terms, which in turn chills incentives to invest in R&D and in participation in and contribution of proprietary technology to open standards. Because only a single Essential Patent was asserted in the referred case, the ECJ did not specifically address this important and concerning aspect of patent hold-out.

IV. THE FRAMEWORK OF THE DECISION: CURBING HOLD-OUT AND GAMESMANSHIP

The importance of the Decision lies in the procedural framework it provides for licensing negotiations. In light of increasing attempts to free-ride on the FRAND-assured Essential Patents, the Decision aims to curb the success of such opportunistic strategies. It references “reverse hold-up”¹⁵ and clarifies repeatedly that the ECJ will not tolerate infringers’ “delaying tactics.”¹⁶ Thus the Decision imposes an obligation on the alleged infringer to respond to the Essential Patent holder’s license offer “diligently,” “in accordance with recognized commercial practices in the field,” “in good faith,” and with “no delaying tactics.”¹⁷ In this way, the CJEU has sought “to ensure a fair balance between the interests concerned.”¹⁸

The Decision then sets out a concrete framework to prevent patent hold-out as follows:

1. An Essential Patent owner must first give notice to an infringer by designating the infringed Essential Patent(s) and the way in which it/they have been infringed;¹⁹
2. It is then up to the infringer to express its willingness to conclude a licensing agreement on FRAND terms;²⁰
3. Only if and once an infringer has expressed its willingness to license on FRAND terms, the Licensor must present the infringer with a written licensing offer;²¹
4. After being presented with the Licensor’s offer, the infringer is under tight deadlines to either accept the offer or present a FRAND counter-offer (“promptly” and “in accordance

¹⁵ Decision at § 38.

¹⁶ *Id.* at §§ 65-66 and 71.

¹⁷ *Id.* at § 65.

¹⁸ *Id.* at § 55.

¹⁹ *Id.* at § 61.

²⁰ *Id.* at § 63.

²¹ *Id.* at § 63.

with recognized commercial practices in the field and in good faith”). “[D]elaying tactics” are explicitly mentioned as a key factor for that evaluation;²² and

5. The Decision imposes a duty on the infringer to deposit an “appropriate security” as soon as its counter-offer is rejected;²³ the infringer cannot argue that a motion for an injunction against it is abusive until such security deposit is in place.²⁴

Where the infringer fails to comply with the ECJ framework, i.e. where it fails to negotiate in good faith or uses delay tactics, it then can no longer successfully raise allegations of abuse of dominance by the Innovator as a defense against the seeking of injunctive relief. The Licensor also continues to enjoy broad access to injunctive relief free from potential Art. 102 TFEU liability in all cases where the infringer makes a counter-offer that is not FRAND.²⁵

In recognizing technology users' duty to negotiate in good faith, the Decision is consistent with U.S. case law, such as the *Ericsson v. D-Link* decision.²⁶ It is also in line with the increasing recognition of patent hold-out as a serious problem. For example, in the *Apple v. Motorola* decision,²⁷ Chief Judge Rader commented that “hold out is equally as likely and as disruptive as a hold up.” The FTC has also acknowledged the existence of problematic scenarios in which “the patent-holder is forced to license the patents at less than fair market value,”²⁸ and the ITC has, in its 2013 *Samsung v. Apple* decision, addressed hold-up as an “expensive litigation” scenario under which “an implementer utilizes declared-essential technology without compensation to the patent owner under the guise that the patent owner’s offers to license were not fair or reasonable.”²⁹

Notably, the Decision consciously avoids use of a “hold-up” framework. Although Advocate General Wathlet’s Opinion (“Opinion”) stated:

it should be ensured that SEP-holders cannot, for example, impose excessive royalties in breach of their commitment to grant licences on F/RAND terms, thereby engaging in conduct which has become known as ‘patent hold-up.’³⁰

However, the Decision did not see a need to frame the discussion in terms of “hold-up” or “excessive or unfair royalties” that could result from the threat of exclusion due to the seeking of an injunction. This is notable, because “hold-up” is the context in which the current FRAND debate is often set and these very points were indeed made to the ECJ in both written pleadings and at the oral hearing. Therefore the ECJ conspicuously chose not to take on board these

²² *Id.* at §§ 65 and 66.

