



Lessons from Huawei v. ZTE

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Introduction

The judgment of the European Court of Justice (CJEU) in *Huawei v. ZTE*⁴ has provided valuable guidance on the circumstances when a holder of a Standard Essential Patent (SEP) which has given a commitment to license the SEP on FRAND terms is entitled to seek an injunction against an implementer without acting in breach of competition law. In doing so, the CJEU has set out a number of important principles relating to patent rights that we describe further below. However, it also leaves some important questions unresolved. We explain the significance of the decision and offer some suggestions as to its proper interpretation and application. We also consider whether it would be desirable for the European Commission to issue some form of official guidance following the decision, notably on the steps that patentees and implementers must take, respectively, to obtain or avoid an injunction in the context of a FRAND dispute.

The paper first summarises the *Huawei* judgment and what *Huawei* decides in practice relating to the availability of injunctive relief for SEPs. We then review the principal national case law since the *Huawei* decision. Finally we look at some matters left unresolved by *Huawei* and consider whether further action by the Commission is necessary, including in the context of the pending review of the IPR Enforcement Directive (“IPRED”).

Our conclusions in summary are as follows:

- The CJEU was asked in *Huawei* to resolve a controversial question, namely whether a user of a FRAND-committed SEP should be able to avoid an injunction merely by expressing its “willingness” to negotiate a FRAND licence, or whether an injunction could be granted unless the user made a binding offer to the SEP holder on terms that the SEP holder could not refuse. Some national courts, particularly in Germany, followed the second approach. By contrast in 2014 the EU Commission issued two decisions⁵ in which it took the position that seeking and enforcing⁶ an injunction to restrain the use of an invention the subject of a FRAND committed patent where the user had simply expressed a willingness to enter into a FRAND licence amounted to the abuse of a dominant position and was thus not permissible as a matter of competition law.

¹ This paper has been commissioned by the 4iP Council. The opinions expressed are however those of the authors.

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⁴ Case C-170/13 *Huawei Technologies Co. Ltd v. ZTE Corp*, judgment dated 16 July 2015.

⁵ *Samsung*. Case Comp. AT.39939 29.4.2014 and *Motorola* Case Comp AT.39985 29.4.2014.

⁶ More precisely in *Motorola* the Commission spoke of “seeking and enforcing” (see para. 1) whereas in *Samsung* the Commission spoke merely of “seeking of preliminary and permanent injunctions” (see para. 2).

- The judgment confirms that EU competition law indeed has a part to play in controlling the enforcement of SEPs; but not as extensively or intrusively as the Commission had proposed. Broadly the position is that competition law merely bolsters existing FRAND commitments (to grant licences on Fair Reasonable and Non-Discriminatory terms) and compels owners of SEPs to offer to grant licences on such terms. The emphasis is away from enforcement action by competition authorities and towards the national courts: the practical effect is that provided a patentee has acted reasonably in making what he reasonably believes to be a FRAND offer to an implementer he is unlikely to be subject to enforcement proceedings by the competition authorities only because his offer turns out not to be FRAND. The emphasis is on a FRAND defence before a national court, not enforcement by competition authorities.
- The Commission's position risked having a significant impact on access to courts. Following the CJEU's decision this risk is much reduced. Only a patentee who starts proceedings claiming an injunction in a cavalier and egregious way – for example by not offering a licence at all, requiring a licence of its non-SEPs as well as its SEPs, or asking a manifestly non-FRAND rate – is likely to breach competition law.
- If a patentee has made what he reasonably considers a FRAND offer and the implementer disputes that the offer is FRAND, the patentee will be able to enforce his SEPs including by way of injunction against that implementer unless the implementer engages in good faith with the patentee. In particular if the patentee offers to have the question of whether his offer is FRAND arbitrated and the implementer refuses that offer, much the stronger view is that the patentee may obtain an injunction. And in any event the implementer can be compelled to make interim payments into a safeguarded bank account or provide a bank guarantee whilst the FRAND dispute is resolved. So-called “hold-out” is no longer possible, at least to any great degree.
- A number of important practical issues are not addressed in the judgment. In particular the decision has nothing to say about how FRAND terms are to be settled. However, if a patentee can establish before a tribunal that it has more or less standard terms which are generally accepted in the industry then we think it will be in a position to persuade the tribunal that those terms are FRAND.
- Equally the judgment is silent as to what should happen if both the patentee and the implementer make offers which are FRAND. We think the better view is that the implementer must take the patentee's offer, for the patentee will have complied with its FRAND commitment which is all that the implementer is entitled to expect. If the implementer refuses to accept an offer which is FRAND he can be sued for an injunction.
- While the detailed implications of the judgment remain uncertain, it would not be appropriate in our view for the Commission or the other EU institutions to seek to expand upon or reinterpret the judgment of the CJEU in new legislative or quasi-legislative instruments, in the context of IPRED or otherwise (for instance through recommendations). The further development of the law in this area is properly a matter for the courts to undertake by reference to the facts of individual cases.

