

Plunging into a Safe Harbour from SEP Injunctions

The European Commission's antitrust agency, DG Comp, is striking a cunning compromise between divergent views on whether or not and under what circumstances injunctions may be sought for patent infringements where patentees have agreed to license patents, they have declared as potentially essential to the UMTS (WCDMA) standard, on fair, reasonable and non-discriminatory terms. EC press releases announce competition rule [infringement by Motorola](#) and [commitments given by Samsung](#) on this matter. The Motorola decision creates a competition rule infringement 'remedy' which *"provides a 'safe harbour' for standard implementers who are willing to take a licence on FRAND terms. If they want to be safe from injunctions based on SEPs by the patent holder, they can demonstrate that they are a willing licensee by agreeing that a court or a mutually agreed arbitrator adjudicates the FRAND terms."* [Commitment decision details](#) for Samsung are a practical illustration of the safe harbour principles in the Motorola decision.



The Commission's Vice President in charge of competition policy Joaquín Almunia said: *"The so-called smartphone patent wars should not occur at the expense of consumers."* However, the Commission has not presented publicly, through the publication of the Samsung decision (the full Motorola decision is yet to be made available) or its public statements, any evidence or diagnosis of actual abuse or harm versus the countervailing positions of others in the smartphone and tablet markets. A [Q&A memo](#) accompanying the decision announcements simply states that *"the Commission's aim is to prevent SEP holders from using SEP-based injunctions in an anticompetitive way, in order to extract licensing conditions that may restrict competition and ultimately harm consumers."*

To the contrary, there is [abundant published evidence and analysis](#) showing consumers and smartphone markets are doing rather well with vigorous competition despite various [theories of abuse and harm](#). The Commission is well aware of this, but has intervened nevertheless. Mr Almunia's spokesperson [Antoine Colombani remarked](#) last year that *"[t]he markets for smartphones and tablets are very dynamic, innovative and fast-growing. Samsung's growing market position and the success of Google's Android platform are good reasons to believe that competition is strong on these markets."*

DG Comp says it is unable to indicate when the full Motorola decision will be available. Nicholas Banasevic, Head of Unit – IT, Internet and Consumer Electronics, DG Comp, speaking at the International Bar Association's [25th Annual Communications and Competition Law Conference](#) in Prague on 5th May 2014 said he hopes this will be made public soon, but is unable to indicate when because this is entirely down to how long the parties take to do their redactions of confidential information.



The Goldilocks solution

DG Comp has carefully forged a middle path between divergent factions in the smartphone patent wars— the 'haves and have nots' (or 'have not so manys') in SEPs. The smartphone sector has polarised between those players who have developed and accumulated SEPs through extensive fundamental R&D and participation in SSOs, versus more-recent market entrants with relative competitive strength elsewhere in non-SEP technologies, software, manufacturing, marketing and distribution.

Samsung's commitments reflect the same general principles DG Comp has pursued in the Motorola decision. Samsung's commitments under [Article 9](#) of the European Union Antitrust Regulation (Regulation 1/2003) are voluntary and set out a safe harbour for prospective licensees to Samsung's SEPs in which for a period of five years it is "*committed not to seek any injunctions in the European Economic Area (EEA) on the basis of any of its SEPs, present and future, that relate to technologies implemented in smartphones and tablets against any company that agrees to a particular framework for licensing the relevant SEPs.*

The licensing framework provides for:

- (i) a negotiation period of up to 12 months; and*
- (ii) if no agreement is reached, a third party determination of FRAND terms by a court if either party chooses, or by an arbitrator if both parties agree on this.*

An independent monitoring trustee will advise the Commission in overseeing the proper implementation of the commitments."

SEP injunctions are not being outlawed *per se* in these decisions. Outside the safe harbour, the right to seek injunctions will remain against infringers who are deemed "unwilling" by refusing to negotiate FRAND terms. No guidance is provided on what constitutes "unwillingness" outside the narrow confines of an outright refusal to take a license.

