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Competition Law and Standard Essential Patents; Testing the Limits of Extra-territorial Enforcement

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POLICY BRIEF

Abstract

On 12 October 2018, the Robert Schuman Centre for Advanced Studies hosted the third Annual Conference of the Florence Competition Programme (FCP) at the European University Institute's (EUI's) campus in Florence. The conference discussed the challenges that are linked to abuses of Standard Essential Patents (SEPs) *vis-à-vis* the extra-territorial enforcement of competition law. Following a keynote speech, delivered by Guillaume Lorient, Director for Markets and Cases II: Information, Communication and Media of DG Competition at the European Commission, the event was divided into two panels, which dealt, respectively, with: i) Licensing SEPs and the question of when the license terms are Fair, Reasonable and Non-Discriminatory; and ii) SEPs and extraterritorial competition law enforcement. The final roundtable discussion focused on the role of Standard-Setting (or Development) Organisations (SSOs or SDOs) in preventing competition law infringements. The event gathered several different stakeholders, including competition enforcers and representatives from academia, industry, law and economic consulting firms. The diversity of views ensured a lively debate throughout the event. The present Policy Brief summarises the main points raised during the discussion while seeking to stimulate further debate.



Keynote Speech - Standards Essential Patents (SEPs) and Competition: The EU perspective

The opening keynote set the scene for the conference by presenting the European perspective on the relationship between SEPs and competition, and highlighting the importance of standardization for the successful rollout and take up of 5G. It was noted that, while competition issues around SEPs may arise in the context of mergers, the debate is dominated by the issues that arise in the application of Articles 101 and 102 TFEU. Article 101 becomes particularly relevant in respect of standardization agreements and SSOs. While such agreements can generate significant efficiencies by ensuring, amongst others, compatibility and interoperability between products, and, as such, play an important role in boosting innovation, by their very nature they are also prone to anti-competitive behaviors. For this reason, it is extremely important that SSOs operate transparently, and that they adopt and follow clear rules. The risk of abusive unilateral conduct in the context of standardization, on the other hand, arises in respect of the dominant position of an SEP patent hold-up.¹ It is thus clear that SEPs can involve both collusion and exclusionary practices and, accordingly, the question of whether one is more harmful than the other can be answered only in the context of a specific case.

Conceptually, competition law raises two important issues in the context of SEPs: one of patent hold-up, and the other of patent hold-out. Traditionally, the former has raised more concerns and attracted more scrutiny than the latter. However, in light of the ongoing debate in the US and recent statements made by the U.S. Department of Justice (DoJ) and the Federal Trade Commission (FTC), it seems that attention is shifting towards patent hold-out by implementers, where implementers threaten to use

a given technology without acquiring licenses from the innovator, an issue which may be as, or even more, problematic than patent hold-up by patent owners.

Certainly, striking the right balance between the interests of all the involved parties, namely, the patent holders, the implementers and the users, is not an easy task, but it is precisely what the Commission is committed to achieving.² Accordingly, the high-level message that the European Commission seeks to convey is that while an SEP's holder, on the one hand, should not be allowed to claim an injunction, implementers, on the other, must be willing to agree to FRAND terms. The overall objective, as mentioned earlier, is therefore to ensure a fair balance between various competing interests, and not to protect the interest of just one side. This balancing approach that is pursued by the European Commission has also been endorsed by EU courts.

In addition to advocating a balanced approach, the Commission is also committed to promoting a predictable framework, and, in general, a more transparent and open approach to SEPs. It is for this reason that, in November, 2017, the Commission adopted a separate Communication on SEPs, which sets out a legal framework and offers guidance and recommendations on how to make the system more transparent, and how to secure effective enforcement whilst curbing the risk of abusive litigation.³

The keynote was concluded with two takeaway messages. First, competition law provides a set of general rules and principles that apply in the context of standardization. Controversies that arise in their application can be resolved at the national level, as national courts are well equipped to deal with specific issues. Second, given the importance of standardization for 5G and IoT for the Digital Single Market and the overall competitiveness of the European economy, it is essential to avoid abusive litigation.