The problem addressed in *Huawei*

Before *Huawei* the Commission had advocated an expansive role for competition law in limiting the ability of FRAND encumbered SEP holders to enforce their patents by seeking injunctions against potential licensees. The Commission's position was unfavourable to patentees, in that it imposed a burden on patentees to prove that the implementer was an "unwilling" licensee and that even the threat of an injunction could result in regulatory intervention. This approach was based on a theory of "hold-up", which assumed that if an SEP holder commenced proceedings for an injunction the implementer, out of fear of the injunction, would agree to pay above-FRAND rates.

This theory found expression in two Commission decisions in 2014, *Motorola* and *Samsung*.⁷ In *Motorola*, the Commission found that Motorola had abused its dominant position by seeking and enforcing an injunction against Apple in Germany based on alleged infringement of Motorola SEPs subject to a FRAND commitment. Motorola had agreed with Apple that in the event of a dispute the German courts would determine the appropriate FRAND rate. No agreement having been reached, Motorola applied for and obtained an injunction prohibiting Apple from practising the patents until the dispute was concluded. The Commission held that this amounted to an abuse by Motorola because Motorola had used the threat of an injunction to force Apple into a settlement agreement subject to restrictive conditions. In the Commission's view, an SEP-holder did not have the right to seek an injunction against a potential licensee of a FRAND-committed patent that could be deemed "willing" to negotiate on FRAND terms.

Because there was no case law of the EU courts dealing with the legality of SEP-based injunctions under Article 102 TFEU, and national courts had reached diverging conclusions on this question, the Commission decided not to impose a fine on Motorola. However, the implication was clear: no such leniency in the future.

In *Samsung*, Samsung had sought injunctions against Apple in a number of EU Member States. The Commission was of the view that this constituted an abuse of Samsung's dominant position in circumstances where Apple was found to be willing to negotiate a licence on FRAND terms. Ultimately, the Commission accepted a five-year commitment by Samsung not to seek injunctions anywhere in the EU in relation to European SEPs for smartphones and tablets against any potential licensee which agreed to a negotiation period of up to 12 months and, if necessary, the determination of the FRAND terms by a court or an arbitral tribunal.

These decisions rightly attracted a lot of criticism.⁸

⁷ *Supra*

⁸ See e.g. B. Vesterdorf, 'IP Rights and Competition Law Enforcement Questions', (2013) Journal of European Competition Law and Practice; Robin Jacob *Competition Authorities Support Grasshoppers: Competition Law as a Threat to Innovation* Competition Policy International Vol. 9 No. 2, Autumn 2013 p.6 (Jacob lists 13 reasons why the DG Comp is wrong); Tim Eicke QC *The EU Commission's "contempt" of national courts?* Verfassungblog on Matters Constitutional, 8th October 2014. N. Petit, *Huawei v ZTE: Judicial Conservatism at the Patent-Antitrust Intersection* (2015), Competition Policy International, Vol. 15 No 2. October 2015.

- First, they were inconsistent with the case law of the EU courts, which had repeatedly held that it was lawful to bring legal proceedings to enforce an intellectual property right with only very limited exceptions, namely where (a) the claim was manifestly unfounded and (b) it had been brought as part of a plan to eliminate competition.⁹ Neither of those conditions was satisfied in the Motorola and Samsung cases.
- Secondly, the decisions could be seen as weakening the fundamental principle of access to justice.¹⁰ A blanket rule which had the effect of preventing SEP-holders which had given FRAND commitments from seeking injunctions would have represented a major restriction on this right. Although competition law had in a few extreme cases limited the enforcement of an IP right,¹¹ no-one had suggested that the very fact of starting legal proceedings claiming an injunction for the infringement of the statutory rights conferred by a patent could in itself be an antitrust abuse.
- Thirdly, the Commission’s position was unreasonably favourable to implementers, since it implied that an implementer could prevent the SEP-holder from seeking an injunction simply by declaring itself willing, in theory, to conclude a licence on FRAND terms. The Commission did not articulate any clear test to determine whether a potential licensee was truly “willing” for these purposes. It thereby created opportunities for abuse by potential licensees who would be able to delay negotiations unreasonably and thereby secure more favourable terms for themselves (so called “hold-out” or “reverse hold-up”).

