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THE CJEU JUDGMENT IN THE HUAWEI/ZTE CASE: GETTING AROUND THE PROBLEM OF FRAND COMMITMENTS AND COMPETITION LAW

VINCENZO MELI*

Sommario: 1. The context. – 2. The CJEU and the issue of dominance of SEP holders. – 3. The construction of the abuse. The approaches of the German case-law and the EU Commission. – 4. The assessment of the abuse by the CJEU.

1. The context.

The Huawei preliminary ruling of the CJEU (1) originates from a dispute before a German court, initiated by Huawei, which sued another Chinese firm, ZTE, for patent infringement, seeking an injunction, as well as compensation for damages, product recall, and the disclosure of accounting data relating to the unauthorized use of a patent. The

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1 CJEU (Fifth Chamber) 16.07.2015, Case C-170/13, Request of a preliminary ruling under Article 267 TFEU from the Landgericht Düsseldorf (Germany), made by decision of 21 March 2013, received at the Court on 5 April 2013, in proceedings Huawei Technologies Co. Ltd v. ZTE Corp., ZTE Deutschland GmbH. The five questions the German court addressed to the Court were the following:

“1) Does the proprietor of [an SEP] which informs a standardisation body that it is willing to grant any third party a licence on [FRAND] terms abuse its dominant market position if it brings an action for an injunction against a patent infringer even though the infringer has declared that it is willing to negotiate concerning such a licence?

or

Is an abuse of the dominant market position to be presumed only where the infringer has submitted to the proprietor of the [SEP] an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfil its contractual obligations for acts of use already performed in anticipation of the licence to be granted?

(2) If abuse of a dominant market position is already to be presumed as a consequence of the infringer’s willingness to negotiate:

Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed where the patent infringer has merely stated (orally) in a general way that it is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which it is prepared to conclude a licensing agreement?

(3) If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position:

Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the [SEP] is actually used and/or is shown to be valid?

(4) If the fulfilment of the infringer’s obligations arising from the licence that is to be granted is a prerequisite for the abuse of a dominant market position:

Does Article 102 TFEU lay down particular requirements with regard to those acts of fulfilment? Is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?

(5) Do the conditions under which the abuse of a dominant position by the proprietor of [an SEP] is to be presumed apply also to an action on the ground of other claims (for rendering of accounts, recall of products, damages) arising from a patent infringement?”
patent in question had been declared essential for the implementation of the LTE standard (a 4G wireless broadband technology) developed by ETSI (European Telecommunications Standard Institute), and in compliance with ETSI Rules of Procedure Huawei had committed to license it on fair, reasonable, and not discriminatory (FRAND) terms (\(^2\)). The defendant had requested the license, and the plaintiff, at least in principle, did not refuse it, but the parties did not agree on the conditions. Countering the judicial initiative of Huawei, the defendant claimed this was an abuse of dominant position under German competition law (GWB).

In recent years, several similar disputes where alleged infringement of essential patents is no ordinary patent forgery, but the consequence of failure to implement FRAND commitments, have been brought before the courts of some Member States. The solutions proposed and the conceptual tools used to address these conflicts are various. With an extreme simplification, three main approaches can be distinguished and sometimes they may even coexist in the same judgment:

a) the contractual approach, which essentially focuses on the binding effect of FRAND commitments under contract law (\(^3\));

b) the IP law approach, which handles the alleged violation of FRAND commitments in terms of possible patent misuse (\(^3\));

c) the antitrust approach, which focuses on the possible infringement of Article 102 TFEU (or a similar national norm) by the SEP holder.

2 Article 4.1. of ETSI Rules of Procedure provides that “… each MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bonafide basis, draw the attention of ETSI to any of that MEMBER’s IPR which might be ESSENTIAL if that proposal is adopted”; on this basis Article 6.1 states that “When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory (‘FRAND’) terms and conditions under such IPR to at least the following extent:

- MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensor’s own design for use in MANUFACTURED;
- sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
- repair, use, or operate EQUIPMENT; and
- use METHODS.

The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate”.