1. Competition issues raised by SEPs and standardization have recently been analysed by the CJEU in *Huawei v. ZTE*, in which the Court ruled that the holder of an SEP that had agreed to license its patent on FRAND terms, may violate Article 102 TFEU, and competition rules in general, when seeking an injunction against a potential licensee in certain circumstances. See Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp.*, ECLI:EU:C:2015:477.

2. The Commission's *Motorola* and *Samsung* decisions were invoked during the keynote as a proof of its commitment to promoting such a balanced approach.

3. Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, Setting out the EU Approach to Standard Essential Patents, Brussels, 29.11.2017, COM(2017) 712 final.



tion that may slow down the evolution and take-up of these technologies.

Panel I – Licensing SEPs: when are the license terms Fair, Reasonable and Non-discriminatory?

During the first session of the Conference, speakers pointed out that technical (or industry) standards play a vital role in the hyper-connected era, since they support innovation and growth in rapidly developing markets while providing for the interoperability of digital technologies. They then recalled that the need to establish ‘Fair’, ‘Reasonable’ and ‘Non-Discriminatory’ (FRAND) commitments on SEP holders originates from SSO’s attempt to counterbalance the negative effects produced by the abuse of patent positions. Actually, there exists a long history of patent licensing commitments that have been made, even outside of the standard-setting context, both in the United States and in Europe, years before SSOs considered the adoption of this approach for the first time.⁴

However, the benefits related to the establishment of a standard come with some anticompetitive costs, primarily because the process brings together competitors that have an inherent incentive to restrict competition amongst themselves. In this respect, the most crucial concerns relate to the enforcement of the patent rights covering technology that is essential to implement a standard. These are often referred to as Standard Essential Patents (SEPs).

4. From World War II until the 1970s, American courts issued more than one hundred orders addressing issues related to patent licensing on the basis of terms that were ‘fair’, ‘reasonable’ and ‘non-discriminatory’. See Jorge L. Contreras, *A Brief History of FRAND: Analyzing Current Debates in Standard Setting and Antitrust through a Historical Lens*, 2015, 80 *Antitrust Law Journal* 39. For instance, in *U.S. v. Terminal Railroad Association of St. Louis*, 224 U.S. 383 (1912), 38 transport companies allegedly conspired to prevent competitors from using every feasible means of railroad access to St. Louis. The Supreme Court ruled that the conduct had to be regarded as being an unlawful restraint of trade, and that membership had to be accessible to ‘any existing or future railroad’ on ‘such just and reasonable terms as shall place such applying company upon a plane of equality in respect of benefits and burdens with the present proprietary companies’

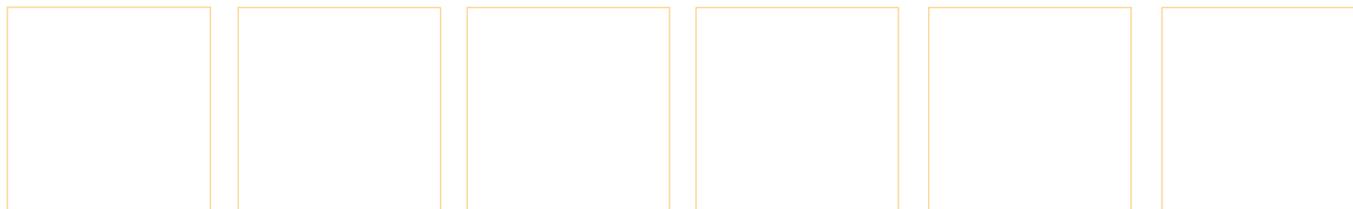
Once a standard is created, SEPs’ holders/innovators can license the rights to their SEPs in exchange for a royalty that may be unfair and unreasonable (excessive) in relation to the value of the technology. Other forms of opportunistic behavior may entail discriminatory fees, or even a refusal to license SEPs.

