

Nataliia Kozachuk

Taras Shevchenko National University of Kyiv, Ukraine

COUNTERACTING SEP ABUSE IN THE US AND EU THROUGH COMPETITION LAW

Patent statistics in the US and growing number of relevant lawsuits in the EU demonstrate that increased numbers of standard essential patent (SEP) violations carried out by patent owners, such as patent ambush or patent hold-up, may become an obstacle for industry's operation and ultimately harm consumers, causing anticompetitive effects.

Though contract, tort or intellectual property law could also address consequences of SEP abuse, competition law suits best when counteracting the gravest cases of such abuse that include anticompetitive conduct.

This article makes an attempt to suggest how competition policy in response to standard essential patent abuse may be developed in the EU and US. Through the analyses of how relevant provisions of the competition law were employed in standard essential patent abuse cases on both sides of the Atlantic, it compares how each system counteracts patent ambush or patent hold-up carried out through royalty staking, refusal to license, the use of injunctive relief etc.

There have been a significant number of relevant disputes heard, however, sphere of application of the provisions of competition law to the cases of SEP abuse is yet to be clarified. The US antitrust system doesn't provide sufficient legal basis to deal with such cases of SEP abuse as royalty staking and refusal to license, meanwhile, the EU competition law has been successful in addressing those SEP abuses due to broader application of competition law.

While application of competition and antitrust law to the cases of royalty staking and refusal to license differs greatly in the EU and US, there is some convergence in on how competition law counteracts resort to injunctions against SEP-users. Generally, in the presence of FRAND-encumbered SEP and a willing licensee, both EU and US competition law prohibits the use injunctions. However, some controversies arise.

The important policy question is whether by granting injunctive relief in the SEP context as a result of application of more stringent requirements to a willing licensee national courts would infringe member states obligations and would contribute to SEP owners abuse of dominant position, consequently, to the activity prohibited under Art. 102 of the TFEU.

To date only some member states, in particular, Germany, Italy, France, Netherlands and the UK had significant experience in adjudicating SEP cases. For instance, the ruling of the German Federal Court of Justice known as Orange Book standard that concerned injunction relief outside SEP context established a requirement that a willing licensee should not contest infringement. Application of this requirement would be restrictive and inability to challenge the fact that patent is standard essential would be anticompetitive. Similarly, according to German approach if a willing licensee entered the market he should pay royalties, even if together with patent owner they haven't reached an agreement on exact amount and later refuses to take those. This approach to determination of a willing licensee seems restrictive when compared to the legal test applied by the European Commission.

In the EU there is also a concern that applying more stringent requirement to the concept of a willing licensee on national level EU member states may facilitate SEP abuse, which even might be contrary to Art. 102 of the TFEU. To achieve convergent use of the concept of a willing licensee the European Commission and the ECJ should develop criteria based on which such licensee could be identified. Only through the development of competition policy in response to SEP abuse on pan-European level awareness among EU member states could be raised and adoption of fair decisions achieved.

In the US section 5 of the FTC act is used to counteract SEP abuse through injunctions while the scope of application of section 5 is broad and remains vague. This provokes uncertainty among

SEP-owners and creates demand for limitation of the scope of section 5 through the FTC Policy statement. Taking into consideration that section 5 of the FTC act is the only provision in the US competition law capable of counteracting SEP abuse through the use of injunctions, it seems more appropriate for FTC to issue a Policy statement officially extending the use of section 5 to SEP abuse cases clarifying the conditions when resort to injunction in standard setting context is anticompetitive.

Advantages and disadvantages of each system are highlighted and recommendations on competition policy development in the EU and US are suggested.

Key words: standard essential patent, patent hold-up, patent ambush, competition policy, injunction, royalty staking, refusal to license.

Interoperability standards are of paramount importance for successful development of modern information and communication technologies (ITC) such as Internet, computer hardware and software, semiconductors, telecommunications, etc. Most standards are adopted by standard setting organizations (SSOs) and include complex inventions protected by patents. Incorporation of a technology protected by patent into a standard creates standard essential patent (SEP): “Hundreds of thousands of patents cover semiconductor, software, telecommunications, or Internet inventions”¹. Patent statistics in the US have demonstrated that patent litigation driven by abuse of patents could reach all time high in 2015². Similarly, in the EU a number of lawsuits regarding SEPs is growing³. Increased numbers of SEP violations carried out by patent owners, such as patent ambush or patent hold-up, may become an obstacle for industry’s operation and ultimately harm consumers, causing anticompetitive effects.

Though contract, tort or intellectual property (IP) law could also address consequences of SEP abuse, “antitrust provides numerous practical advantages”⁴ when counteracting the gravest cases of such abuse that include anticompetitive conduct.

When dealing with consequences of SEP abuses through competition law the experience of the EU and US is very valuable. While in the EU and US there are some landmark cases when competition law was employed to counteract such abuse, sphere of application of the relevant provisions of competition law to the cases of SEP abuse are yet to be clarified. Development of competition policy in response to SEP abuse in the US, as well as on pan-European level and in the EU member states should be a priority for governments and non-governmental institutions, because a uniform competition policy can ensure predictability and reliability in the standard setting context.