The decisions also involved a departure from the previously settled position under German law – as expounded in the Federal Court of Justice’s 2009 *Orange Book Standard* judgment¹² – whereby an injunction would invariably be granted against an implementer unless it made an unconditional offer to take a licence at a particular rate (or a rate to be determined by the patentee and reviewed by the court), and also acted as if a licence agreement had actually been concluded by paying royalties into escrow pending determination of the dispute. In view of this conflict, the Landgericht Düsseldorf decided to refer the *Huawei* case to the CJEU.¹³

The *Huawei* case

Huawei’s claim concerned a German SEP that was essential to the 4G (“LTE”) mobile network standard. The patent was subject to a FRAND commitment. In 2010, Huawei discovered that ZTE was marketing products in Germany that used the LTE standard. Huawei proposed licensing terms but no agreement was reached. Huawei then claimed an injunction.

⁹ Case T-111/96 *ITT Promedia NV v. Commission* [1998] ECR II-2937; Case T-119/09 *Protégé International Ltd v. Commission* [2012] ECR II-294.

¹⁰ Given effect in Article 47 of the EU Charter of Fundamental Rights.

¹¹ Case C-241/91 *Magill* and C-242/91 *IMS Health* are well-known examples.

¹² KZR 39/06, *Orange-Book Standard*, Judgment of 6 May 2009.

¹³ 4b O 104/12, Decision of 21 March 2013.

The Düsseldorf court noted that the stance taken by the Commission in *Samsung* was inconsistent with the previous practice of the German courts. It referred a series of questions to the CJEU which were designed to clarify the circumstances in which a dominant SEP-holder that had given a FRAND commitment would breach competition law by seeking an injunction against a prospective licensee. The first of these was:

“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? [i.e. the Commission’s approach]

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 fulfils its contractual obligations for acts of use already performed in anticipation of the licence to be granted?” [the *Orange Book Standard* approach]

In his Opinion, Advocate-General Wathelet recognised that any restriction on the ability of SEP-holders to seek injunctions engaged fundamental legal principles, each of which gave rise to a need for caution. First, he noted that because the right to bring an action to protect one’s property rights is a fundamental right, “any restriction of the right to bring those actions necessarily constitutes a significant limitation of intellectual property rights and can therefore be permitted only in exceptional and clearly defined circumstances”.¹⁴ Secondly, he emphasised the importance of the fundamental right of access to the courts. It followed in his view that “the bringing an action for a prohibitory injunction can constitute an abuse of a dominant position only in exceptional circumstances”.¹⁵ The A-G then proceeded to propose specific guidelines that, if followed by SEP-holders, would ensure that any application for a prohibitory injunction could not be defeated by a defence of abuse of dominance.¹⁶ He described these steps as representing a “middle path” between the interests of the patentee in protecting the value of its property and those of the implementer in developing and marketing products that utilise the relevant standard, correctly noting that:

“placing reliance only on the alleged infringer’s mere ‘willingness to negotiate’ would result in pricing which falls well below the true economic value of the SEP. Conversely, placing reliance on the case-law established by the Bundesgerichtshof in *Orange-Book-Standard* would create the opposite problem, in that the licence royalties imposed would be very high (though not so high as to constitute a refusal to conclude a contract, in breach of Article 102 TFEU).”¹⁷

¹⁴ Paragraph 62.

¹⁵ Paragraph 67.

¹⁶ Paragraphs 88-96.

¹⁷ Footnote 20.

The judgment of the CJEU¹⁸, largely followed that Opinion. Notably, the CJEU emphasised on a number of occasions the importance to be attached to intellectual property rights and to the ability to obtain effective judicial protection of those rights.¹⁹ It agreed with the Advocate General that these considerations necessitated a balanced approach to the grant of injunctions.

As to the detail of that approach, the CJEU endorsed the Advocate General's proposed guidelines as to the steps an SEP-holder should follow in order to ensure that a request for an injunction will not be liable to a defence that the SEP-holder's actions constitute an abuse of a dominant position contrary to Article 102 TFEU.

The conclusion is in the following terms:²⁰

“...[T]he proprietor of an SEP, which has given an irrevocable undertaking to a standardisation body to grant a licence to third parties on FRAND terms, does not abuse its dominant position, within the meaning of Article 102 TFEU, 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 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.”

What does *Huawei* decide?

The first and most important point is that *Huawei* confirms that an implementer may in principle rely on an antitrust defence to a claim by a patentee for an injunction in certain circumstances. This is significant on a practical level since it means that, if raised, antitrust considerations will now be examined by the courts in the course of the actual injunction proceedings. Where the defence is made out, an injunction will simply be refused. This should greatly reduce the need or scope for enforcement action by competition authorities in this area. It is also a positive outcome from the point of view of access to justice – to which the CJEU specifically referred²¹ – since the existence of a specific antitrust defence should

¹⁸ 16 July 2015.

¹⁹ Paragraphs 42, 57-58 and 69.

²⁰ Paragraph 71.