3 The issue of the legal nature of FRAND commitments under contract law is widely debated in Europe. German legal scholars and courts are internally divided. Some courts held that the FRAND declaration must be equated to a pactum de non petendo, i.e., a commitment to not sue the SEP users until the subscription of a license agreement; others think that it commits the SEP holder to grant a license. Among legal scholars the view has also expressed that the FRAND declaration has no relevance as an obligation, and that it is a contract for the benefit of a third party (see T. KORBER, Standardessentielle Patente, FRAND-Verpflichtungen und Kartellrechts – Standard Essential Patents, FRAND Commitments and Competition Law, Nomos Verlag, Berlin, 2013, 38 ff., (188 ff.)). In Italy, M. LEBERTINI, Autonomia individuale e autonomia d’imprese, in M. MAUGERI, G. Gitti, M. Notari (eds.), I contratti per l’imprese. I. Produzione, circolazione, gestione, garanzia, Il Mulino, Bologna, 2013, 57 s., and M. MAUGERI, Standardization and Italian Law of Contracts: F/RAND Commitments, in Osservatorio del diritto civile e commerciale, 1/2014, pp. 99-138, have dealt with the issue and both have expressed the view that FRAND commitments are contractual obligations.

An overview of the case-law in the Member States reveals that the practicability of the latter is not unanimously agreed upon. It has been particularly embraced by a conspicuous German case-law, but a strong support to this approach comes from the EU Commission, which in recent years has been very active in countering possible abuses of dominance by SEP holders (\(^5\)). The last decisions were adopted in 2014 against Motorola and Samsung (\(^6\)). Regardless of the legal provisions whose application is required, the judicial assessment in these disputes cannot neglect the conduct of the parties in the negotiation, nor can it ignore the determination of what “fairness” and “reasonability” of the negotiated conditions mean. This is especially relevant where the dispute - following the defendant’s exception - was hinged on the framework of antitrust law. Despite the strong criticism this model has met in the legal and economic literature (\(^7\)), in the view of the Commission FRAND commitments play a crucial role in the balance between the benefits in terms of welfare and the competitive risks of standardization agreements (\(^8\)).

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5 See the press releases of 31 January 2012, IP/12/89 (http://europa.eu/rapid/press-release_IP-12-89_en.htm); 21 December 2012, IP/12/1448 (http://europa.eu/rapid/press-release_IP-12-1448_en.htm); 3 April 2012, IP/12/345 (http://europa.eu/rapid/press-release_IP-12-345_en.htm); 6 May 2013, IP/13/406, available at http://europa.eu/rapid/press-release_IP-13-406_en.htm. See also the memo (MEMO/13/403 at http://europa.eu/rapid/press-release_MEMO-13-403_en.htm), which exposes the policy of the Commission on the topic in the form of questions & answers. Previously the Commission had initiated some proceedings without reaching a decision. In particular, because of the lack of evidence and the withdrawal of complaints, it had abandoned an investigation (initiated on 1 October 2007) against Qualcomm regarding the level of fees requested by the firm to grant a license on SEPs (see MEMO/09/516, of 24 November 2009); it had closed a similar case initiated against Rambus with commitments (see MEMO/09/544, of 9 December 2009); eventually, because of the withdrawal of complaints by Nokia and the assumption of the commitment to grant a license on FRAND terms, it had closed a case against I.P.Com (see MEMO/09/549, of 10 December 2009).

6 EU Commission, 29 April 2014, Case AT.39985 — Motorola-Enforcement of GPRS standard essential patents, and Case AT.39939 – Samsung-Enforcement of GPRS standard essential patents. Both decisions are identical. Therefore, from now on we will quote only the first.


Nevertheless, the Commission has given poor guidance on the determination of FRAND license conditions. In its Guidelines on horizontal cooperation agreements, after reviewing some possible methods (\(^9\)), it was keen to point out that “These guidelines do not seek to provide an exhaustive list of appropriate methods to assess whether the royalty fees are excessive” (\(^10\)), and that “it should be emphasized that nothing in these Guidelines prejudices the possibility for parties to resolve their disputes about the level of FRAND royalty rates by having recourse to the competent civil or commercial courts” (\(^11\)). Moreover, the Commission excludes that there is an obligation of the SSOs to “verify whether licensing terms of participants fulfil the FRAND commitment. Participants will have to assess for themselves whether the licensing terms and in particular the fees they charge fulfil the FRAND commitment”, concluding “Therefore, when deciding whether to commit to FRAND for a particular IPR, participants will need to anticipate the implications of the FRAND commitment, notably on their ability to freely set the level of their fees” (\(^12\)).