This article compares application of the EU and US competition law to the most common cases of SEP abuse and identifies advantages and disadvantages of each system. Proposals for the development of competition policy when dealing with SEP abuse are made.

There are two most common types of SEP abuse: patent ambush and patent hold-up. We will in turn compare how legal systems of the EU and US are able to deal with those issues.

Patent ambush is an abusive practice that is done during standard setting process. It refers to the situation “when a member of a standard-setting organisation withholds information, during participation in development and setting a standard, about a patent which is relevant to the standard, and subsequently this company asserts that this patent is infringed by use of the standard as adopted.”⁵ This case of SEP abuse involves three variations of SEP owner’s deceptive conduct, when he either (1) intentionally stays silent about the patent or hides it, (2) provides a false statement that there is no patent or (3) falsely commits to

¹ Lemley, M.A. (2007). Ten Things to do About Patent Holdup of Standards (And One Not To). *Boston College Law Review*, 1, 151.

² Mullin, J. (2015). Patent troll lawsuits head toward all-time high. Arstechnica. <<http://arstechnica.com/tech-policy/2015/07/patent-troll-lawsuits-head-towards-all-time-high/>> (2015, July, 13).

³ Rossignol, J. (2015). Ericsson Extends Patent Lawsuit Against Apple to Europe. <<http://www.macrumors.com/2015/05/08/ericsson-patent-lawsuit-apple-europe/>> (2015, July, 13).

⁴ Cary, G.S., Nelson, M.W., Kaiser, S.J., & Sistla, A.R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3, 945.

⁵ Blind, K., Bekkers, R., Dietrich, Y., & Iversen, E. (2011). Study on the Interplay between Standards and Intellectual Property Rights (IPRs). <http://ec.europa.eu/enterprise/policies/european-standards/standardisation-policy/policy-activities/intellectual-property-rights/index_en.htm> (2015, July, 13).

licence its patented technologies on FRAND terms¹. This type of abuse is dangerous, because it facilitates elimination of competition during standard setting process.

In the EU in *Astra Zeneca* the ECJ stated that deception may amount to an abuse if it leads to anticompetitive effects. Then it would be in violation of Art. 102 of the Treaty on the Functioning of the European Union (TFEU). It is important to understand that under the EU competition law patent ambush carried out by non-dominant entity will be allowed and patent ambush conducted by a dominant entity may be prohibited. But the most important indicator for the antitrust liability in the EU is the effect on the market. Therefore, in the EU deception itself doesn't trigger antitrust liability, but might be prohibited if it has anticompetitive effects on the market².

The approach of the US competition law is different, "if deception allows SEP owner to obtain or maintain monopoly power through unlawful means, it constitutes a basis for section 2 (Sherman Act) liability"³. While US competition law successfully carried out the task of policing patent ambush in *Broadcom v. Qualcomm* case using section 2, it failed to do so in the *Rambus* case.

In the former case in order to incorporate its technology in a standard the company made a false promise to licence it on free, reasonable and non-discriminatory terms (FRAND) only to violate its commitment once the standard was adopted and implemented. The court noted that "the FRAND commitment, or lack thereof, is ... a key indicator of the cost of implementing a potential technology" and a misrepresentation of the cost may confer an unfair advantage to the patent owner⁴. The company did not obtain dominance due to superior technology, but as a result of deception and the court ruled that such behaviour constituted a violation of section 2 of the Sherman Act.

In the later case, having concealed its patent application from a non-governmental SSO – JEDEC, Rambus used its membership in that organization to establish connections, which helped him to obtain information on standardization activities after Rambus withdrew from JEDEC⁵. Therefore, Rambus's deceptive conduct helped it to tailor its patent claim so that it would cover JEDEC's standard. Once the standard was widely implemented, Rambus became a monopolist⁶ and demanded high royalty payments for the use of its technology – engaged in royalty staking.

In the case of *Rambus* FTC failed to convince the D.C. court of Appeals that there was a causal link between Rambus's deceptive conduct and establishment of its market dominance. FTC developed two possible scenarios of how Rambus obtained market dominance: while the first scenario would indeed trigger anticompetitive conduct, under the second scenario JEDEC would have demanded from Rambus RAND assurances, with an opportunity for *ex ante* licensing negotiations⁷. This second scenario merely shows that Rambus didn't undertake FRAND commitments, so it means that lawful monopolist charged excessive prices – this activity is in compliance with US competition law because it falls under *Nynex* exception – a case where it was confirmed that lawful monopolist may charge excessive prices. It was FTC's burden of proof to demonstrate that deception led to Rambus's acquisition of monopoly power that allowed the company to charge excessive prices, which wouldn't be protected by *Nynex* exception⁸.

The set of facts in *Rambus* is unique and is substantially different from that in *Broadcom*, *N-Data* or *Dell* where companies violated their commitments taken during the standardization process. FTC failed to convincingly establish causal link between deceptive conduct and acquisition of monopoly power. Therefore, *Rambus* case didn't establish a restrictive application of Sherman Act section 2 but demonstrated

¹ Petrovcic, U. (2014). *Competition law and standard essential patents: A transatlantic perspective*. Alphen aan den Rijn: Kluwer Law International, 79.