²¹ Paragraph 57.

make it more difficult for defendants to argue that the patentee has abused its dominant position simply by applying to the court in the first place.

It is also significant that neither the Advocate General's opinion nor the judgment provides any support for the Commission's theory based on "hold-up". There is no suggestion that by seeking an injunction a patentee might intimidate an implementer into agree to pay more than a FRAND rate. In our view, it would now require clear evidence on the facts (not theory or speculation) before this view could be used to justify sanctions against a patentee for seeking an injunction in the courts.²² Indeed, the CJEU focused exclusively on the danger of exclusion from the market which strongly implies that any issue of royalty rates is a matter for the national court to decide.

The EU Competition Commissioner, Margrethe Vestager, commented on the judgment as follows:

"Our Motorola and Samsung cases triggered a number of interesting developments.... two months ago, in the *Huawei/ZTE* ruling, the Court confirmed our position on two main points:

- First, that standard essential patents are different from other patents because of the commitments to license on FRAND terms;
- Second, that when there's a company willing to take a license on FRAND terms, injunctions should be off the table.

We were particularly happy about this confirmation given that our decisions were considered as novel by many. The judgment is important because it confirms that standardisation takes place in a competition context. And the judgment confirms that it is only natural that if, in order to have your technology accepted as part of a standard, you commit to license that technology - in return for reasonable remuneration of course - then you should not be able to seek an injunction to exclude products from the market if there is a willing licensee on the other side."²³

There is an element of overstatement in these remarks, particularly in the suggestion that the judgment somehow endorses the proposition that a "willing" licensee should always be able to avoid an injunction as the Commission had proposed in *Samsung* and *Motorola*. In fact the principles articulated by the CJEU are markedly more balanced than the position previously advocated by the Commission, which the CJEU's decision supersedes and which should not now be followed by national courts.

In particular, the CJEU has clarified that an SEP-holder does not violate competition law by seeking an injunction if the implementer has merely offered, without more, to conclude a licence on FRAND terms. It is necessary for the implementer to go further and "diligently to respond to that offer, in accordance with recognised commercial practices in the field and in good faith". And if the implementer disagrees with the offer made by the patentee it must

²² This reflects the view of the Court of Appeals for the Federal Circuit in *Ericsson v D-Link* December 4th 2014 at pp.53-55: "Certainly something more than a general argument that these phenomena are possibilities is necessary".

²³ 19th IBA Competition Conference, Florence, 11 September 2015.

submit, “promptly and in writing, a specific counter-offer that corresponds to FRAND terms” and “provide appropriate security...for example by providing a bank guarantee or by placing the amounts necessary on deposit”.²⁴ The CJEU therefore sought to create a balance of obligations on both parties that should ensure the availability of injunctive relief in suitable cases while protecting the ability to defend against inappropriate requests for injunctions.

Thus, a patentee who seeks an injunction is not acting abusively simply because the implementer has offered to have the FRAND terms determined by a court or arbitrator. This appears from the CJEU at paragraph 68: “where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party without delay” (emphasis added). A patentee is not obliged to refer any dispute about the FRAND terms to an impartial tribunal in order to avoid a finding of abuse – the question can be left to the court, though there is a clear hint that arbitration is the preferred course. Furthermore, the CJEU clearly recognised that where a dispute over FRAND terms is referred for determination to an impartial tribunal, such determination should occur promptly.

We turn to discuss the various steps outlined by the CJEU in more detail:

- First, the patentee must give the implementer notice of the dispute. Although this is a departure from existing practice in some jurisdictions,²⁵ it is straightforward and unobjectionable, since an implementer cannot realistically be expected to be aware of all the patents that are essential to a given standard, of which there may be thousands.
- Secondly, if the implementer expresses its willingness to conclude a licence on FRAND terms, the patentee must make a specific FRAND offer and explain how the offer is calculated. We doubt whether it is strictly necessary for the notification and the offer to be made in two stages: in many cases it may be appropriate to make the offer at the same time as giving notice of the alleged infringement. As to the requirement that the offer set out the way in which the royalty is to be calculated, the CJEU did not say whether the offer may be of the patentee’s entire worldwide portfolio of SEPs for the standard concerned. However, such portfolio licences are the standard (probably invariable) industry practice in commercial negotiations and agreements in the ICT sector, as the German courts in particular have recognised.²⁶ We cannot think that the CJEU intended to change this.
- Thirdly, the patentee must await the implementer’s response to its offer. The implementer is under an obligation to respond “diligently”. If it fails to respond diligently the patentee is entitled to apply for an injunction. If the implementer does not accept the patentee’s offer it can only avoid an injunction by submitting a specific counter-offer which is at least reasonably arguably FRAND and also providing appropriate security pending resolution of the FRAND dispute. It can no longer simply pay nothing and pursue a policy of hold-out.