It is then unsurprising that not many SSOs oblige their members to disclose in advance the conditions under which they are willing to grant licenses on their essential patents, nor do they provide a procedural framework to solve the disputes between SEP holders and license seekers (i.e. arbitration clauses or similar) (\(^13\)).

More surprising is that this seminal question has been neglect by national case-law. As will be seen later, the German case-law seems totally focused on setting the rules of the ‘duel’ between the parties negotiating a license (which party should make the first move, how the other party should reply, etc.), ignoring the rest.

In this problematic context, the CJEU preliminary ruling does not make any headway in solving the competitive questions that remain open.

In my opinion, the Court of Justice has missed an opportunity to address the critical relationship between competition law and intellectual property rights when these are
patents become essential in the framework of de jure standardization. By doing so, the Court has essentially agreed to limit the issue to a conflict between two parties, the holder of essential patents and the license seeker, which may be solved by defining a behavioral scheme – something like a fairness code - that must be applied serially. This is an approach which, if not equating to the pedantry of the German courts, substantially accepts their methodology.

2. The CJEU and the issue of dominance of SEP holders.

A theoretical discussion on the possibility of assessing the request for an injunction by an SEP holder in the legal framework of Article 102 TFEU is of little relevance (14). Undoubtedly, every activity which can be defined as an ‘undertaking’ under EU competition law may be subject to the scrutiny of the Commission and the antitrust authorities as well as the judges of the Member States. Instead, the specific behaviors and the context must be analyzed to evaluate if all the requirements for the identification of an abuse of dominant position are met. The first step is, of course, the evaluation of the alleged dominance of the SEP holder. Considering both practice and case-law, this requires the prior identification of a relevant product market. It is not necessary to recall that without dominance there cannot be any abuse under Article 102 TFUE.

It is true that a specific question about the relevant product market and the dominance had not been submitted to the CJEU by the referring judge, but the choice made in this respect by the Court sounds odd. The Court has actually mentioned the question of dominance, but has bypassed it (15), shelving it through an unfaithful exposition of the order for reference, stating: “As the referring court states in the order for reference, the existence of a dominant position has not been contested before it by the parties to the dispute in the main proceedings. Given that the questions posed by the referring court relate only to the existence of an abuse, the analysis must be confined to the latter criterion” (16). But this statement does not exist in the order for reference! The LG Düsseldorf had instead opined that anyone who holds an essential patent, thanks to his power to obtain an injunction against the patent users enjoys a strong negotiating position that must not be abused (17).

14 Of course, a different question concerns the convenience of addressing the conflict with antitrust law instruments. The Advocate General points out that his Opinion is specifically focused on questions related to competition law but “That does not mean, however, that the matters at issue in the dispute before the referring court, which, in my view, stem largely from a lack of clarity as to what is meant by ‘FRAND terms’ and as to the requisite content of such terms, could not be adequately — if not better — resolved in the context of other branches of law or by mechanisms other than the rules of competition law” (Opinion of Advocate General Wathelet, delivered on 20 November 2014).
15 See G. COLANGELO, Il mercato dell’innovazione: brevetti, standardi e antitrust, Milano, 2016, 273 s.
16 Para. 43.
17 Para. 89 of the order for reference: “It is, however, to be acknowledged that the holder of a standardized patent enjoys a powerful position in the negotiation of licenses because of the market-dominant position conferred on him by the standard. This shall not be used in an abusive manner with the aim of pushing a competitor or a licensee into a license which is not FRAND. In particular, it must be ensured that the holder of a standardized patent cannot impose an unreasonably high license fee”.
Advocate General Wathelet, recalling the observations submitted by the Dutch Government, criticized this apodictic presumption, observing “it should be noted that the referring court did not state in the order for reference that it had arrived at its finding that the SEP-holder in the present case unquestionably holds a dominant position after it had examined all the circumstances and the specific context of the case. I share the view expressed by the Netherlands Government that the fact that an undertaking owns an SEP does not necessarily mean that it holds a dominant position within the meaning of Article 102 TFEU, and that it is for the national court to determine, on a case-by-case basis, whether that is indeed the situation”. And argued: “Given that a finding that an undertaking has a dominant position imposes on the undertaking concerned a special responsibility not to allow its conduct to impair genuine competition, that finding cannot be based on hypotheses”, concluding on the point “If the fact that anyone who uses a standard set by a standardisation body must necessarily make use of the teaching of an SEP, thus requiring a licence from the owner of that patent, could give rise to a rebuttable presumption that the owner of that patent holds a dominant position, it must, in my view, be possible to rebut that presumption with specific, detailed evidence” (18).