According to SEP patentees including Google's Motorola Mobility and many others, in absence of the threat of an injunction, an infringer would have no incentive to negotiate a license because the worst-case scenario for the infringer is that a patent infringement lawsuit would require it to pay the same amount it would have paid earlier for a license. Motorola argues—and a recent [U.S. Federal Circuit Court of Appeals decision](#) also agreed without antitrust authority intervention— that an injunction might be appropriate where an alleged infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.

Willingness ill-defined

The devil will lie in the details of the Samsung and Motorola decisions. The impact will be broad including the EU and EEA at least.



Willingness is tricky to define, particularly in the circumstances of licensing negotiations and disputes. In the case of the Motorola prohibition decision under [Article 7](#) of the EU Antitrust Regulation (Regulation 1/2003), the Commissioner was unequivocal in the [text of his press conference speech](#) on these two decisions: "*[t]he Motorola Decision establishes clearly that a potential licensee is to be considered willing if, in case of dispute, it agrees to a determination of FRAND terms by a Court.*" According to the Q&A memo provided by the Commission, "*[w]hether a company can be considered a "willing licensee" needs to be determined on a case by case basis taking into account the specific facts.*"

However, if a prospective licensee chooses not to take advantage of the safe harbour, then it is national courts rather than antitrust agencies that are most experienced and suited to determining whether or not and upon what basis it is, nevertheless, 'willing.' Accordingly, the Samsung decision states that "*the court or tribunal called upon by Samsung to grant injunctive relief would need to evaluate all the circumstances of the case at hand in order to decide whether a potential licensee is indeed unwilling to enter into a licence agreement on FRAND terms and conditions.*" Apple was found by the Commission not to be an unwilling licensee of Samsung's UMTS SEPs.

Protracted assessment of willingness would be disadvantageous to patentees because this forestalls the opportunity to seek injunctions from SEP implementers who are not paying royalties. It is important that determinations of unwillingness followed by injunction rulings should take no longer than it used to take for injunctive relief to be sought and granted. That will require some fast-tracking in the latter, given that the Commission will presumably find it illegal to seek or obtain injunctions against prospective SEP licensees who have not (yet) been found unwilling.

Safe harbour licensing framework: challenging validity, essentiality and infringement with patent portfolios

FRAND licensing terms negotiated or determined by arbitration or the court in the safe harbour must be on the basis of a packaged approach, according to the Licensing Framework set out in the Samsung decision. Notably, recognising that it would be impossible to assess infringement, validity, essentiality for every patent, even in modest-sized portfolios, and that this is not the way license negotiations work in the real world, the EC's approach is not on the basis of individual assessments of these issues on a patent-by-patent basis or in multiple jurisdictions. In other words, if a licensee wants to enter the safe harbour and protect itself from the threat of injunctions for all Mobile SEPs, it must accept that all such SEPs are within the safe harbour and that the safe harbour needs to adopt a timely and efficient approach to determining FRAND terms for those Mobile SEPs. The quid pro quo with the removal of the threat of injunctions in the safe harbour framework is that licensees cannot pull things apart and challenge many or every patent to delay and fragment the licensing process. According to the terms of the framework, invitations to negotiate with Samsung, and signed acceptances by prospective licensees, must include "*(i) a 'proud list' i.e. a reasonable number of representative Mobile SEPs, together with claim charts; (ii) a list of the Mobile Standards that Samsung believes are implemented by the potential licensee; and (iii) a proposed duration for the licensing agreement which will not be less than five years. In addition, in order to allow a potential licensee to assess fully the details provided by Samsung with the invitation to negotiate, a potential licensee will have 60, instead of 30*



days, to sign the invitation to negotiate, which constitutes the contractual basis of the Licensing Framework”.