Some cases since *Huawei*

²⁴ Paragraphs 65-67.

²⁵ For example, the Netherlands courts had consistently held that a patent could not be used without a licence regardless of whether the patentee was on notice of the infringement.

²⁶ See *Saint Lawrence v. Vodafone*, Landgericht Düsseldorf 4a O 73/14, 31 March 2016.

The *Huawei* guidance has been referred to in a number of decisions in Germany and one in Romania. In all these cases the patentee sued an implementer for infringement of an SEP. Significantly, the Commission has not taken any enforcement action against any of the patentees for starting such proceedings. This demonstrates that in fact the Commission has retreated from its extreme pre-*Huawei* view that the mere commencement of an action for infringement of an SEP was ipso facto an abuse of monopoly. It could hardly be maintaining that view and yet standing by.

- In *Sisvel v. Haier*²⁷ the Landgericht Düsseldorf granted injunctions against a Chinese implementer, Haier, which had infringed patents owned by Sisvel that were incorporated in the 2.5G and 3G mobile telecommunication standards. The court rejected Haier's FRAND defence on the basis that Sisvel had informed Haier of the infringement and made an offer of a licence to which Haier had not responded in a timely manner. It held that it did not need to address the question whether Sisvel's offer was FRAND since Haier had not in any event demonstrated its willingness to take a licence on FRAND terms by making payment or providing security. However, the Oberlandesgericht Düsseldorf stayed enforcement of the injunction, holding that a patent holder's offer must be FRAND in order to trigger an obligation on the implementer to respond.²⁸ Presumably if the offer had been FRAND then an injunction would have ensued. However, it is not clear that this is consistent with the second stage of the *Huawei* guidance, which implies that the patentee only comes under an obligation to make a FRAND offer at all if the implementer has confirmed its willingness to take a licence. Subsequently, the court clarified the meaning of the obligation to specify the way in which its proposed royalty has been calculated. It said that this requires more than simply identifying the reference base and the royalty rate.
- In *Saint Lawrence v. Deutsche Telekom*²⁹ another non-practising entity, St Lawrence, sought an injunction against Deutsche Telekom for an alleged infringement of an SEP relating to the AMR Wideband standard by selling HTC handsets. HTC intervened in the case. After filing its claim St Lawrence had offered to grant a worldwide licence on FRAND terms. Deutsche Telekom refused to take a licence while HTC made a counter-offer to accept a FRAND licence with the royalty to be determined by the English courts and limited to Germany. HTC also provided security and rendered an account. The Landgericht Mannheim granted an injunction against Deutsche Telekom (which was unwilling to take a licence at all) and found that HTC's offer was not specific enough to be FRAND. The court held that a counter-offer should include a specific royalty amount and that this requirement was not satisfied by offering to have the royalty amount determined by a third party. This appears inconsistent with the position taken in *Sisvel* (above). A stay of enforcement was granted by the appeal court on the separate ground that the industry practice was to license patents to smartphone manufacturers and since the manufacturers were willing to enter a licence agreement there was no justification for asserting a claim against an operator.³⁰

²⁷ *Sisvel Wireless Patent Portfolio v. Qingdao Haier Group*, Landgericht Düsseldorf 4a O 93/14 and 4a O 144/14, 3 November 2015.

²⁸ *Sisvel Wireless Patent Portfolio v. Qingdao Haier Group*, Oberlandesgericht Düsseldorf 15 U 65/15, 13 January 2016.

²⁹ *Saint Lawrence Comms. GmbH v. Deutsche Telekom*, Landgericht Mannheim 2 O 106/14.

³⁰ Oberlandesgericht Karlsruhe 6 U 44/15, 23 April 2016.

- *Saint Lawrence v. Vodafone*³¹ was another claim brought by Saint Lawrence in the Landgericht Düsseldorf against a mobile phone operator for selling HTC phones that implemented AMR Wideband technology incorporating Saint Lawrence's patents. HTC intervened. Vodafone had been put on notice of the claim by August 2014 but had not responded until January 2015. This was held not to be sufficiently prompt. The Düsseldorf court also found that Vodafone had failed to submit a FRAND counter-offer, to render an account or to provide security. In this case the court did conduct an analysis of Saint Lawrence's offer and ruled that it was sufficiently comparable to other analogous agreements to be considered FRAND. An injunction was therefore granted. An application for a stay of the injunction was refused by the Oberlandesgericht Düsseldorf. It found no obvious mistakes in the judgment (that being the test for an interim decision), since on this occasion – unlike in *Sisvel v. Haier* – the Landgericht had evaluated whether the licensor's offer was FRAND.³²

This case is important. St. Lawrence's offer was for a licence under its worldwide entire SEP portfolio and was to bind the parties' affiliates. In holding the offer was FRAND compliant the Landgericht had regard to the commercial reality of established licensing practice. If the decision is followed generally, as we think it should be, implementers will not be able to practice a form of hold-out whereby they offer to take a licence only for the particular patents sued upon and only for the country concerned. Such licences would not come close to addressing the real question in dispute.