² Petrovcic, U. (2014). *Competition law and standard essential patents: A transatlantic perspective*. Alphen aan den Rijn: Kluwer Law International, 82.

³ Petrovcic, U. (2014). *Competition law and standard essential patents: A transatlantic perspective*. Alphen aan den Rijn: Kluwer Law International, 88.

⁴ *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297. 3d Cir. 2007. Para. 313.

⁵ Federal Trade Commission. *Opinion of the Commission In the Matter of Rambus, Inc. Docket No. 9302, 73*. <<https://www.ftc.gov/sites/default/files/documents/cases/2006/08/060802commissionopinion.pdf>> (2015, July, 13).

⁶ Federal Trade Commission. *Opinion of the Commission In the Matter of Rambus, Inc. Docket No. 9302, 73*. <<https://www.ftc.gov/sites/default/files/documents/cases/2006/08/060802commissionopinion.pdf>> (2015, July, 13).

⁷ *In re Rambus, Inc.*, No. 13-1192. Fed. Cir. 2014. Para. 40.

⁸ Wright, J.D. (2009). Why the Supreme Court was Right to Deny Certiorari in *FTC v. Rambus*. *Global Competition Policy*. 09-14, 8.

that the sphere of application of this provision to the cases of SEP abuse is very narrow.

In the US deception which leads to market dominance may be prohibited under section 2 of the Sherman Act regardless of the fact whether the entity was or wasn't dominant at the time of deceptive conduct. Here, the way in which dominant position was obtained is crucial.

These two different regulatory regimes of the same issue demonstrate historic differences of the EU and US competition law. EU competition law was created with the aim of market integration and is closely connected with the EC principle of free movement of goods and services; consequently, it is motivated by concerns for efficient business and for consumers' interests¹. Meanwhile, the idea behind competition policy in the US is based on contribution of Chicago school theory that market self-corrects, therefore, governmental intervention should be limited, allowed in extreme cases and focus solely on the benefits to consumers and overall market efficiency.

The second type of abusive behaviour in SSO context is patent hold-up, which takes place after the standard was implemented. It is a type of a contractual holdup, when members of the SSO make specific investment related to the selection of a particular technology in the standard and the patent owner may engage in "holdup" by [either] demanding a higher royalty rate than during negotiations², imposing other onerous requirements or excluding market rivals from the use of the patent. Patent hold-up can result from patent ambush, but not necessarily. Patent hold-up may take different forms. Royalty staking and exclusionary practices are the most common types of patent hold-up.

Royalty staking is a type of abusive behaviour when SEP owner imposes the payment of licensing fees, which are considered excessive to the value of the SEP³. In the industries like ITC, where a single standard often incorporates numerous technologies, a patent owner "can capture not just the value of the inventive contribution that they have made ... but also some greater amount of money than their invention is worth."⁴ Due to such onerous licensing requirements SSO members could be effectively prevented from using the standard⁵.

Under the EU competition law the European Commission successfully addressed three cases where the SEP owners engaged in imposition of excessive royalties using Art. 102 of the TFEU, namely, *Rambus*, *Qualcomm* and *IPcom*. While *Rambus* and *Qualcomm* clearly engaged in deception during standard setting process, therefore, imposition of excessive royalties may be described as stemming from patent ambush, in the *IPcom* case, SEP owner didn't engage in deceptive conduct during standard setting. Here, company IPcom acquired the mobile telephony patent portfolio developed by Robert Bosch GmbH (Bosch), which included patents essential to the GSM and UMTS standards. While Bosch committed to grant access to its SEPs on FRAND terms, having acquired rights to SEPs, IPcom decided to deviate from FRAND commitment. The outcome of this case was that IPcom agreed to licence SEPs on FRAND terms.

This case is notable because the European Commission in its statement welcomed IPCom's declaration and considered that it was important that when patents essential to a standard were transferred from one owner to another, so should any relevant FRAND commitments⁶. With this statement the European Commission clarified the sphere of application of Art. 102 of the TFEU justifying legal intervention in case of royalty staking where the original SEP owner undertook FRAND commitments but a new owner of SEP didn't. In such a case it seems that new SEP owner remains bound by the commitments of the previous SEP owner. In other words, FRAND commitments with regard to SEP follow SEP in the EU.

Some scholars consider application of Art. 102 of the TFEU to patent hold-up cases excessive and criticize it arguing that the absence of a legal test and difficulties with identification of exploitative royalties

¹ Fox, E. (1997). US and EU Competition Law: A Comparison. In E. Graham & D. Richardson (Eds.), *Global competition policy*. Washington, DC: Institute for International Economics, 353.

² Kobayashi, B.H., Wright, J.D. (2009). Federalism, substantive preemption, and limits on antitrust: an application to patent holdup. *Journal of Competition Law and Economics*, 3, 6.

³ Cary, G.S., Nelson, M.W., Kaiser, S.J., & Sistla, A.R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3, 103.

⁴ Lemley, M.A. (2007). Ten Things to do About Patent Holdup of Standards (And One Not To). *Boston College Law Review*, 1, 152.