²³ *Id.* at § 67.

²⁴ *Id.* at § 67.

²⁵ *Id.* at § 66.

²⁶ Memorandum Opinion and Order, *Ericsson v. D-Link*, No. 6:10-00473, 2013 WL 2242444 (Aug. 6, 2013).

²⁷ U.S. Court of Appeals for the Federal Circuit (April 25, 2014).

²⁸ Quote taken from the Prepared Statement of the Federal Trade Commission before the U.S. Senate Committee on the Judiciary, concerning “Standard Essential Patent Disputes and Antitrust Law” (July 30, 2013).

²⁹ Commission Opinion, *In re Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794 (Int’l Trade Comm’n June 4, 2013), at 63.

³⁰ § 41 of the Opinion. The theory of “royalty stacking” was also put before the ECJ and referred to in the European Commission’s pleadings to the ECJ. *See* footnote 14 of the Opinion.

arguments and rejected the opportunity to endorse the various supra-FRAND “hold-up” theories.

V. WHAT ARE “DELAYING TACTICS”?

There are multiple scenarios that calculated infringers can play out as a delay tactic—the possibilities are endless. One such scenario can be a situation whereby, in the context of a sizeable Essential Patents portfolio, an infringer insists on patent-by-patent licensing. A standard-compliant product, such as a smartphone, is often covered by hundreds or even thousands of individual patents often owned by a single patent holder. Hence, the prevailing efficient industry practice is portfolio licensing due to significant savings in transaction costs and time. Notably, standard implementers need to take a license to all relevant Essential Patents, not just a few individual ones, to obtain freedom to operate.

By insisting on patent-by-patent licensing, however, an infringer can significantly delay and obstruct licensing negotiations. It forces Licensors to unnecessarily provide licensing terms and detailed proof of validity and essentiality for hundreds or thousands of individual patents, which is an extremely costly and time-consuming exercise. Throughout all this time, the Licensor would receive no compensation for its significant investment in R&D and in the standard, while the infringer continues to lucratively sell products that free-ride on others’ technology. In addition to obviously compromising the commercial interests of the Innovator, such behavior also gives the infringer a competitive advantage over legitimate market participants that did take a license on FRAND terms and pay licensing fees.

VI. SAFE HARBOR FOR ESSENTIAL PATENT HOLDERS

The ECJ framework also creates a safe harbor for Essential Patent holders. In cases where such holders hold a dominant position, they cannot be accused of abusing their position under Art. 102 TFEU where they act as “willing licensors” under the framework. More specifically, Licensors do **not** abuse their dominant position if seeking injunctive relief after having (1) given the infringer notice of its infringement³¹ and, after the infringer expressed its willingness to conclude a license on FRAND terms, (2) provided the infringer with a written licensing offer on such terms.³²

This Licensor safe harbor applies **regardless** of the conduct of the infringer. In other words, it also applies where the infringer has complied with all the procedural framework requirements, i.e. where it has negotiated in good faith, provided the Licensor with a FRAND counter-offer, and provided adequate security. After all, abuse of a dominant position is a defense to patent infringement claims, and in such a case the infringer would not be able to demonstrate an abuse by the Licensor.

In addition, as established above, such a defense would only be available where the infringer itself complies with the framework (i.e. is a “willing” party). Thus, an infringer can only allege an abuse of a dominance defense where it has itself complied with the procedural framework, while the Licensor did not. Note that even when such defense is raised, the infringer

³¹ *Id.* at § 60.

³² *Id.* at § 63.

must still successfully prove that, under the circumstances, the Licensor's behavior constitutes an Art. 102 violation under the three-element rule of reason described earlier.

The ECJ safe harbor is not a common rigid set of rules that all Licensors must comply with in order to be sheltered from potential Art. 102 TFEU liability. Rather, the Decision provides one example of a possible safe harbor for Licensors, as is evident by its negative phrasing: "the proprietor of a patent essential to a standard (...) does not abuse its dominant position as long as (...),"³³ and by the fact that the court's overall approach leaves broad discretion to national courts to analyze the parties' willing/unwilling mindset under the circumstances that come before them.³⁴

Indeed, it is conceivable and even likely that there are many other safe scenarios for Innovators, as the ECJ made it clear that injunctive relief is a fundamental right that can only be limited in specific, exceptional circumstances. Legitimate injunctive relief for infringement of Essential Patents is the rule, not the exception.