- *NTT DoCoMo v. HTC*³³ concerned a claim by NTT for alleged infringement by HTC of patents essential for the UMTS standard. NTT had offered HTC a licence at specified royalty rates. 18 months later, and 6 months after the infringement proceedings were commenced, HTC made a counter-offer. The counter-offer was rejected but no security was provided. The Landgericht Mannheim granted an injunction, holding that HTC had failed to make a prompt counter-offer and to provide security. Again – and questionably in light of *Sisvel* – the court did not assess whether NTT's offer had been FRAND, ruling that it was sufficient that the offer was not obviously non-FRAND.
- In *Pioneer v. Acer*³⁴ the Oberlandsgericht Karlsruhe followed the approach in *Sisvel v. Haier* and stayed an injunction granted by the lower court which had erroneously limited itself to finding that the royalty rate proposed by the SEP-holder was not obviously non-FRAND.
- *Huawei* was also considered by the Romanian courts, where an application was made by ZTE to discharge an injunction granted in 2014 in favour of Vringo, another non-practising entity, to restrain infringement of a patent essential to the 4G/LTE standard. On 28 October 2015 the Court of Appeal of Bucharest dismissed the application and

³¹ *Saint Lawrence Communications v. Vodafone*, Landgericht Düsseldorf 4a O 73/14, 4a O 126/14, 4a O 127/14, 4a O 128/14, 4a O 129/14, 4a O 130/14, 31 March 2016.

³² I-15 U, 9 May 2016.

³³ *NTT DoCoMo v. DoCoMo v. HTC Germany*, 7 O 66/15, 29 January 2016; 7 O 99/15, 19 February 2016; 7 O 100/15, 6 June 2016.

³⁴ 6 U 55/16, 31 May 2016.

upheld the injunction on the basis of *Huawei*, noting that ZTE had failed to respond to Vringo's offer of a licence. It does not appear that the court actually verified whether Vringo's offer was FRAND.

Huawei has also been cited by the Delhi High Court in *Ericsson v. M/S Best It World*,³⁵ where an interim injunction was granted prohibiting iBall from importing mobile devices which infringed Ericsson's SEPs. It was argued by the defendant that Ericsson had failed to comply with the *Huawei* guidelines by providing proper details of its claim before making the application. The Court rejected that submission as the evidence showed that the defendant was fully aware of Ericsson's rights and that it needed to obtain a licence. This decision suggests that the *Huawei* principles may become accepted as representing appropriate practices for SEP licensing globally and not only within the EU.

Issues left unresolved by *Huawei*

There are some matters left unresolved by *Huawei*:

- How FRAND is actually to be determined. This was not part of what the CJEU had to consider. The judgment therefore does not directly confront "hold up" theories or excessive pricing concerns and implicitly leaves these to national courts to consider. There are in practice values set by the complex network of licences and cross-licences, which will be the best guide to FRAND rates. If a patentee can establish that it has more or less standard terms that are generally accepted in the industry it should be able to persuade the tribunal that those terms are FRAND.
- What should happen where both the patentee's offer and the implementer's counter-offer are both FRAND. We think that much the better view is that the key question is whether the patentee's offer is FRAND. If it is, he has fulfilled his commitment and is not guilty of any abuse. So he should be entitled to an injunction if the implementer refuses his offer. It should not matter that another, lesser FRAND, counter-offer is made. After all, the patentee owns the SEP and is in principle entitled (subject to its contractual commitments and to competition law) to decide what to charge for the use of its property. It is not for the licensee to dictate what the patentee should charge.
- Whether the patentee can require the implementer to enter into a Non-Disclosure Agreement prior to making an offer. We think the better view is that it can, because this is standard practice and because typically both parties will need to exchange information about their respective businesses in order to have a meaningful negotiation. Also, without such an agreement the patentee would have to disclose freely not only his own commercial secrets but those of others (i.e. his existing licensees). It seems improbable that the CJEU intended to compel this.
- Whether or not the FRAND commitment is contractual in nature. There are powerful reasons for saying it is. The commitment is given to the standard development organisation (e.g. ETSI) in the form of a contract. In most legal systems (and French in particular because the ETSI contract is governed by French law) third parties can enforce contracts intended for their benefit. So an implementer can say he is entitled

³⁵ CS (OS) 2501/2015, 2 September 2015.

to a FRAND licence by contract. A patentee who does not offer such a licence is in breach of contract as well as abusing his monopoly. A contractual defence would be a complete answer to the claim, not merely to an injunction.³⁶