The Opinion, which recalls the established practice of the Commission (19), sounds like an implicit criticism of the incomplete formulation of the order for reference, which glossed over a fundamental precondition for the assessment of an abuse. Though not clearly expressed, doubt is cast on whether this gap might affect the relevance of the preliminary question for the purposes of the judgment (20).

The issue of the possible dominance of an SEP holder is by no means trivial, and it marks a first, fundamental, difference between the Commission's practice and the national case-law considered (21). The former is very clear on this point, while, oddly enough, the latter mostly neglects this step.

This aspect deserves some consideration.

The principle invoked by the Advocate General was confirmed by the Commission in the 2014 Motorola and Samsung decisions, in which a detailed regular analysis was carried out to ascertain the relevant market (22), identified in the licenses of essential patents for GPRS technology, that had been chosen as the standard in Europe. Once more, the Commission affirmed - again through an accurate economic analysis - the existence of a dominant

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18 Opinion of Advocate General Wathelet, delivered on 20 November 2014, paras. 53 – 58.
19 Guidelines 2011, para. 269.
20 According to settled case-law, the Court of justice has no jurisdiction to give a preliminary ruling on a question submitted by a national court where it is quite obvious that the interpretation of Community law sought by that court bears no relation to the actual facts of the main action or to its purpose, or where the problem is hypothetical and the Court does not have before it the factual or legal material necessary to give a useful answer to the questions submitted to it (see, for example, CJEU, 9 October 1997, Case C-291/96, Grado and Bashir). Developing the argument mentioned by the Advocate General Wathelet, since there is no evidence of a dominant position, the questions on the abuse may be irrelevant.
position of Motorola in this market. The Commission pointed out that “Motorola’s mere holding or exercise of its rights under the Cudak GPRS SEP does not, however, confer dominance on its own. This must be assessed on the basis of all relevant factors. Two factors are of particular importance for this assessment: first, the indispensability of the GPRS standard on which Motorola’s Cudak GPRS SEP reads for manufacturers of standard-compliant products, and, second, the industry lock-in to that standard” (23).

As to the national case-law, relevant market and dominance are generally fleetingly – and sometimes not at all – mentioned.

In the German case-law considered it is easy to witness a real regression of the theme. In the Standard Spundfass judgment of 2004, the first case of any significance brought by SEP holders against license seekers, the Bundesgerichtshof had identified the market of licenses on essential patents as the relevant market (24). The German Supreme Court had also considered the effect that the dominance on that market could produce in the downstream market of the products compliant to the standard (25).

It is in the subsequent development that the issue disappears from consideration. Almost nothing is said on the point in the 2009 judgement on the Orange Book Standard (26), in which the BGH considers only the abusiveness of the attempt to prevent the use of a patent (equated with a refusal to grant a license) or discriminatory licensing, presuming dominance (27). The German Supreme Court appears to be fully focused on identifying the conditions under which a license request can be considered to have been made effectively for a request for an injunction by the SEP holder to be deemed legitimate.

Paradoxically, although the Orange Book Standard judgment concerned a de facto standard, and thus had nothing to do with FRAND commitments, it has become a true milestone case, deeply influencing the following case-law on de jure standards (28), and the gap highlighted by the order for reference of the LG Düsseldorf conforms to this trend.