However, according to DG Comp, the seeking and enforcement of an injunction by Motorola against Apple before a German court on the basis of an alleged smartphone SEP infringement constituted an abuse of a dominant position prohibited by EU antitrust rules in view of the *“particular circumstances in which the injunction was used.”* DG Comp has ordered Motorola *“to eliminate the negative effects resulting from it.”* A particular point of concern was the condition which prevented Apple from challenging the validity of the patents to be licensed which Motorola requested from Apple as an offer under the German court's Orange Book process. DG Comp's point is presumably that prospective SEP licensees should remain free to challenge patent validity, essentiality and infringement in the public interest. However, the key distinction here with the safe harbour framework is that although prospective licensees cannot be forced to give up their rights to challenge validity, essentiality or infringement altogether, if they want to demonstrate that they are a willing licensee by entering the safe harbour and benefitting by safety from injunctions, they cannot also challenge many or every patent within the safe harbour process as, with even modest portfolios, this would frustrate the licensing process.

Prospective SEP licensees may, therefore, still contest patents they believe are invalid, non-essential or not infringed, but only outside of the safe harbour and cannot delay the safe harbour process (nor does such a challenge invalidate that process).

It is notable that Samsung claims to have many SEPs and it seeks, as do most other SEP owners and indeed prospective licensees, to license them on a global portfolio basis. With patentees owning up to hundreds of SEP families each, negotiated licensing terms reflect the fact that some patents are stronger than others and that many patents in a medium or large portfolio will turn out to be invalid or not infringed if tested in a court.

Real world licensing and cross-licensing takes these realities into account. It is impractical, for the courts as well as negotiating parties, to assess issues of validity, infringement or essentiality for more than a small number of patents.

It is not clear how DG Comp expects things to work with external patent challenges while patent licensing terms are being set within the licensing framework with the above package-based approach. In my opinion, if certain crucial patents are challenged after licenses are executed, then licensing terms might be equitably revised, at the court's discretion, with reducing licensing fees for judgments of invalidity or non-infringement and with increasing these fees where judgments affirm validity and infringement.

Commercial negotiation, hold up and hold out?

[DG Comp asserts](#) that *“seeking of an injunction based on SEPs may constitute an abuse of a dominant position if a SEP holder has given a voluntary commitment to license its SEPs on FRAND terms and where the company against which an injunction is sought is willing to enter into a licence agreement on such FRAND terms.”*



Standard-setting organisations have developed IP licensing policies that strike a balance between the bargaining positions of licensors and licensees. [The Commission agrees](#) that “standards bodies generally require their members to commit to license SEPs on fair, reasonable and non-discriminatory (so-called ‘FRAND’) terms. This commitment is designed to ensure effective access to a standard for all market players and to prevent ‘hold-up’ by a single SEP holder. ” Nevertheless, [DG Comp asserts](#) without empirical proof that “seeking of injunctions can distort licensing negotiations and lead to licensing terms with a negative impact on consumer choice and prices”.

Whereas DG Comp’s finds that patentees can ‘hold up’ licensees with excessive demands under threat of injunctions due to the ‘significant market power’ they may obtain from owning SEPs, it ignores or gives insufficient weight in its considerations to [the countervailing](#) threats, disruptions and expropriations from implementers who refuse to negotiate or take a FRAND license, unreasonably delay negotiations or counter-sue with asserted non-SEPs that may relate to widely-employed ‘commercially-essential’ features, but which do not ultimately stand up in validity and infringement trials.

According to *Chief Judge Rader*, dissenting-in-part in the CAFC’s above Apple versus Google’s Motorola ruling puts hold up and hold out on the same footing:

“Market analysts will no doubt observe that a ‘hold out’ (i.e., an unwilling licensee of an SEP seeking to avoid a license based on the value that the technological advance contributed to the prior art) is equally as likely and disruptive as a “hold up” (i.e., an SEP owner demanding unjustified royalties based solely on value contributed by the standardization). These same complex factual questions regarding “hold up” and “hold out” are highly relevant to an injunction request. In sum, differentiating “hold up” from “hold out” requires some factual analysis of the sources of value—the inventive advance or the standardization.” (Emphasis added).