It was thus argued that the role played by FRAND⁵ is essential within SSOs, as SEP holders are called upon to accept a voluntary commitment to license a patent on terms that are capable of making the technology available to all of its potential implementers. In this scenario, SEP holders are adequately rewarded for the use of the patent and are also encouraged to continue investing in R&D activities. Overall, FRAND commitments facilitates the widespread use of standards and insures that each SEP holder benefits from use of the patent without gaining an unfair bargaining advantage, ‘holding up’ the manufacturers of standard compliant goods. In this respect, FRAND commitments may be regarded as a means for harmonizing the private interests of patent holders with the public interests of SSOs.

Speakers then remarked that there is no regulation that imposes a FRAND obligation, which is merely a contractual commitment made by the patent holder to the SSO, and not to the general public. It was clarified that, besides referring to SEP holders’ commitments to negotiate licenses, the concept of FRAND also relates to the licensing terms themselves. Especially in the latter case, this can be regarded as being multi-dimensional, involving a number of conditions, such as, for example, the existence of reciprocity; grantbacks; defensive suspensions; the coverage of future releases of a standard, as well as the duration of the license.

After stressing that the assessment of whether FRAND terms distort or impair competition law is independent from the FRAND analysis itself, speakers introduced an EU perspective to the debate. It was underlined that both the Commission and the

5. vAlso referred to as RAND when encompassing only ‘reasonable’ and ‘non-discriminatory’ terms, or F/RAND policies. In practice, the three terms are generally interchangeable; however, FRAND seems to be preferred in Europe and RAND in the U.S.A.



national courts tend not to intervene much in intellectual property rights (IPRs) and matters that are related to them, as they remain subject to domestic legislation. Hence, a very careful approach has been always adopted in this respect and not much exact guidance has been provided on what FRAND entails. However, some useful indications come from the European Commission's Guidelines on the applicability of Art. 101 TFEU⁶, according to which there exist different methods to establish whether the fees charged for access to IPR in the standard-setting context are fair or reasonable in the case of a dispute. Recalling previous case law, and, in particular, the *United Brands* case,⁷ the Commission holds that fees should bear a reasonable relationship to the economic value of the IPR, also acknowledging that there exist several different methods that can be used to conduct this type of assessment.

At this stage of the discussion, speakers illustrated SSOs' typical IPR policy goals, focusing on the case of the European Telecommunications Institute (ETSI) in order to better clarify to what exactly FRAND refers. In this respect, it was noted that ETSI's policy⁸ makes it very clear that:

- (i) The creation of standards and technical specifications is to be based on solutions 'which best meet the technical objectives of the European telecommunications sector'.
- (ii) ETSI has to ensure that 'investment in the preparation, adoption and application of standards' by its members is not wasted as a result of an essential IPR being unavailable.
- (iii) Under this framework, the organization remains in charge of rewarding IPR holders in a fair and adequate way for the use of their

IPRs in the implementation of standards and technical specifications.

- (iv) Last, but not least, ETSI is required to take all reasonable measures to make sure that its activities enable standards and technical specifications to be available to future potential users.

The main conclusion was that all these elements should co-exist, and they should be balanced amongst each other in an adequate way in order that the conflicting interests of the stakeholders involved in the standardization process within an SSO are harmonized.

Panel II – SEPs and Extra-territorial Competition Law Enforcement

As of today, over 100 countries have developed and adopted competition law regimes and established competent enforcement authorities. While such widespread adoption is altogether commendable, it also increases the risk of inconsistent decisions when a firm's behavior falls under the revisions of different competition authorities, which, in turn, increases the cost of doing business for multi-national firms. This globalisation of antitrust enforcement occurs also in the context of SEPs. This, in itself, is not surprising, as many SEP holders, which find themselves subject to investigation by multiple competition authorities, operate globally. In fact, parallel investigations often focus on the potentially abusive unilateral conduct of SEPs' holders. The assessment of such behavior is challenging as, firstly, national approaches to unilateral conduct may vary considerably amongst jurisdictions, and, secondly, the remedies adopted in such cases will often have an extra-territorial reach. The fact that unilateral conduct is assessed differently and that some jurisdictions may be more interventionist than others, explains why convergence in respect of SEP licensing is unlikely. Still, there are some areas where some degree of convergence may develop. For instance, there is a growing recognition that a balance between the interests of SEP holders and SEP implementers is needed, or that injunctions

6. Communication from the Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union in horizontal co-operation agreements, 14.1.2011, C 11/01.

