

### The EU Court of Justice sets out specific requirements with which an SEP holder needs to comply in order to be able to seek an injunction without abusing its dominant position (*Huawei / ZTE*)

**Unilateral Practices, Abuse of dominance, Exclusive right, Telecommunications, European Union, Unfair competition, Preliminary ruling (Art. 267 TFEU), FRAND, Standard essential patent**

EU Court of Justice, Huawei Technologies Co. Ltd v ZTE Corp & ZTE Deutschland GmbH, C-170/13, 16 July 2015

**Roberto Dini, e-Competitions | N°85452, [www.concurrences.com](http://www.concurrences.com)**

A patent is an exclusive right granted to an inventor for disclosing to the public an innovative technical solution. It does not necessarily oblige the patent owner to exploit that invention. Rather, it provides the right to exclude others from making, using, selling, offering for sale, or importing the patented invention without the patent owner's permission. For this reason, a patent is defined as an **exclusionary right**.

There are cases in which patent owners don't have a complete monopoly over a certain invention, for instance in the case when a compulsory license should be given to a party wishing to exploit the patented invention.

A similar approach is taken for a **Standard Essential Patent (SEP)**. A SEP is a patent which discloses and claims an invention that is technically required to practice a given industry standard, as defined by a Standard Setting Organization (SSO). In this case the SSO requires a commitment from the patent owner to grant licenses on **Fair, Reasonable and Non-Discriminatory (FRAND) terms**.

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A FRAND commitment avoids blocking patents. It guarantees that SEPs are licensed under fair and reasonable terms, making tech transfer possible; at the same time, it offers a reasonable economic return on R&D investments to patent owners who choose to contribute their technologies to international standards, making them available to everybody, even if they are patented.

Through compulsory licenses and FRAND commitments the exclusionary right, granted by a patent, and the need for a free market reach a balance in the best interests of patent owners and technical development. In this context, **patent law and antitrust law** cannot be perceived as conflicting, because patents under FRAND commitments cannot create market distortions.

By committing to FRAND terms, a patent owner must offer to all willing licensees a fair and reasonable royalty rate, affordable for both the product and the market. In addition, so as to avoid discrimination among willing licensees, it is necessary that the patent owner does not accept free riding behavior; in other words, companies that refuse to take a license (unwilling licensees). As a tool to **avoid market distortions between competitors**, enforcement may be used in the best interest not only of patent owners, but also of all licensees, ensuring that free riders do not gain an unfair competitive advantage in the marketplace.

In the **C-170/13 (Huawei vs ZTE) decision**, the CJEU confirms the importance of maintaining all remedies against unwilling licensees in the context of licensing SEPs. It confirmed that FRAND is a “*two-way street*”; the transactional burden cannot be only on the side of patent owners, but should be also a duty of the implementers that desire to make use of a standardized technology covered by patents.

It must be noted that the CJEU decision **ruled on two competing companies, manufacturing** the patented technology and **selling** the related products into the market. The principle aim of the ruling is to avoid that a company abuses its position of being a patent owner and thereby subtracting market share from a competitor. Section 71 of the CJEU decision states “*...Article 102 TFEU must be interpreted as meaning that the proprietor of a SEP, which has given an irrevocable undertaking to a standardization body to grant a license 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...*” ; said dominant position cannot be considered abused whenever the patent owner adopts a certain behavior, e.g. sending a FRAND offer to the potential licensee and explaining why the patent is infringed.

The purpose of limiting the possibility of obtaining SEP injunctions is to avoid that a company, requesting and obtaining an injunction against a competitor, is in the position to subtract market share from said competitor and thus create irreparable damage, before the latter has had enough time to examine and

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consider the license offer. In other words, the CJEU decision is intended to avoid misuse of SEPs in order to jeopardize the market position of competitors. This concept is clearly contained in the C-170/13 decision as the words competition/competitors are used 15 times.

**What happens in the case of non-competing companies**, for instance a non-practicing entity (NPE) vs. a practicing entity? Should the CJEU Huawei vs. ZTE be applied? In my considered opinion, it should not.

In the case of non-competing companies there is no risk of using patents to distort market competition and discriminate between various players. It is in the best interest of the NPE – having no market share - that the market is equally licensed on affordable and equal terms. In addition, it must be taken into consideration that injunctions reduce the number of products sold and this goes against the interest of the NPE that would prefer a larger number of patented products circulated within the market. Therefore, it becomes incomprehensible why rules of competition are mentioned in this connection.

Another interesting point of the CJEU decision is the following: *“The Court must strike a balance between **maintaining free competition** (...) and the requirement to safeguard that proprietor’s intellectual-property rights”*. The decision also explains among whom free competition must be maintained: *“The patent at issue is essential to a standard established by a standardization body, rendering its use indispensable to all **competitors which envisage manufacturing products that comply with the standard to which it is linked**”*. NPEs do not manufacture any products. The consequence of this fact is clear and therefore the CJEU decision **does not affect** business and litigations between companies that are not competitors, such as **NPEs and Practicing Entities**.

Trying to strike a balance between patent owners and implementers, the duties set by the CJEU increase the time necessary to reach a settlement, which is unacceptable in today’s competitive market. The rules established by the decision rather than shortening the procedure, which was the aim of the CJEU, make it more complex and lengthy.

In the case of two competing companies whose primary business is to increase production and supply of products to the market, the fact that lengthy negotiations are necessary before arriving at a license under SEPs, is not a big problem when SEP licensing revenues collected by such companies are a negligible percentage of their turnover. For NPEs, such as individual inventors, universities, R&D centers, and companies having a primary mission of exploiting patent rights, any increase of time for reaching an agreement with so-called unwilling licensees can produce very serious economic damages with detrimental repercussions on their ability to innovate and therefore be rewarded through the patent system. Unfortunately, it has also become very clear that the overall process for concluding successful SEP licenses has become much more cumbersome and slow due to the multitude of **delay tactics** adopted by potential licensees. At the end of 2016 even a seminar was held in China to teach attendees how to totally avoid, or hugely delay, paying SEPs royalties.

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In this environment, where companies sometimes group together **forming a cartel** to avoid paying royalties to the technology developers and therefore discouraging innovation, a new perspective, pushing for new court decisions, could help to restore fairness to the roles of innovators and implementers.

What should this new perspective be? Simply that, the patent owners can go immediately before a Court asking for an injunction, in the case that the patent owner has alerted the infringer about the infringement of its SEPs and presented an offer for a license on FRAND terms and contemporaneously the infringer hasn't expressed promptly its availability to take a license on the offered conditions or responded by counteroffering conditions that are similar in the light of market practice.

In fact, injunctions granted to NPEs - that are normally SMEs - are a competition tool that help to re-establish the much-needed balance when these companies negotiate license agreements with much bigger companies; especially in the consumer electronics field, large corporations can easily allocate hundreds of millions of dollars to their annual budget to litigate against patent owners that do not have the same financial strength. Abusing their **dominant financial position**, large corporations act as free riders in the patent market. In other words, it is a similar situation to the David vs. Goliath scenario. The CJEU decision should not be used to deprive poor David of his slingshot. A world dominated by the Goliaths would be a place solely for big entities, leading to an oligopolistic situation. It is not the best configuration of the market! No place for small entities! No place for newcomers!

**Roberto Dini | [roberto.dini@metroconsult.it](mailto:roberto.dini@metroconsult.it)**