In addition, DG Comp draws a bright line between SEPs and non-SEPs by stating in the Samsung decision that “Samsung cannot make access to its SEPs conditional on the cross-licensing of either non-SEPs or SEPs that are not covered by the reciprocity rules of SSOs.” However, counter-suits with injunction threats for alleged non-SEP infringement of ‘commercially-essential’ technologies by weighty counter-parties can also be very disruptive. This is particularly significant, given that many of these non-SEPs would not prevail in patent litigation. Mr Banasevic claimed at the above conference that around half the patents in suit in this area (including non-SEPs as well as SEPs) are ultimately found invalid or not infringed.

Technology developers spend [billions of dollars on R&D](#) every year in creating patented technologies which are adopted in standards. Various implementers including chip, smartphone and network equipment manufacturers reap high profit margins and large dollar profits by exploiting SEP-based technologies. [Claims of excessive royalties through alleged royalty-stacking are flawed](#). Holding out against FRAND licensing terms by refusing to pay fair and reasonable royalties, or dragging out negotiations unreasonably is no less an abuse than supposed hold up.



Reducing the availability of injunction relief for SEPs infringement, under the threat of antitrust sanction, will unfairly shift the balance of negotiating power from patentees to licensees. There is no proof that injunctions unbalance negotiations – especially given that injunctions are very rarely granted and can be counted on the fingers of one hand. This shift could undermine royalties and consequently deter further investment in standard-essential technologies while harm to consumers and licensees is unproven. Some of the latter are already extremely profitable by exploiting SEPs in conjunction with their own IP and other competitive strengths. There seems to have been insufficient consideration of how the status quo, with balance of power among market participants, will be affected given that it has [served consumers exceptionally well with vibrant innovation, reducing prices, fierce competition and new market entry](#). However, the above shift might be significantly tempered given that injunctive relief can still be sought when prospective licensees are not in the safe harbour created in DG Comp's decisions.

Testing for effects-based or per se abuse?

Reasoning and supporting evidence for intervention on the basis of dominant abuse is deficient, at least until DG Comp publishes the full Motorola prohibition decision.

In 2008, the Commission published *Guidance on its application of Article 102* of the Treaty on the Functioning of the European Union indicating a move towards an approach based more on the effect of market practices rather than their form. Pertinent factors include: market shares and structure (depends on how relevant market is defined), barriers to entry and expansion, and countervailing buyer power. According to [an article by Brian Sher of Nabarro LLP, published in practicallaw.com](#), “the main explanatory points arising from the Commission’s 2008 Guidance on Article 102 [of the Treaty on the Functioning of the European Union] are:

Anti-competitive foreclosure describes a dominant firm’s conduct hampering actual or potential competitors’ access to a market, giving it the likely ability to “profitably increase prices to the detriment of consumers.

An ability to “increase prices” includes any change in a competition factor that may be to the dominant firm’s advantage and to the consumer’s detriment. This can also include limiting quality, choice or innovation.”

However, the Samsung decision seems to go against this. The Commission finds Samsung dominant because it is deemed to have 100% share of the relevant markets for licensing each of its UMTS SEPs. This is because it regards industry players including European operators as being “locked-in” to the UMTS standard, UMTS equipment and spectrum exclusively-assigned to UMTS. It considers GSM, LTE and WiFi as complements not substitutes. DG Comp concludes that alleged countervailing power of certain licensees is not an effective constraint on Samsung’s dominance because implementers “cannot switch to other suppliers” (of SEP licensing, presumably) and because it concludes there are no viable substitutes to UMTS. In addition, the Commission finds abuse in the absence of “objective justification” given the “exceptional circumstances in this case of (i) the UMTS standard-setting process; and (ii) Samsung’s commitment to ETSI to license its UMTS SEPs on



FRAND terms and conditions preclude *“the exercise of an exclusive right”* through injunctive relief.