Thus, the reluctance of the Court of Justice to stress the lack of consideration for dominance by the referring court can scarcely be understood. Maybe the abuse issue had become too topical to be dismissed, raising objections on an aspect that for the national case-law in question is not significant.

If this glossing over the first precondition for the application of Article 102 TFEU represents the first concession to the ‘German approach’ to the vexing question of the

23 Decision of 29 April 2014, Paras. 221 - 270.
24 BGH 13.07.2004, cit., in which it is stated (A.III.2) that Art. 20(1) GWB is to be applied to the refusal of the licenses in question, “because that of the licenses on the patent is a separate product market and the plaintiff, being the sole supplier, dominates it”.
25 Ibidem. “If the design of a product protected by intellectual property rights is standardized by an industrial standard or by another rule which has been observed by the demanders as a standard, then the granting of rights which allows the potential suppliers to bring the product into the marketplace generally represents a distinct upstream market in relation to the market of the product. Therefore, the acquisition of such rights is irrereplaceable for a firm that wants to produce or distribute the standardized product.”
26 BGH 06.05.2009, KZR 39/06.
27 Para. 27 ff.
28 See LG Mannheim 02.05.2012, 2 O 240/11 e 2 O 376/11, BeckRS 2012, 11804 e11805; OLG Karlsruhe 23.01.2012, 6 U 136/11.
alleged abusiveness of the inhibitory action undertaken by a SEP holder, the assessment of the abuse amounts to a real surrender to that approach.

3. The construction of the abuse. The approaches of the German case-law and the EU Commission.

Setting aside the question of dominance, in relation to the issue of its possible abuse two distinct methodological approaches can be noted, once again on the part of the German courts and the Commission, respectively.

As to the first, with the Orange Book Standard judgment, the BGH has provided a kind of handbook of negotiating rules, which, if ignored, lead to an assessment of abuse of a dominant position. The German Supreme Court held that "(a) A defendant sued on the basis of a patent is able to defend himself against the claim for injunctive relief asserted by the patent holder filing the action by pleading that the latter abuses a dominant position on the market if he refuses to conclude a patent license agreement with the defendant on non-discriminatory and non-restrictive terms and conditions. (b) Yet the patent proprietor is only culpable of abusive behavior if the defendant has made him an unconditional offer to conclude a license agreement which the patent proprietor cannot reject without violating the prohibition of discrimination or anti-competitive behavior, and if the defendant, for the time that he be already using the subject matter of the patent, complies with the obligations that the license agreement yet to be concluded imposes in return for the use of the licensed subject matter. (c) If the defendant considers the patent proprietor’s license demands to be excessive or if the patent proprietor refuses to quantify the royalties, an offer to conclude a license agreement in which the licensor determines the amount of royalties according to its own reasonable discretion meets the requirement of such an unconditional offer".

A distinctive feature of the Orange Book Standard approach is the inclusion, in the context of the application of antitrust law, of assessment indices drawn from different legal sectors. In the said judgment, the BGH, identifying the antitrust violation with the breach of an obligation to grant SEP licenses (29), also invokes a criterion of good faith based on the Civil Code (30), without leaving aside national patent law considerations (31). The result sounds puzzling: in a case centered on the application of antitrust law (specifically, Art. 19 and 20.1 GWB) not only, as noted above, is there no assessment of dominance, but the assessment of the abuse is characterized by a weak consideration of antitrust aspects and no attention is paid to the content of FRAND commitments.

Indeed, looking at the European context, the Commission's approach to the topic seems to be a compromise solution, as is evident in the above-mentioned Motorola and Samsung decisions.

