

## Seeking an injunction by a patent-holder as an abuse?

The reference to the Court of Justice in *Huawei v ZTE*

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## Overview

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The reference in *Huawei v ZTE*

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The background to the case: standard setting, FRAND obligations and national injunction suits

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Should there be a role for competition law or can national courts resolve the issues applying principles of patent law and national law?

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Do the existing categories of abuse and principles underpinning them help to create a rule to identify any unlawful seeking of an injunction

## The questions referred

Essentially, the Landgericht Düsseldorf has asked the CJ whether, and if so when, *the seeking of an injunction by a patent-holder against a patent infringer may constitute an abuse of a dominant position contrary to Article 102*

In this case, the patent-holder was a holder of a standard-essential patent ('SEP') who has committed to license that SEP to all third parties on Fair, Reasonable and Non-Discriminatory ('FRAND') terms

To what extent can competition law (in combination with the FRAND commitment) constrain reliance on a patent holder's exclusive rights and right to decide whether or not to license its rights and if so what on terms?

## Background to the case

Standard setting frequently procompetitive, particularly by ensuring compatibility and interoperability between products/ components within a system. But

- At SS stage: could be used as a mechanism for excluding competitors of competing technology
- Post-standardisation: SEP-holders may be able to hold-up and foreclose competition downstream by a refusal to licence implementers (who are locked into the standard) or by licensing them only on 'unreasonable' terms (SS confers additional power beyond patent)
- Because numerous complementary SEPS read on a product, or component of it, there is also a risk of 'royalty stacking'

## Background to the case

FRAND licensing commitments now commonly required from participants in standard setting

- Necessary to ensure that the SS compatible with Art 101
- Incentive to standardise on best technology
- Preserves incentive to innovation (fair royalties on more licences)
- Ensures success of standard by precluding private profit maximising by SEP-holders

## Background to the case

FRAND commitment has not resolved problems and a number of complex questions still left open. In addition to validity, infringement and enforceability issues, important questions are:

- How a FRAND royalty can be assessed;
- What happens when negotiations between SEP-holders and implementers break down: is it justifiable for SEP holders to seek injunction against an implementer that won't meet its royalty demands and who is infringing on the patent?

EU authority on seeking an injunctions but not on how a FRAND rate can be determined

### A growing consensus that injunctions in relation to FRAND-encumbered SEPS should be remedy of last resort?

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| <i>IPCom v Nokia,</i>        | Roth J: Nokia has declared itself willing to take a licence and IPCom made a FRAND declaration – so why should an injunction be granted?   |
| <i>Samsung v Apple,</i>      | District Court of Hague: no grant of an injunction if would breach of a FRAND obligation and constitute an abuse of power or breach of pre-contractual good faith. Threat of injunction would put improper pressure on Apple to agree to non-FRAND licensing terms |
| <i>Samsung and Motorola:</i> | Commission: seeking of an injunction by a SEP-holder may be abusive where sought against an implementer willing to enter a licence on FRAND terms. Seeking injunction will distort licensing negotiations –harm consumers (draft commitments in Samsung)           |
| US                           | A similar approach taken by courts and competition agencies  |

## But different approach in Germany

German law generally requires the grant of an injunction to a patent holder alleging that patent holder is infringed. Thus injunction unless:

- High degree of likelihood of invalidity of patent: but patent infringement cases held separately from, and prior to, validity claims;
- Refusal to conclude a licence will constitute an abuse of a dominant position: but *Orange-Book-Standard* decision interpreted in way which makes it very difficult to raise such a defence. To avoid injunction must:
  - Renounce defences to claim (e.g. that patent invalid);
  - Unconditionally offer terms, refusal of which would be abusive;
  - Render supra-FRAND payments in respect of past use;
  - Pay deposit for damages in escrow

In practice injunctions rarely refused: eg *Motorola v Microsoft* and *Motorola v Apple*

## *Huawei v ZTE*

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Practice of lower German courts out of kilter?

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Might the courts be in breach of obligations under EU law?

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The fact that an injunction is permitted would not provide a defence to a finding of an abuse – conduct attributable to the SEP-holder and not required by national law

Is threat of an injunction a mechanism for hold-up or valid exercise of IPR for resolution of licensing negotiations?

### One approach

- Threat of an injunction tips the balance of power in negotiations towards excessive royalties, hold-up and consumer harm:
  - Implementers locked-in
  - SEP small part of value of final product – effects of exclusion devastating
- SEP-holder: irrevocably waived its general right to refuse a licence, except perhaps against an implementer that has refused to pay an independently determined FRAND rate
- SEP-holder committed itself to seeking a reasonable royalty rate

### Another approach

- FRAND-encumbered SEP-holder should not be taken as having waived right to seek injunction relief and a decision to seek an injunction
- Injunction-legal remedy which part and parcel of patent
- May be necessary to bring recalcitrant implementers who holding-out and refusing to bargain in good faith (*reverse hold-up*)
- Denying access to injunctions gives prospective licensees enhanced ability and incentives to free-ride on SEPs

### Approach One (better view?):

- Risk of hold-up (and harm to competition up- and downstream) high because consequence of exclusion so severe?
- No damage to innovation upstream (SEP-holder planned to monetize IP through broad licensing on reasonable terms rather than through exclusive use)
- No infringement if SEP-holder can establish objective justification (no compliance with independently determined licensing terms)
- Implementers cannot infringe SEPs with impunity and refuse to engage in good faith negotiations:
  - Risk of reverse hold-up low: SEP holders that can establish infringement - entitled to FRAND royalties for past and future use and costs where appropriate

### But how could abuse be characterised?

Is concern that conduct might be exploitative or exclusionary (or both)?

Concern that threat of injunction will allow hold-up implementers:

- Unfair licensing terms: Commission not generally keen to intervene in cases where conduct purely exploitative;
- Discriminatory: compared to other licences?
- Exclusionary: can it be analysed in similar way as refusal to license/ constructive refusal to license/ misuse of indispensable patent (or new stand-alone abuse as margin squeeze) - which likely to exclude competing technology upstream and to eliminate competition on the secondary market AND development of competition downstream;
- Innovation and incentives to invest upstream not harmed

## Denial of access to court?

*ITT v  
Promedia:*

The principle of access to court is a fundamental right and a general principle ensuring the rule of law

- Art 102 can only deny this right exceptionally e.g., not an attempt to establish rights but serves to harass the opposite party and part of plan to eliminate competition
- But no denial of access to court?
  - Art 102 a factor to be considered
  - Refusal to license may constitute an abuse in exceptional circumstances
  - National courts: national rules must comply with principles of effectiveness and equivalence (*Crehan*)
- *Orange-Book-Standard* – denies implementers access to court as have to waive right to challenge validity of SEPs to avoid injunction?

## If injunction not generally available to SEP-holder

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Axiomatic that mechanism for swift resolution of licensing disputes put in place

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Role for competition agencies?

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SSOs should be doing more

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Guidance necessary from courts in the EU – no direct precedent (but judgments in the US are emerging)