However, an effects-based approach would have shown that Apple has enjoyed the very best smartphone market access right from the very start upon market entry and ever since. Mobile operators and consumers have queued-up to be first with Apple's iPhones, in many cases including operator exclusives nationally. Apple has taken the leading share of industry profits with stellar gross margins of up to 60% and the number one or two position, by units sold, ever since it launched its first iPhone in 2007. Apple also asserts significant IP including commercially-essential non-SEPs: this is no less contentious in terms of value, validity or infringement than are the SEPs that Apple and others contest.

Once patent licensing terms are set, patentees have little or no scope to unilaterally raise prices, reduce output or quality, as can dominant and abusive players in many other industries. Patent licensing agreements, including those with FRAND-based terms are almost invariably set for fixed and long-term durations of several years and commonly do not expire for five years or more. There is no evidence of SEP-licensing practices and litigation limiting quality, choice or innovation. On the contrary, it fosters innovation and spreads the fruits of this among implementers and consumers to the maximum.

The finding that a patentee is dominant in antitrust terms merely by virtue of owning a patent or patents is exceptional in the EU and US, and is antithetical to patent law. DG Comp's blanket finding that every owner of an SEPs that reads on UMTS, the most prevalent communications standard in Europe, is effectively *per se* dominant, no matter what the SEP holder's size or business is, due to the success of this standard is in marked contrast to the Commission's [guidelines on horizontal co-operation agreements](#). These state *“there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power. The question of market power can only be assessed on a case by case basis”*. DG Comp does not show how it has assessed the individual SEPs and the patentee on this basis.

The possession of a patent or patents does not necessarily create the single supplier setting typical in monopolized markets. [Academic literature shows](#) that patents create an opportunity to commercialise an invention, but do not guarantee market success. This also applies to SEPs. SEPs cannot automatically confer monopolies or significant market power to each and every patent or patent holder. Many standards adopted fail to achieve market take-up. It is possible to work-around many patents including those claimed to be SEPs, so a declared SEP may not actually be essential. Some parts of the standards are optional or are rarely or never implemented or actually used. Corresponding markets may therefore be small or nonexistent. There is significant competition among SSOs and standards. Some smart device users are happy to forgo cellular connectivity and instead rely on the IEEE standard WiFi for data and voice connections with their iPods and tablets. Even within the scope of individual SSOs there is significant competition among different standards. In 3GPP CDMA-based HSPA and OFDMA-based LTE standards are in direct competition. The above may preclude or significantly limit the ability of any market participant to pursue monopoly pricing. It should be an empirical examination, not merely a theoretical matter of form, that determines the ability and extent to which anybody can enforce excessive or otherwise unreasonable terms on others.



Inter-jurisdictional issues

The marketplace for smartphones is global. Licensing agreements for SEPs and intellectual property in general typically reflect these realities. Antitrust rulings must also accommodate this. For example, the U.S. Supreme Court ruled under what circumstances injunctions are possible in the in case of *eBay Inc. versus MercExchange LLC*. Although that case was not specifically about SEPs, the recent CAFC ruling applied this case law to SEPs, with the same framework the Supreme Court used for assessing whether or not a permanent injunction can be made available.