⁵ Carrier, Michael A. (2009). *Innovation for the 21st Century: Harnessing the Power of Intellectual Property and Antitrust Law*. Oxford; New York: Oxford UP. Print, 329.

⁶ European Commission (2009). *Antitrust: Commission welcomes IPCom's public FRAND declaration*. <http://europa.eu/rapid/press-release_MEMO-09-549_en.htm> (2015, July, 13).

as opposed to high royalties might lead to erroneous decisions¹. While it is clear that there might be some risk of erroneous decisions, it has been proven in practice that the European Commission is willing to use competition law only in cases with a certain degree of deception during the standardization process or when derogation from FRAND commitment took place and not in the cases where purely exploitative licensing rates are imposed.

It's true that competition authorities on pan-European level have always applied art. 102 of the TFEU wisely: only in those cases of royalty staking, where either deception was involved or new SEP owners reneged on FRAND commitments for FRAND encumbered SEPSs. However, if SEP owner holds a dominant position in the relevant market, which is usually the case in SEP context, broad reach of Art. 102 of the TFEU raises concerns from the perspective of competition policy because it may punish imposition of any licensing fees considered exploitative. If the Commission suggested criteria for determination of exploitative licensing fees as opposed to high ones, it would add clearness to the EU competition policy with regard to patent hold-up through royalty staking and may serve as a guideline for market participants in standard setting context.

The picture is quite different in the US. Royalty staking through the imposition of excessive licensing fees is not prohibited under the US competition law if the dominant entity gained monopoly power as a result of fair competition. Such position is supported in *Trinko* and *Nynex* cases. If monopoly power was obtained using the means other than competition on its merits, royalty staking might be a breach of section 2 of the Sherman act, but antitrust liability will be triggered by unfair means of competition rather than by onerous licensing conditions.

Although, as previously mentioned, section 2 of the Sherman act has a narrow sphere of application with a limited capacity of counteracting SEP abuse, US competition law arsenal has also section 5 of the FTC act at its disposal which prohibits undertakings to engage in unfair or deceptive acts or practices and unfair methods of competition². *N-Data* represents a case where to police the practice of royalty staking section 5 of the FTC act was successfully used as a sole basis for antitrust liability. In that case the company N-Data acquired patent rights originally held by National Semiconductor Corp. which were included in Ethernet - an IEEE industry standard that is used in nearly every computer sold in the U.S. N-Data reneged on National Semiconductor's commitment to charge a one-time royalty of \$1000 to manufacturers or sellers of products using the IEEE standard, and demanded higher royalties from users. Importantly, the FTC noted that "merely breaching a prior commitment is not enough to constitute an unfair act or practice under Section 5. The standard-setting context in which National made its commitment is critical to the legal analysis."³ Putting it differently, antitrust liability in this case was triggered by the fact that the commitment breached was undertaken in the standard setting context and was a prerequisite of technology's implementation in the standard. The circumstances in *N-Data* in the US remind those of *IPcom* in the EU. In this light it can be seen as a type of deceptive conduct.

So, antitrust liability here again was triggered by what turned out to be deceptive conduct through which monopoly power was gained, but not by exploitative royalty rates themselves. So, apart from the fact that finding in *N-Data* was controversial and highly criticised, the reasoning of the case supports the conclusion that it is highly unlikely that royalty staking will be punishable under section 5 of the FTC act. Consequently, it is highly unlikely that US competition law could capture cases of SEP abuses, when excessive licenses prices are applied.

Exclusionary practices represent the second most typical case of SEP abuse through patent hold-up. Exclusion of competitors may be done either through refusal to licence SEP or through injunction – a court order requiring a company to stop using SEP.

In the EU there is no case-law establishing anticompetitive effects stemming from the refusal to license a SEP. However, it could be argued that Art. 102 of the TFEU envisages such possibility. Generally, SEP owners who obtained market dominance are allowed to refuse to license its technology to market rivals, because the principle of patent exclusivity incorporated into intellectual property law gives such

¹ Cary, G.S., Nelson, M.W., Kaiser, S.J., & Sistla, A.R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3, 117-118.

² 15 U.S.C. §45(a).

³ *Negotiated Data Solutions LLC; Analysis of Proposed Consent Order to Aid Public Comment*. Federal Register. (2008). 21, 9. <http://www.ftc.gov/sites/default/files/documents/federal_register_notices/negotiated-data-solutions-llc-analysis-proposed-consent-order-aid-public-comment-statement/080131negotiated_data_solutionsllc.pdf> (2015, July, 13).

opportunity. However, in specific circumstances such right might be limited.

Consider 3G high-speed mobile Internet standard in the EU, access to which provides access to the whole high-speed mobile Internet market. In case of a refusal to license a SEP, included into 3G standard, the competitor will be excluded from the entire market. To prove that such refusal to license has anticompetitive effects it is necessary to make sure that the four requirements of the exceptional circumstances test are met: (1) the access to the input protected by the IPR is indispensable to compete in the market, (2) the refusal to license excludes effective competition in the market, (3) it prevents the emergence of a new product, (4) such refusal is not objectively justified¹.