- How a court should proceed where the defendant contends that the patent is invalid and/or not used.³⁷ Should it decide these matters first (as is currently being done in the UK in the *Unwired Planet* litigation)³⁸ and if so should it order security meanwhile? We think these questions are best left to national courts to decide in the particular circumstances of the case.
- If an implementer unsuccessfully challenges validity, essentiality or use, can/must the patentee charge more than he charged those who did not challenge? Business common sense says yes: the value of an established right is self-evidently greater than one which has not been established. And given the commitment not to discriminate it would seem that the patentee ought to charge more. Challenging validity, essentiality or use should not be risk-free as regards royalty rates.³⁹
- A particular, controversial, subject of current debate is the royalty base and in particular whether it should be on the “smallest saleable unit” (“SSU”) or per device (also known as the “Smallest Saleable Patent-Practising Unit” or “SSPPU”). The judgment has nothing to say about this. The SSU base is an attempt to drive down royalties: there is nothing in *Huawei* suggesting competition law requires this. Academic literature and industry practice in mobile SEP licensing are largely against the idea.⁴⁰

Further Commission action?

On 19 April 2016 the Commission issued a Communication on ICT Standardisation Priorities for the Digital Single Market⁴¹ which raised the prospect that the *Huawei* principles might be codified through legislative or other measures. The relevant part of the Communication states as follows:

“With the many technologies involved in implementing complete digital value chains, notably in the area of [the Internet of Things], there is uncertainty in particular in relation to: (i) who is the relevant community of standard essential patent holders; (ii) the cost of the cumulated IPR needed to implement the standard; (iii) the methodology applied to calculate the value of the licensing terms; (iv) the regime regarding the settlement of disputes. Against this

³⁶ The CJEU made it clear that competition law was not a defence to a claim for damages

³⁷ As he is entitled to do, see [69] of *Huawei*.

³⁸ See *Unwired Planet International Ltd v. Huawei Technologies Co. Ltd* [2015] EWHC 3366 (Pat) and [2016] EWHC 94 (Pat).

³⁹ See Jacob, *FRAND: A legal analysis*, October 2014

(<http://is.jrc.ec.europa.eu/pages/ISG/EURIPIDIS/documents/RobinJacob.pdf>)

⁴⁰ E.g. Sidak, *The Anti-Trust Division's Devaluation of Standard-Essential Patents*, Georgetown Law Journal Online Vol.104:48, p.48. Sheerry and Teece, *On the 'Smallest Saleable Patent Practicing Unit' Doctrine: An Economic and Public Policy Analysis*, Tusher Center, 20 January 2016. Petit, *The Smallest Saleable Patent-Practicing Unit ('SSPPU') Experiment, General Purpose Technologies and the Coase Theorem*, LCII, 18 February 2016.

⁴¹ COM(2016) 176.

background, a fast, predictable, efficient and globally acceptable licensing approach, which ensures a fair return on investment for standard essential patent (SEPs) holders and fair access to SEPs for all players – and especially SMEs - of the value chain would be beneficial.

In summary, the Commission will:

[...]

- work in collaboration with stakeholders including ESOs, EPO, industry and research, on the identification, by 2017, of possible measures to (i) improve accessibility and reliability of information on patent scope, including measures to increase the transparency and quality of standard essential patent declarations as well as (ii) to clarify core elements of an equitable, effective and enforceable licensing methodology around FRAND principles and (iii) to facilitate the efficient and balanced settlement of disputes.”

However, on 1 August 2016 European Commissioner Bieńkowska, who is responsible for Internal Market, Industry, Entrepreneurship and SME matters, stated in response to a Parliamentary question that:

“Concerning the provisions on injunction, jurisprudence from a recent ruling of the European Court of Justice provides guidance on the availability of injunctive relief in case of SEPs in the EU. Concerning other issues, the identification of measures will include a detailed assessment as outlined in the communication.”

That suggests that the Commission is not in fact intending to promulgate any guidance or initiate legislation in the specific area covered by the *Huawei* judgment. This is to be welcomed, for a number of reasons:

- The ruling is not intrinsically complicated. Any guidance which merely repeated or paraphrased what the CJEU said would be superfluous.
- As a constitutional matter, under Article 19 TFEU of the Treaty on the Functioning of the European Union the sole function of the CJEU is to “ensure that in the interpretation and application of the Treaties the law is observed”. Rulings of the CJEU are therefore the final word. The other EU institutions such as the Commission do not have the power to reinterpret rulings of the CJEU.
- At a more practical level, while there are subsidiary questions that the CJEU did not resolve (e.g. what happens if the counter offer is rejected) these kinds of lacunae are best decided by courts on the basis of concrete facts, not by the Commission in the abstract. For the Commission to issue formal guidance so soon after the *Huawei* decision could stultify the development of the law and prevent it from developing in response to new factual situations.