29 In this sense, it seems to prove the claim (BGH, 06.05.2009, para. 27) that it is abusive to try to inhibit the access to a market that the SEP holder “is obliged to open”.
30 In this sense, it proves the claim (BGH, 06.05.2009, para. 26, in reference to what is stated in para. 25) that the Court in principle agrees “that the proposed licensee illegally behaves, if he uses the patent without the patentee’s consent, that the patentee nevertheless could not seek an injunction, because with the injunctive relief be something claims, that be (in the form of a patent licence) has to allow (dolo petit, qui petit quod statim redditis est), thus acting in violation of the principle of good faith (§ 242 BGB)”.
31 See BGH, 06.05.2009, para. 28, recalling Article 31 Trips.
The Commission is consistent with a typical method of applying Article 102 TFEU adopted in recent years, which is characterized by an extensive use of economic evaluation of behaviors and their effects on the market. After having ascertained dominance, the Commission holds that to seek an injunction against a license seeker generally is a legitimate course of action, but there may be an abuse when, 1) in the presence of exceptional circumstances, 2) in the absence of an objective justification, it may produce anticompetitive effects. In the specific case, the exceptional circumstances were the GPRS standard-setting process and Motorola’s commitment to license the GPRS SEP on FRAND terms and conditions; the absence of an objective justification related to the fact that Apple was not unwilling to enter into a license agreement on FRAND terms and conditions; the anti-competitive effects were (i) a temporary ban on the online sale of Apple’s GPRS-compatible products in Germany, (ii) the inclusion in the Settlement agreement of licensing terms, disadvantageous to Apple, and (iii) a negative impact on standard-setting.

The Commission states that an SEP holder which has given a commitment to license on FRAND terms and conditions is entitled to take reasonable steps to protect its interests by seeking and enforcing an injunction against a potential licensee, for example, if the potential licensee is in financial distress and unable to pay its debts; the potential licensee’s assets are located in jurisdictions that do not provide for adequate means of enforcement of damages; or the potential licensee is unwilling to enter into a license agreement on FRAND terms and conditions, with the result that the SEP holder will not be appropriately remunerated for the use of its SEPs. The corollary of a patent holder committing, in the standardization context, to license its SEPs on FRAND terms and conditions is that a potential licensee should not be unwilling to enter into a license agreement on FRAND terms and conditions for the SEPs in question.

Of course, the Commission also considers the parties’ behavior – for example taking account of the fact that Apple had submitted six different offers complying with the Orange-Book-Standard scheme – but it avoids formulating a checklist of the negotiating steps each party should make, and prefers to give a substantive and flexible interpretation of the willingness of the parties to negotiate. Clearly, the antitrust core of the argumentation does not lie in this part of the Motorola Decision. Nevertheless, this is the only aspect of the Commission’s position the referring Court is interested in. It observes that European Commission considers that seeking an injunction is already abusive under Article 102 of the TFEU if the patent holder has declared to the standardization organization his willingness to grant licenses at FRAND conditions, and the patent infringer has declared his readiness to negotiate, while "In applying the criteria laid down by the Bundesgerichtshof the antitrust compulsory license objection of the defendant would meet no success and the action for the infringement would be upheld" (32). The remaining doubt is that, reduced to such terms, the question has little or nothing to do with the interpretation of Art. 102 TFEU.

32 LG Düsseldorf, 21.03.2013, para. 65 and 68.
Moreover, the same could be said of the BGH Orange Book judgement in relation to the GWB.
It is true that the only information available at the time on the Motorola and Samsung decisions were the press releases, but even in such a short statement the competitive side of the matter was somehow considered (33). It goes without saying that the problem of FRAND conditions – which, as seen, could not arise in the Orange Book Standard dispute – remains unassessed.

4. The assessment of the abuse by the CJEU.

The Court begins with the usual reference to the traditional dicta on abuse of dominance, recalling the statement that only in exceptional circumstances may the exercise of an exclusive right linked to intellectual property be abusive. It then makes a couple of general considerations on SEPs and FRAND commitments and then exposes mixed arguments. There are some antitrust-style remarks: for instance, the statement that “Although the proprietor of the essential patent at issue has the right to bring an action for a prohibitory injunction or for the recall of products, the fact that that patent has obtained SEP status means that its proprietor can prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserve to itself the manufacture of the products in question” (34) and “the fact that that patent has obtained SEP status means that its proprietor can prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserve to itself the manufacture of the products in question” (which is not necessarily true in general, but has to be verified case by case: there may also be competition between different standards!). But these remarks play a secondary role in the argumentation of the alleged abuse, whose core regards, as said above, provisions on the way the negotiation of license conditions has to go on, that do not seem to have much to do with antitrust considerations.