Our example with the 3G mobile Internet standard demonstrates that it is possible to prove the first and the second conditions, because access to SEP, which collates into access to 3G standard provides the possibility to compete in the market and in the absence of such possibility effective competition in the market would be excluded. As to the requirement of the emergence of a new product, if it were interpreted as meaning a completely different product, it would be almost impossible to satisfy. Interpretation of the ECJ in the *Microsoft* case where a new product element would be met if refusal to license would create a limitation of “technical development of a product”² makes it easier to prove that refusal to license a SEP might fall within the scope of exceptional circumstances test.

In the absence of relevant case-law in the EU, SEP owner’s refusal to license might be condemned under the EU competition law if all elements of the exceptional circumstances test are met, regardless of the fact, whether SEP owner undertook FRAND commitments.

In the US refusal to license may provide grounds for violation of section 2 of the Sherman act. In the case of *Verizon* the Supreme Court stated that “in absence of previous voluntary cooperation, competition law does not impose on undertakings a duty to deal with their rivals”³. So, refusal to license is not anticompetitive in the absence of FRAND commitment. It would be nearly impossible to establish antitrust liability for the refusal to license under US competition law, however, this possibility remains open in case of FRAND encumbered SEP. Scholars emphasized that while refusal to license is not an antitrust violation, compulsory licensing may be used as a remedy for an antitrust violation⁴. After *Xerox* decision it became clear that the possibility for antitrust liability in SEP context remains if statutory right of refusal to license is used to gain a monopoly in the market beyond the one conferred by the patent. So, notwithstanding the fact that there is no relevant case law in the US, SEP owner’s readiness to undertake FRAND commitment might be a sign of SEP owner’s involvement into previous voluntary co-operation, which might provide grounds for the claim that refusal to license a SEP is in violation of section 2 of the Sherman act.

When discussing anticompetitive consequences of the refusal to license under the US competition law in the absence of FRAND commitments it would be nearly impossible to establish antitrust liability. Situation in the EU is different: decisions *Magill* and *IMS* cases condemned refusal to license even in the absence of previous licensing agreements⁵. Again, the fact that SEP owner undertook FRAND commitments might make it easier to prove anticompetitive conduct, but antitrust violation might exist even in the absence of FRAND obligation.

Another type of SEP owner’s abusive behaviour is the use of injunction – a court order that compels a party to do or refrain from specific acts. In standard setting context injunction prohibits using SEP, consequently, blocks the use of the standard and might be an instrument of facilitation of patent holdup. While there is an agreement that the use of injunction against SEP infringer – which is a judicial prohibition of patent use by the infringer – is a fundamental right of SEP owner, in exceptional circumstances it may be anticompetitive.

In the EU there is an agreement that “recourse to injunctions is a possible remedy for patent

¹ Cary, G.S., Nelson, M.W., Kaiser, S.J., & Sistla, A.R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3, 52. See *Radio Telefis Eireann v. Commission*. 1995. C-241/91 P, C-242/91. Para. 2.

² *Microsoft v. Commission*. 2004. T-201/04. ECR-II-4463. Para. 647.

³ Cary, G.S., Nelson, M.W., Kaiser, S.J., & Sistla, A.R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3, 109. See *Verizon Communications Inc. v. Law Offices of Curtis v. Trinko, LLP*. 540 U.S., 7-11.

⁴ Hovenkamp, H.J. (2007). Standards Ownership and Competition Policy. *Boston College Law Review*, 8, 105.

⁵ Cary, G.S., Nelson, M.W., Kaiser, S.J., & Sistla, A.R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3, 106-107.

infringements”¹. To date there has been two cases brought by the European Commission that resulted in the prohibition of the use of injunction by SEP owners, who committed to FRAND terms during standardisation: cases against Samsung and Motorola. In both cases in line with the Commission's Guidelines on standardisation agreements respective standard setting organisations required the SEP owners to commit to license those SEPs on FRAND terms. It was as a condition for their technologies' inclusion into standards.

In the case of *Motorola* the Commission expressed its concern that a threat of injunction was used as an instrument to force potential licensees to accept unfair licensing conditions for its SEPs in breach of Art. 102 of the TFEU. Here, the European Commission noted that injunction can't be used as an instrument for imposition of onerous licensing conditions. The case against *Motorola* resulted in an infringement decision with an obligation for Motorola to eliminate negative effects, but without imposition of a fine, because “national courts reached so far diverging conclusions”².

Another important emphasis that clarifies when injunction might be anticompetitive was made in the case of *Samsung*, when the Commission stressed that recourse to injunction may be abusive where SEPs are concerned and the potential licensee is willing to negotiate a license on FRAND terms³. So, apart from previous FRAND commitments a willing licensee is a requirement. The proceedings in *Samsung* case ended with the commitment decision, where Samsung was obliged not seek injunctive relief with regard to all of its SEPs against any company which agrees to licensing framework⁴. According to the licensing framework the parties had up to 12 month to negotiate on the meaning of FRAND commitments and if they failed to reach the agreement they had to resort to either court or arbitration to determine the meaning of FRAND⁵.