- Any guidance would not be binding⁴² and, since it would not be based on the CJEU's case law or even its own decisional practice, could not even claim any authoritative status. It would therefore need to be tested, and the true legal position elaborated, in the courts in any event.
- There would be a risk of setting national courts on the wrong track, if the guidance failed to interpret the *Huawei* judgment correctly. This may not be unlikely, since some of the Commission's public statements since the *Huawei* judgment suggest that it has not properly understood the decision. For example in its "Annual Union work programme for European standardisation for 2016"⁴³ it summarises the ruling as specifying "a process, with mandatory [sic] steps for either side (patent holder and implementer) to either bring or prevent an injunction." That is inaccurate, since *Huawei* only decides that an implementer may⁴⁴ have a valid competition defence to the seeking of an injunction, if it can show that the patentee did not follow the process set out by the CJEU. The process is however not mandatory as such.
- Judging by the rate of innovation, the speed of entry of newcomers onto the market, the high level of competition, the market is working well and there is nothing that needs fixing. On the contrary, attempts to impose new rules in the interests of achieving greater "balance" would risk distortions and result in unintended consequences.

Huawei and the review of the IP Rights Enforcement Directive

The Commission is shortly due to announce proposals for a review of the IP Rights Enforcement Directive ("IPRED").⁴⁵ In that context, there have been calls for the Directive specifically to address the availability of injunctive relief for SEPs covered by a FRAND commitment. Given that IPRED relates to all forms of IP rights with the aim of ensuring a "*high, equivalent and homogeneous level of protection*",⁴⁶ we see no need to carve out special provisions relating to SEPs in any revised directive.⁴⁷ Nor is there a need for any general codification of *Huawei* in any separate European act.

However, there are general principles related to IPRED that were recognised by the CJEU in *Huawei*. In particular the Court held that the proper role of IPRED was to provide for "*a range of legal remedies aimed at ensuring a high level of protection for intellectual property rights in the internal market, and the right to effective judicial protection guaranteed by Article 47 of the Charter, comprising various elements, including the right of access to a*

⁴² Case C-310/99 *Italy v. Commission*, paragraph 52.

⁴³ 8.1.2016 (COM(2015) 686 final).

⁴⁴ Another matter which is not dealt with in the judgment is whether ownership of an SEP automatically equates to holding a dominant position. However, the Advocate General did address this question and concluded – in our view correctly – that SEPs do not necessarily confer dominance (paragraph 57).

⁴⁵ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L 157, 30.4.2004).

⁴⁶ IPRED, recital 8.

⁴⁷ There has been a recent parallel debate about this in relation to the rules for the Unified Patents Court. Some implementers (including Apple, Samsung and Huawei) urged the Committee of experts who drafted the rules to make some special provision about circumstances in which the court should withhold an injunction, particularly in the case of claims by non-practising entities. In the end, after debate, this was not adopted. There seems no point in re-opening the issue.

tribunal.”⁴⁸ Also of relevance is the CJEU’s statement that it is for the national court, taking due account of the “*specific factual and legal circumstances in the case*”⁴⁹ to “*strike a balance between maintaining free competition [...] and the requirement to safeguard [...] intellectual-property rights and [the] right to effective judicial protection, guaranteed by Article 17(2) and Article 47 of the Charter, respectively.*”⁵⁰ Plainly, any new legislation will need to be fully consistent with these principles.

Conclusion

Huawei is a pragmatic decision which strikes a sensible balance between the interests of SEP-holders and implementers. It should ensure that:

- (i) genuine licensing disputes are brought before arbitral tribunals or the courts and decided without undue delay;
- (ii) save in egregious cases, there is no prospect of competition enforcement action being taken against patentees simply for attempting to assert their proprietary rights; and
- (iii) genuinely willing licensees who act in good faith will not be subject to the risk of an injunction.

The full implications of the ruling may need to be worked out in subsequent cases. That is, however, a task which national courts are well equipped to undertake by reference to the specific facts at hand. As the Commission now seems to appreciate, the publication of any new “soft law” instruments is unlikely to be conducive to further clarity. By the same token, any attempt to crystallise the effects of judgment in legislation would be unnecessary, premature and in all probability counterproductive.

⁴⁸ *Huawei*, paragraph 57.

⁴⁹ *Huawei*, paragraph 56, mirroring recital 17 of IPRED which states that “The measures, procedures and remedies provided for in this Directive should be determined in each case in such a manner as to take due account of the specific characteristics of that case, including the specific features of each intellectual property right and, where appropriate, the intentional or unintentional character of the infringement”.

⁵⁰ *Huawei*, paragraph 42.