DG Comp's Motorola decision is self-evidently in direct conflict with the German member state's court. In the case of SEP-based litigation between *Huawei v. ZTE*, the Regional Court of Düsseldorf Regional Court deferred to the [Court of Justice of the European Union \(CJEU\)](#) in March 2013, asking for a preliminary ruling on questions that are mostly related to availability of injunctive relief for owners of FRAND-encumbered SEPs. An opinion issued by this, Europe's highest court, will be binding on DG Comp as well as the courts and competition authorities of the 27 EU member states. A decision is expected next year. It remains unclear whether or not the CJEU will take a similar position to DG Comp who stated along with its decisions that it *"has provided observations outlining its position to the European Court of Justice"* but will *"naturally fully take account of any further guidance by the Court of Justice."*

Under Article 6 of the European Convention of Human Rights and Fundamental Freedoms applicants must have the possibility of seeking injunctive relief from a court for infringement of their rights. This was well recognised in case law of the European Court of Human Rights in cases such as *Golder v. UK.*, in which *"the principle whereby a civil claim must be capable of being submitted to a judge ranks as one of the universally "recognised" fundamental principles of law; the same is true of the principle of international law which forbids the denial of justice"*. The European Treaty and the Commission are bound to this, through the Charter of Fundamental Rights. The role of competition enforcement and access to justice has already been dealt with by the European Court. In *ITT Promedia* (1998), the General Court of the CJEU stated that since access to the court is a fundamental right and a general principle ensuring the rule of law, it is only in *"wholly exceptional circumstances"* that bringing legal proceedings may constitute an abuse of dominance and that the action must be objectively unreasonable or manifestly unfounded. The General Court recently restated this unequivocally in the trademark case *Protégé International* (2012). So it appears quite perverse that merely threatening or seeking an injunction, which is in the discretion of the court, should be deemed to constitute an abuse with all that this entails. However, DG Comp's position puts into direct conflict the right of a party's access to the courts merely due to the fact that the patent in question has been declared essential to a standard.

Yet in addressing this issue the Commission simply maintains that its Samsung decision *"fully respect[s] the requirement that a fair balance be struck between the fundamental rights and freedoms at stake, namely the rights linked to intellectual property enshrined in Article 17(2) of the Charter of Fundamental Rights of the European Union ("the Charter"); the right of access to a tribunal, enshrined in Article 47 of the Charter; and the freedom to conduct a*



business, enshrined in Article 16 of the Charter." Such derogation from the express jurisprudence of two supreme courts, on principles so fundamental to the rule of law should be explained on the basis of the most extraordinary circumstances. I do not see those in standardisation, licensing and commerce with smartphones and tablets.

Summing up

That the availability of injunctions or even seeking them should be an antitrust issue is quite perverse. Alleged hold up (i.e., getting more than you would due to the existence of injunctions) only works if injunctions are being granted inappropriately. But injunctions are very rarely granted and only in exceptional cases. This is because courts interpose themselves in the SEP owner-implementer dynamic and will only grant remedies they deem appropriate. This is the key constraint, but is brushed aside by the Commission, for example, in paragraph 63 of the Samsung decision. Intervention smacks of regulators distrust of the courts, rather than of FRAND violations by SEP owners that the courts are not dealing with properly. As [modestly yet fittingly put by U.S. FTC Commissioner Maureen Ohlhausen](#):

"It is thus vital that government officials, like myself, approach new technologies with a dose of regulatory humility, by working hard to educate ourselves and others about the innovation, understand its effects on consumers and the marketplace, identify benefits and likely harms, and, if harms do arise, consider whether existing laws and regulations are sufficient to address them, before assuming that new rules are required."



About this article, the author and WiseHarbor

This article was written by Keith Mallinson and initially published by [IP Finance](#) on 4th June 2014.

[Keith Mallinson](#) is founder of [WiseHarbor](#), providing expert commercial consultancy since 2007 to technology and service businesses in wired and wireless telecommunications, media and entertainment serving consumer and professional markets. He is often engaged as a testifying expert witness in patent licensing agreement disputes and in other litigation including asset valuations, damages assessments and in antitrust cases. He is also a [regular columnist](#) with [Wireless Week](#), [FierceWireless Europe](#) and IP Finance -- "where money issues meet intellectual property rights."

The author can be contacted at WiseHarbor. His email address is kmallinson@wiseharbor.com and you can also follow him on Twitter at <http://twitter.com/WiseHarbor>

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