As a matter of fact, in the EU the use of injunction relief against SEP users can be anticompetitive and two conditions must be met: there must be SEP owner's commitment to provide license on FRAND terms and presence of a willing licensee. The ECJ has not clarified the notion of a willing licensee, so this concept remains vague and may be interpreted differently depending on member-states judicial practice.

Since there is no practice of the ECJ with regard to availability of injunctive relief in SEP context, legal tests applied by the EU member states in this sphere are diverse. The European Commission seems to support the position that the use on an injunctive relief constitutes an abuse of dominant position in SEP context if before resorting to the injunction SEP owner failed “to present the alleged infringer with a written offer of a licence on FRAND terms including the precise amount of the royalty”⁶.

To date only some member states, in particular, Germany, Italy, France, Netherlands and the UK had significant experience in adjudicating SEP cases⁷. For instance, the ruling of the German Federal Court of Justice known as Orange Book standard that concerned injunction relief outside SEP context established a requirement that a willing licensee should not contest infringement⁸. Application of this requirement would be restrictive and inability to challenge the fact that patent is standard essential would be anticompetitive⁹.

¹ European Commission (2012). *Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents*. <http://europa.eu/rapid/press-release_IP-12-1448_en.htm> (2015, July, 13).

² European Commission (2014). *Antitrust: Commission finds that Motorola Mobility infringed EU competition rules by misusing standard essential patents*. <http://europa.eu/rapid/press-release_IP-14-489_en.htm> (2015, July, 13).

³ Hovenkamp, H.J. (2007). Standards Ownership and Competition Policy. *Boston College Law Review*, 8, 105.

⁴ European Commission (2014). *Memo. Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics*. <http://europa.eu/rapid/press-release_MEMO-14-322_en.htm> (2015, July, 13).

⁵ European Commission (2014). *Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions*. <http://europa.eu/rapid/press-release_IP-14-490_en.htm> (2015, July, 13).

⁶ Court of Justice of the European Union. (2014, November 20). *Advocate General's Opinion in Case C-170/13 Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*. <<http://curia.europa.eu/jcms/upload/docs/application/pdf/2014-11/cp140155en.pdf>> (2015, July, 13).

⁷ Camesasca, P., Gregor, L., Damien, N., Pat, T. (2013). Injunctions for Standard-essential Patents: Justice is not Blind. *Journal of Competition Law and Economics*, 9 (2), 292.

⁸ Camesasca, P., Gregor, L., Damien, N., Pat, T. (2013). Injunctions for Standard-essential Patents: Justice is not Blind. *Journal of Competition Law and Economics*, 9 (2), 295.

⁹ European Commission (2014). *Antitrust: Commission finds that Motorola Mobility infringed EU competition*

Similarly, according to German approach if a willing licensee entered the market he should pay royalties, even if together with patent owner they haven't reached an agreement on exact amount and later refuses to take those¹. This approach to determination of a willing licensee seems restrictive when compared to the legal test applied by the European Commission.

The important policy question here is whether by granting injunctive relief in the SEP context as a result of application of more stringent requirements to a willing licensee national courts would infringe member states obligations and would contribute to SEP owners abuse of dominant position, consequently, to the activity prohibited under Art. 102 of the TFEU.

Taking into account that ITC spheres are rapidly developing, disputes with regard to SEPs will continue to arise. Even recently Ericsson - the world's largest provider of mobile network equipment, extended its lawsuits concerning SEP to European countries: Germany, United Kingdom and the Netherlands². Its important for EU member states to share some convergent approach to their counteraction which may be achieve through development of competition policy on pan-European level.

There is a certain convergence in US-EU practice with regard to the prohibition of injunctive relief in the standard setting context. There have been two cases in recent practice of the US, where SEP owners who committed to FRAND terms resorted to injunctions against SEP users and FTC prosecuted their actions with reliance on section 5 of the FTC act. Both cases – *Bosch* and *Motorola/ Google* – were concluded with consent orders. Here, the fact that SEP's owner undertook FRAND commitments in the standard setting context was essential to establish anticompetitive effect.

Moreover, in *Motorola* the FTC made a supposition that patent hold-up can be facilitated through either of the two possible scenarios: by excluding products from the market entirely as a result of an injunction, or by leading to higher prices, because manufacturers using Google's SEPs would be forced, by the threat of an injunction, to pay higher royalty rates which would be passed on to consumers. As a matter of fact, FTC considered that injunction could be used to add Motorola bargaining power for convincing potential licensees to agree to unfair licensing conditions.

In *Bosch* matter the FTC in its public statement emphasized that when SPX committed to license its SEPs on FRAND terms it voluntarily gave up the right to seek an injunction against a willing licensee³. Here it is important to note that breach of competition law may exist if FRAND-encumbered SEP owner deals with a willing license. There is still no definition or criteria for determination as to who a willing licensee is.

A controversial part of these cases is connected with the use of section 5 of the FTC act as of a sole basis for violation. Some scholars and practitioners criticised such use: "the attempt to extend the competition laws to breach of contract disputes involving patent royalty rate negotiations threatens to convert competition law—a body of law designed to govern the competitive process—into one forced into micro-managing negotiations and regulating prices"⁴. Others are more optimistic: they argue that expansion of the scope of the FTC will lead to convergence of US-EU practice in cases of SEP abuses⁵. The FTC itself stated that "the plain language of Section 5, the relevant legislative history, and a long line of Supreme Court cases all affirm that Section 5 extends beyond the Sherman Act"⁶.