The Court considers, in particular, that “having regard to the fact that an undertaking to grant licences on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms, a refusal by the proprietor of the SEP to grant a licence on those terms may, in principle, constitute an abuse within the meaning of Article 102 TFEU” (35).

This statement sounds odd. What has ultimately been considered abusive? An unfair negotiating behavior? Unfulfilled competitor expectations? Whatever the answer, it is

33 See press release IP/14/489. In this document, the ruling against MMH was explained as follows: «Seeking injunctions before courts is generally a legitimate remedy for patent holders in case of patent infringements. However, the 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. Since injunctions generally involve a prohibition of the product infringing the patent being sold, seeking SEP-based injunctions against a willing licensee could risk excluding products from the market. Such a threat can therefore distort negotiating negotiations and lead to anticompetitive licensing terms that the license of the SEP would not have accepted absent the seeking of the injunction. Such an anticompetitive outcome would be detrimental to innovation and could harm consumers».
34 Paras. 52-56.
35 Para. 53 of the Judgement.
unclear how this complies with the established case-law, also recalled by the CJEU (\(^{36}\)), according to which “the concept of an abuse of a dominant position within the meaning of Article 102 TFEU is an objective concept relating to the conduct of a dominant undertaking which, on a market where the degree of competition is already weakened precisely because of the presence of the undertaking concerned, through recourse to methods different from those governing normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition”.

Equally unclear is how this judgement complies with the traditional statement that EU antitrust law aims at protecting competition and not solely competitors (\(^{37}\)). And, furthermore, how is it possible to impose an obligation to grant licenses on FRAND terms on the SEP holder, without giving some general guidance about what “fair” and “reasonable” mean, but stating “In this connection, due account must be taken of the specific legal and factual circumstances in the case” (\(^{38}\))? In general: is it possible to handle FRAND commitments in the framework of Article 102 TFEU without clearly including them in a frank discussion on all of the competitive issues involved?

Instead of doing that, the Court states that when the parties are not in agreement on this point “in order to prevent an action for a prohibitory injunction or for the recall of products from being regarded as abusive, the proprietor of an SEP must comply with conditions which seek to ensure a fair balance between the interests concerned” (\(^{39}\)). Hence, the problem is reduced to the setting of a negotiation procedure. In this regard, the CJEU proposes a sort of mitigated Orange Book Standard test (\(^{40}\)), and concludes, regarding the first four questions submitted by the referring Court:

“Article 102 TFEU must be interpreted as meaning that the proprietor of a patent essential to a standard established by a standardisation body, which has given an irrevocable undertaking to that body to grant a licence to third parties on fair, reasonable and non-discriminatory (FRAND) terms, does not abuse its dominant position, within the meaning of that article, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:

– prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and

– where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good

\(^{36}\) Para. 45 of the Judgement.

\(^{37}\) See, e.g., CJEU, 6 October 2009, Glaxo Smith Kline Services Unlimited, Joint Cases C-501/06-P, C-513/06-P, C-515/06-P, C-519/06-P.

\(^{38}\) Para. 55 of the Judgement.

\(^{39}\) Paras. 74-75 of the Judgement.

\(^{40}\) It is remarkable that even after the Huawei rulings the German courts have maintained an approach less favorable to the licence seekers, insisting in the ‘decalogue’; see G. COLANGELO, (nt. 15), 277 s.
faith, this being a matter which must be established on the basis of objective factors and which implies, in
particular, that there are no delaying tactics” 41).

To summarize: the question is not what the parties communicate to each other, and what
this has to do with antitrust issues, but how this communication begins (essentially, who has
to make the first move and how it has to be made) and continues.

The Court finally addresses the fifth question: the referring judge asked whether it may be
considered abusive for a SEP holder to initiate legal proceedings in order to obtain the
presentation of accounting data or compensation for damages against the alleged infringer
of the SEP. The question sounded strange. Maybe it was implicitly referred to the so called
‘vexatious litigation’ as a possible abuse of dominant position 42), but it is obvious that this
issue is only part of the general problem of the abusiveness of the action brought by a SEP
holder.