7. *United Brands Company and United Brands Continental BV v Commission of the European Communities*, judgment of 14 February 1978, C 27/76.

8. ETSI's IPRs Policy can be found in its 2018 Rules of Procedure: <https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>.



should not be excluded, but should be limited to certain circumstances.

Next, participants remarked that the judicial enforcement of SEPs in a global context requires one to consider that a growing number of jurisdictions have not only developed competition law, but also proper IP law regimes. However, since IP rights are territorial in nature, their enforcement is pursued on a national basis. This, in turn, can lead to different outcomes on a number of aspects, including the analysis of FRAND terms.

Certainly, the increasing interdependence of markets in a globalized economy means that the behavior of market players, especially those who operate on a global scale, produces effects that are not restricted to just one jurisdiction. If the effects of given conduct can be disentangled into those that materialize in the domestic market and those in a foreign territory, then a competition authority has jurisdiction only over the part of the conduct that produces domestic effects. Naturally, if the effects cannot be disentangled, the authority unavoidably exercises jurisdiction over the whole conduct.

To the extent that a given conduct produces effects in various jurisdictions, competition authorities in the affected jurisdictions may review the same conduct and adopt measures against it. This, in turn, raises the question of whether there are limits on the exercise of jurisdiction to avoid instances of double jeopardy, over-enforcement, and of overlapping or conflicting remedies.

The question of conflicting remedies is important, given that competition authorities enjoy significant discretion in their formulation.⁹ Comity, for example, could help limit the scope of remedies. However, there is no hard rule concerning comity that is consistently applied across jurisdictions. Still,

9. For example, in the USA, in the *Polypore v FTC case* (11th Cir. July 11, 2012), which concerned a merger divestiture in Austria, did not discuss the impact of divestiture on the EU market. Likewise, in the EU, in *Standard & Poor's*, the Commission held that 'in some circumstances remedies may have to be worldwide in scope in order to ensure fair competition inside the EEA.' European Commission (2011), Case COMP/39.592 – *Standard & Poor's*.

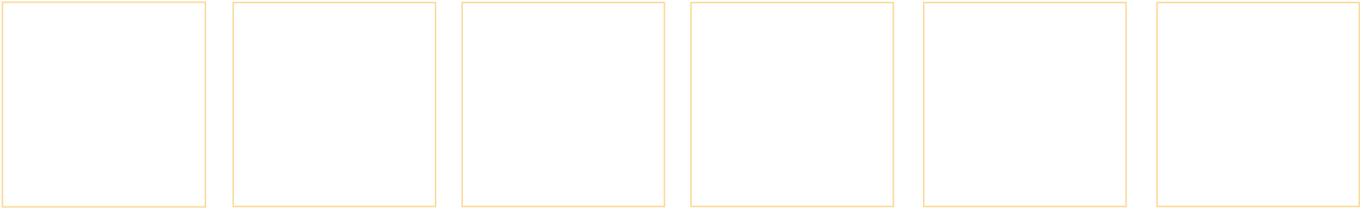
as illustrated by the recent OECD Roundtable,¹⁰ it is expected that extra-territorial application will become a growing problem, and comity will become more important.

To conclude, parallel investigations may create the risk of conflicting decisions, forum shopping, and may increase costs for both claimants and defendants. Given that the emergence of a global antitrust or IP regime is unlikely, it was noted that efforts should be directed towards areas where greater convergence is feasible. It was also recalled that extra-territorial application is an exception, and, as such, it should be applied cautiously and restrictively.