The main problem with the use of section 5 of the FTC act to prohibition of the use of injunctions by

rules by misusing standard essential patents. <http://europa.eu/rapid/press-release_IP-14-489_en.htm> (2015, July, 13).

¹ Camesasca, P., Gregor, L., Damien, N., Pat, T. (2013). Injunctions for Standard-essential Patents: Justice is not Blind. *Journal of Competition Law and Economics*, 9 (2), 296.

² Rossignol, J. (2015). Ericsson Extends Patent Lawsuit Against Apple to Europe. <<http://www.macrumors.com/2015/05/08/ericsson-patent-lawsuit-apple-europe/>> (2015, July, 13).

³ Statement of the Federal Trade Commission. In the Matter of Robert Bosch GmbH. *FTC File Number 121-0081*. (2012). <https://www.ftc.gov/sites/default/files/documents/cases/2012/11/121126_boschcommission_statement.pdf> (2015, July, 13).

⁴ Tucker, D. (2014). Interview with Joshua D. Wright, Commissioner, Federal Trade Commission. *The Antitrust Source*. 9. <http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/aug14_wright_intrvw_7_23f.authcheckdam.pdf> (2015, July, 13).

⁵ Hockett, C.B., Lipscomb, R. (2009). Best FRANDs Forever? Standard-Setting Antitrust Enforcement in the United States and the European Union. *Antitrust*. 3, 24.

⁶ European Commission (2014). *Antitrust: Commission finds that Motorola Mobility infringed EU competition rules by misusing standard essential patents.* <http://europa.eu/rapid/press-release_IP-14-489_en.htm> (2015, July, 13).

FRAND encumbered SEP owners is that there is no clear test of illegality of imposition of injunction. Therefore, without formal requirements such expansion of the use of section 5 might frustrate competitors and result in unpredictable outcomes.

To conclude, regarding patent ambush done through deceptive conduct of the future SEP owner, the US competition law is likely to condemn such practice either if it is carried out by a dominant entity, or by an entity that is seeking to obtain dominant position. To the contrary in the EU patent ambush through deceptive conduct *per se* will not be condemned. US competition law pays attention that market power must be obtained through competition on the merits, but for the EU competition law it is crucial to supervise the activities of a company once it became dominant. Established historically, it is unlikely that such differences may be eliminated through competition policy transformations.

The US competition system doesn't provide sufficient legal basis to deal with the cases of royalty staking in the SEPs context for two reasons. Firstly, section 2 of the Sherman act has a limited scope of application in case of SEP abuse, secondly, in cases of royalty staking successfully addressed in the US deceptive conduct rather than merely exploitative licensing requirements triggered liability under section 5 of the FTC act. Contrary to this, the EU competition law has successfully addressed cases of SEP abuse through royalty staking and has sufficient capacity to do so in the future. Though the practice of application of Art. 102 of the TFEU seems to be consistent, development of certain criteria on how to define that royalties for SEP are not just high but exploitative, would be a valuable contribution for the EU competition policy predictability.

Regarding refusal to licence, the scope of application of the EU competition law is broader than that of the US. In the EU regardless of the fact whether SEP owner undertook FRAND commitments, antitrust liability is possible if four elements of the exceptional circumstances test are established. There is no judicial practice but it might be difficult to demonstrate that refusal to licence prevented emergence of a new product. Meanwhile, in the US existence of FRAND-encumbered SEP is a prerequisite for antitrust liability, so here competition law may be employed to counteract lesser amount of abuses.

There is some convergence in the EU and US on how competition law counteracts resort to injunctions against SEP-users. Generally, in the presence of FRAND-encumbered SEP and a willing licensee, both EU and US competition law prohibits the use injunctions. However, some controversies arise.

In the EU there is a concern that applying more stringent requirement to the concept of a willing licensee on national level EU member states may facilitate SEP abuse, which even might be contrary to Art. 102 of the TFEU. To achieve convergent use of the concept of a willing licensee the European Commission and the ECJ should develop criteria based on which such licensee could be identified. Only though the development of competition policy in response to SEP abuse on pan-European level awareness among EU member states could be raised and adoption of fair decisions achieved.

In the US section 5 of the FTC act is used to counteract SEP abuse through injunctions while the scope of application of section 5 is broad and remains vague. This provokes uncertainty among SEP-owners and creates demand for limitation of the scope of section 5 through the FTC Policy statement. Taking into consideration that section 5 of the FTC act is the only provision in the US competition law capable of counteracting SEP abuse through the use of injunctions, it seems more appropriate for FTC to issue a Policy statement officially extending the use of section 5 to SEP abuse cases clarifying the conditions when resort to injunction in standard setting context is anticompetitive.