The answer provided by the CJEU is correct, considered the vagueness of the issue:
according to the description set out in the order for reference, the actions for infringement
brought by the proprietor of an SEP, seeking the rendering of accounts in relation to past
acts of use of that SEP or an award of damages in respect of those acts of use, do not have
a direct impact on products complying with the standard in question manufactured by
competitors appearing or remaining on the market 43). But this response too suffers the
lack of adequate consideration of the main conditions for the application of Article 102
TFEU.

41 Para. 71 of the Judgement.
42 Vexatious litigation (or sham litigation) in competition law refers to the behavior of a dominant firm which
brings actions devoid of reasonable foundation, whose sole purpose is to target competitors. In this regard,
the Commission, with the decision ITT Promedia, dictated a two-part test, according to which the case would
be where the action i) cannot reasonably be considered as an attempt to establish the rights of the
undertaking and therefore can only serve the aim to harass the opposite party and; (ii) it is conceived in the
framework of a plan, whose goal is to eliminate competition (Commission, 21 May 1996, Case IV/35/268,
Promedia/Belgacom, not published; the Commission's position is reported by the Court of justice, 17 July
1998, ITT Promedia NV v. EC Commission, Case T-111/96 in ECR, 1998, II-2937; in the same terms, see
General Court, 13 September 2012, Protégé International Ltd v. Commission, Case T- 119/09, paras. 48-49).
The sham litigation is defined by the US Supreme Court [see Professional Real Estate Inv
estors v. Columbia
Pictures Indus., 508 US 49, 123 L. Ed. 611 at 625, 113 SCt 1920, (1993)] as the "pursuit of claims so baseless that
no reasonable litigant could realistically expect to secure favorable relief". On the subject, see H. HOVENKAMP,
356. Even the Supreme Court adopts a two-part test: if the action is objectively baseless, the actor's subjective
motivation should be examined, considering whether it is attributable to an "attempt to interfere directly with the
business relationship of a competitor".

Such hypotheses have often occurred regarding the enforcement of patents which are invalid or obtained
fraudulently (see CJEU, 6 December 2012, AstraZeneca c. EU Commission, case C-457/10-P, ECR 2012.
The Italian Competition Authority has dealt with a case in some ways analogous: see the decision no. 23194,
11 January 2012, A431 - Ratiopharm/Pfizer). Similar proceedings have taken place also in the USA; see J.
WALLACE, Rambus v. FTC in the Context of Standard-Setting Organizations, Antitrust, and the Patent Hold-up Problem,
43 Paras. 74-75 of the Judgement.
Abstract in italiano

Con la pronuncia pregiudiziale sul caso Huawei, la Corte di giustizia è intervenuta per la prima volta sul conflitto tra titolari di brevetti essenziali per l’implementazione di uno standard e richiedenti licenze su tali brevetti, in un contesto caratterizzato dall’esistenza di impegni FRAND. Sebbene la questione attenga all’applicazione dell’art. 102 del TFUE, la Corte ha eluso la fondamentale questione della sussistenza dei presupposti per tale applicazione. Inoltre, nessun contributo la pronuncia reca alla individuazione di criteri per la determinazione degli impegni FRAND. La Corte ha invece aderito all’approccio metodologico affermatosi nella giurisprudenza tedesca, pur non condividendone fino in fondo gli sviluppi, sostanzialmente limitandosi a dettare linee di comportamento che le parti dovrebbero seguire al fine di non essere ritenute poi responsabili per il fallimento della trattativa e l’insorgere della lite.

**keywords:** IPRs, Antitrust Law, Standard Essential Patents, FRAND commitments

Abstract in English

With the Huawei preliminary ruling, the Court of Justice intervened for the first time on the conflict between owners of standard essential patents and licence seekers, when FRAND commitments are provided. Although the question relates to the application of EU antitrust law, the Court did not assess the prerequisites for that application. In addition, it gave no answer to the key question of the identification of FRAND conditions. Yet, the Court adhered to the methodological approach established in the German case law, limiting itself to dictate behavioral guidelines that the parties should follow, in order not to be held responsible for the failure of negotiations and the onset of the dispute.