Roundtable Discussion – The Role of SSOs in Preventing Competition Law Infringements

Given the coexistence of the conflicting interests of members within SSOs, the risk of delaying the widespread use of standardized technologies through disputes in negotiations between the parties, is very high. This, in turn, may hamper the development of interconnected products, both in Europe and globally. First, speakers focused on analysis of the 2017 European Commission's Communication on SEPs, which forms part of the wider EU Digital Single Market (DSM) Strategy for the purpose of investigating whether the guidance provided in the document may help to solve some of the most critical competition challenges related to SEPs. It was noted that the first section of the Communication deals with the fundamental requirements for FRAND license negotiations, holding that SSOs' databases, which currently collect mere declarations on SEPs, should be kept up-to-date. For the same purposes, providing greater transparency, quality, and accessibility to relevant information, it is recommended that SEP holders provide sufficiently detailed declarations and that the exact scope of the application of a patent, *vis-à-vis* the standard, is clarified. Further-

10. OECD (2017), Roundtable on the Extraterritorial Reach of Competition Remedies, DAF/COMP/WP3(2017)4, available at: [https://one.oecd.org/document/DAF/COMP/WP3\(2017\)4/en/pdf](https://one.oecd.org/document/DAF/COMP/WP3(2017)4/en/pdf).



more, it is provided that these declarations are subject to a reliable scrutiny of the part concerning their essentiality, which cannot just be based on a self-assessment that is made by the patent holder.

Speakers held that the Communication does not substantiate a concrete proposal in this respect, as it merely states that the actual benefits of increased scrutiny will have to be balanced against the costs of such a review. In the same vein, it was argued that, even though the actual impact produced by the Communication on essentiality checks is not likely to be massive, introducing higher costs would definitely produce anti-competitive effects by harming SMEs and start-ups. A different strand of the debate remarked that, in order for SSOs to cope with all the anti-competitive concerns that are related to transparency, mandatory rules on essentiality checks should be imposed, as, currently, its regulation is entrusted only to the Communication's non-binding provisions. Speakers also analysed the main features of the Commission's approach to SEP licensing, which calls on SSOs and patent holders to develop effective solutions so as to facilitate the process via patent pools and other platforms, agreeing that there is no one-size-fits-all solution in regard to what FRAND is, as what may be considered fair and reasonable may differ from sector to sector and over time.

The discussion thus explored whether, and to what extent, SSOs may contribute to the prevention of competition law infringements from a broader perspective. It was noted that a rather inactive role taken by SSOs in the field of unilateral abuses, is likely to be the result of the common belief that these types of issues may not undermine the process of the adoption of a standard. At the same time, it was stressed that SSOs have made some positive efforts, especially in the area of excessive pricing, adopting policies suggesting that SEP holders disclose information concerning the maximum amount of their royalty fee, and, a few years ago, they started discussions on how to calculate such fees. Finally, the debate focused on the controversial changes to IPR policy that one of the largest SSOs, the Institute of Electrical and Electronics Engineers-Standards Association (IEEE-SA),

adopted in February 2015. Speakers explained that due to the anticompetitive concerns that the new policy had raised, the IEEE-SA had requested from the Antitrust Division of the US DoJ the issuance of a Business Review Letter (BRL), a letter which positively assessed the increased clarity concerning the meaning of the FRAND commitments that were brought about by the update. According to the DoJ, such greater clarity was in a position to foster *ex-ante* competition among technologies for incorporation into the standard, while mitigating patent hold-up at the same time. However, it was argued that, according to some commentators, DOJ's conclusion appears to be based on policy preferences, rather than on a careful rule of reason analysis. In conclusion, technological developments and increasing needs for standardization strongly suggest that the theory and the jurisprudence of SEPs will constitute, for many years, not only a fruitful ground for research on competition law and economics but, most of all, a major field for global confrontation and enforcement.

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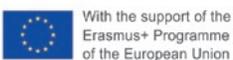
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The Florence Competition Programme

The Florence Competition Programme (FCP) in Law & Economics is a project of the Robert Schuman Centre for Advanced Studies at the European University Institute, which focuses on competition law and economics. FCP acts as a hub where European and international competition enforcers and other stakeholders can exchange ideas, share best-practices, debate emerging policy issues and enhance their networks. In addition, since 2011, the Robert Schuman Centre for Advanced Studies organises a training for national judges in competition law and economics co-financed by DG Competition of the European Commission - ENTraNCE for Judges.



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