References

1. Blind, K., Bekkers, R., Dietrich, Y., & Iversen, E. (2011). Study on the Interplay between Standards and Intellectual Property Rights (IPRs). <http://ec.europa.eu/enterprise/policies/european-standards/standardisation-policy/policy-activities/intellectual-property-rights/index_en.htm> (2015, July, 13).
2. *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 3d Cir. 2007. Para. 313.
3. Camesasca, P., Gregor, L., Damien, N., Pat, T. (2013). Injunctions for Standard-essential Patents: Justice is not Blind. *Journal of Competition Law and Economics*, 9 (2).
4. Carrier, Michael A. (2009). *Innovation for the 21st Century: Harnessing the Power of Intellectual Property and Antitrust Law*. Oxford; New York: Oxford UP. Print.
5. Cary, G. S., Nelson, M. W., Kaiser, S. J., & Sistla, A. R. (2011). The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting. *Antitrust Law Journal*, 3.
6. *Telefis Eireann v. Commission*, 1995. C-241/91 P, C-242/91. Para. 2.
7. *Verizon Communications Inc. v. Law Offices of Curtis v. Trinko, LLP*. 540 U.S., 7 11.
8. Court of Justice of the European Union (2014, November 20). Advocate General's Opinion in Case C-170/13

- Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH. <<http://curia.europa.eu/jcms/upload/docs/application/pdf/2014-11/cp140155en.pdf>> (2015, July, 13).
9. European Commission (2009). *Antitrust: Commission welcomes IPRCom's public FRAND declaration*. <http://europa.eu/rapid/press-release_MEMO-09-549_en.htm> (2015, July, 13).
10. European Commission (2012). *Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents*. <http://europa.eu/rapid/press-release_IP-12-1448_en.htm> (2015, July, 13).
11. European Commission (2014). *Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions*. <http://europa.eu/rapid/press-release_IP-14-490_en.htm> (2015, July, 13).
12. European Commission (2014). *Antitrust: Commission finds that Motorola Mobility infringed EU competition rules by misusing standard essential patents*. <http://europa.eu/rapid/press-release_IP-14-489_en.htm> (2015, July, 13).
13. European Commission (2014). *Memo. Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics*. <http://europa.eu/rapid/press-release_MEMO-14-322_en.htm> (2015, July, 13).
14. Federal Trade Commission. *Opinion of the Commission In the Matter of Rambus, Inc. Docket No. 9302, 73*. <<https://www.ftc.gov/sites/default/files/documents/cases/2006/08/060802commissionopinion.pdf>> (2015, July, 13).
15. Fox, E. (1997). US and EU Competition Law: A Comparison. In E. Graham & D. Richardson (Eds.). *Global competition policy*. Washington, DC: Institute for International Economics, 353.
16. Hockett, C. B., Lipscomb, R. (2009). Best FRANDs Forever? Standard-Setting Antitrust Enforcement in the United States and the European Union. *Antitrust*, 3, 24.
17. Hovenkamp, H. J. (2007). Standards Ownership and Competition Policy. *Boston College Law Review*, 8, 105.
18. *In re Rambus, Inc., No. 13-1192. Fed. Cir. 2014. Para. 40*.
19. Kobayashi, B. H., Wright, J. D. (2009). Federalism, substantive preemption, and limits on antitrust: an application to patent holdup. *Journal of Competition Law and Economics*, 3, 6.
20. Lemley, M. A. (2007). Ten Things to do About Patent Holdup of Standards (And One Not To). *Boston College Law Review*, 1, 151.
21. *Microsoft v. Commission*, 2004. T-201/04. ECR-II-4463. Para. 647.
22. Mullin, J. (2015). Patent troll lawsuits head toward all-time high. *Arstechnica*. <<http://arstechnica.com/tech-policy/2015/07/patent-troll-lawsuits-head-towards-all-time-high/>> (2015, July, 13).
23. Negotiated Data Solutions LLC; Analysis of Proposed Consent Order to Aid Public Comment. *Federal Register* (2008). <http://www.ftc.gov/sites/default/files/documents/federal_register_notices/negotiated-data-solutions-llc-analysis-proposed-consent-order-aid-public-comment-statement/080131negotiateddatasolutionsllc.pdf> (2015, July, 13).
24. Petrovcic, U. (2014). *Competition law and standard essential patents: A transatlantic perspective*. Alphen aan den Rijn: Kluwer Law International.
25. Rossignol, J. (2015). Ericsson Extends Patent Lawsuit Against Apple to Europe. <<http://www.macrumors.com/2015/05/08/ericsson-patent-lawsuit-apple-europe/>> (2015, July, 13).
26. Statement of the Federal Trade Commission. In the Matter of Robert Bosch GmbH. FTC File Number 121-0081 (2012). <<https://www.ftc.gov/sites/default/files/documents/cases/2012/11/121126boschcommissionstatement.pdf>> (2015, July, 13).
27. Tucker, D. (2014). Interview with Joshua D. Wright, Commissioner, Federal Trade Commission. *The Antitrust Source*. 9. <http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/aug14_wright_intrvw_7_23f.authcheckdam.pdf> (2015, July, 13).
28. Wright, J. D. (2009). *Why the Supreme Court was Right to Deny Certiorari in FTC v. Rambus. Global Competition Policy*.