For example, where parties have already engaged in prolonged licensing negotiations, it makes little sense for the Licensor to provide the infringer with separate *de novo* notice of infringement. Also, where, during licensing negotiations for a portfolio of Essential Patents, the infringer has made it clear that it is not interested in individual licensing terms, it will later be difficult to successfully argue that the Licensor has abused its dominant position by not specifying individual patents and the way in which those patents are infringed.³⁵ The fact that a Licensor has, under such circumstances that are different from the *Huawei-ZTE* ones, not complied with the criteria of the framework, does not necessarily mean that it is an "unwilling licensor" under the framework, let alone that it abused its dominant position within the meaning of Article 102 TFEU.³⁶

The above analysis is illustrated in the table below which shows, in green font, the scenarios under which Licensors cannot be subject to Art. 102 TFEU liability when seeking injunctive relief for breach of Essential Patents:

³³ *Id.* at § 77.

³⁴ *Id.* at § 70: "It is for the referring court to determine whether the abovementioned criteria are satisfied... **in so far as they are relevant, in the circumstances**, for the purpose of resolving the dispute in the main proceedings." If the ECJ gave the referring court that type of discretion where the facts of the case were known, it is clear that it left broad discretion to future courts where the facts are unknown, to consider all the relevant circumstances.

³⁵ *Id.* at § 61.

³⁶ See also the International Competition Network (ICN) Unilateral Conduct Working Group Recommended Practices on DOMINANCE/SUBSTANTIAL MARKET POWER ANALYSIS PURSUANT TO UNILATERAL CONDUCT RULES, §5 available at <http://www.internationalcompetitionnetwork.org/uploads/library/doc317.pdf> (demonstrating the general antitrust approach according to which being outside a "safe harbour" is generally necessary but **insufficient** for finding a problem).

	Licensors complies with ECJ framework – ‘Safe Harbor’	Licensors does not comply with ECJ framework
Infringer complies with ECJ framework (and not otherwise “unwilling”)	✓	If willing licensor (under other circumstances – fact specific): ✓
		If “unwilling” licensor - ? (depends on whether Art. 102 TFEU rule of reason analysis criteria are proven)
Infringer appears to comply with ECJ framework but “unwilling” under other circumstances/tactics	✓	✓
Infringer does not comply with ECJ framework	✓	✓

VII. CONCLUSION

The ECJ confirms that Essential Patent holders, like all patentees, are entitled to injunctive relief and recall of products where their rights are infringed. This right may only be limited in specific, exceptional circumstances.

In particular, the Decision provides a procedural framework for licensing negotiations that aims to prevent patent hold-out strategies by “unwilling” infringers. First, the Decision obligates infringers to respond to the Innovator’s licensing offer “diligently, “in accordance with recognized commercial practices in the field,” “in good faith,” and with “no delaying tactics.” If infringers fail to do so, they lose the defense of alleging that the action for an injunction against them was abusive.

Furthermore, the ECJ decided that as long as the Licensor provides the infringer with due notice of infringement and—provided that the infringer has subsequently declared itself willing to license on FRAND terms—a licensing offer on FRAND terms was rejected by the infringer, the Licensor is then free to pursue infringement actions and injunctions, regardless of any further conduct of the licensee (a one-sided “safe harbor”).

It remains to be seen whether this new framework will suffice for resolving the problem of patent hold-out. Time will tell as national courts begin to apply the Decision. The economic incentive for infringers to pursue hold-out strategies remains high, especially where large Essential Patent portfolios are involved. There is always the risk that infringers will test the boundaries of the Decision’s framework through creative sophisticated hold-out strategies in which delay tactics are obscured as good faith negotiations. But the Decision also warrants cautious optimism, because it provides Innovators with a concrete and flexible framework to effectively weed out such behavior.