Report Q222

Standards and Patents

by Michael Fröhlich

with the kind assistance of Chris Scherer for Section 3.1.2 of the Report

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1. Summary

1.1. Current and future issues

Special Committee Q222 has the task to monitor, comment and advise AIPPI on policy, regulatory and legal frameworks relating to standards and patents, including developments in case law and regulations in various jurisdictions as well as in standard setting organizations. The Committee is working on identifying possible shortcomings, including the analysis of the role antitrust law plays in this context. Where appropriate, the Committee will formulate standpoints and opinions.

During the reporting period, the Committee had a physical meeting at the AIPPI ExCo in Helsinki, and 2 meetings per teleconference.

The Committee focused its work on producing a report on the "Availability of injunctive relief for FRAND-committed standard essential patents, incl. FRAND defence in patent infringement proceedings". The report was published in April 2014 on the AIPPI website and Managing IP has published an article about the report in its July/August edition. The report provides a comparative legal analysis of the specific conditions in which injunctions are available for infringement of a standard essential patent for which a FRAND-commitment has been given. In a comprehensive review of over 40 different cases from courts and antitrust agencies, the report assesses the legal situation in major jurisdictions. The report also offers a unique insight into the ongoing IPR policy discussions in various standard-setting organisations (see below Section 2 for more details).

In addition, the committee has identified and discussed several important developments of relevance that have taken place in various jurisdictions over the last year (see below Section 3 for more details).

Priorities for the next reporting period are:

(1) Continue work on selected topics of the work plan with a view of establishing a standpoint, which is ideally consensus based;

(2) Further increasing the Committee's visibility by identifying and possibly participating in relevant public consultations, meetings or other projects of relevance.

1.2. Deadline for any action

At present no deadlines in the work of Q222 are open.

1.3. Action recommended

- The Committee recommends that this Report be addressed in the ExCo meetings in Toronto. This is to allow and encourage wider involvement of the membership of AIPPI in the work of Q222.

- The Committee further reiterates its recommendation to plan a workshop dedicated to 'Standards and Patents' during the AIPPI Congress in Rio de Janeiro 2015. Given the ever-increasing relevance of the topic, the dynamics of the current debate, and the high complexity of the interface of IP, antitrust, and standardization, the Committee believes that participants would greatly benefit from such a workshop.

2. Report of Committee's activities

2.1 Membership

The Committee welcomed a new member from the U.S., Christopher Scherer. The Committee has now 16 members from 14 jurisdictions:

Ivan Rajkovic (Australia) has retired. The gap in the Australian representation was filled by Peter Treloar.

2.2 Meetings

The Committee had a physical meeting at the AIPPI ExCo in Helsinki. The meting was attended by 8 members (1 member attending remotely by telephone) and 2 observers, including the Chairman of the AIPLA Standards and Open Source Committee.

During the reporting period the Commitee had 2 additional meetings by teleconference.

2.3 Report on the "Availability of injunctive relief for FRAND-committed standard essential patents, incl. FRAND defence in patent infringement proceedings"

The current workplan of the Committee currently consists of 7 topics (see Annual Report 2012). During the last year, the Committee has focussed its work on one of these topics, more specifically on producing a report on the "Availability of injunctive relief for FRAND-committed standard essential patents, incl. FRAND defence in patent infringement proceedings".

The question under which conditions an implementer of a standard can avoid injunctive relief or similar orders of exclusion for infringement of a FRAND-committed standard essential patent is currently one of the most contentious issues at the intersection of patent law and competition law. This matter has recently received much attention as a result of high-profile cases in courts of various jurisdictions, complaints lodged with competition authorities, and attempts by some members of standard-setting organizations to have their rules and procedures modified.

Following intensive work, the Committee has published a report that provides a comparative legal analysis of the specific conditions in which injunctions are available for infringement of a standard essential patent for which a FRAND-commitment has been given. In a comprehensive review of over 40 different cases from courts and antitrust agencies, the report assesses the legal situation in major jurisdictions, including the United States of America, the European Union, Germany, the Netherlands, France, Italy, the United Kingdom, China, Japan, South Korea, and India. The report also offers a unique insight in the ongoing IPR policy discussions in standard-setting organisations such as the European Telecommunications Standards Institute (ETSI).

The report finds that in most jurisdictions holders of standard essential patents for which a FRAND-commitment has been made are far from certain to be awarded injunctions, and even less likely to obtain preliminary injunctions. It observes that national judges seem to be well-versed and best placed to consider whether or not injunctive relief is warranted in any particular case. In this context, the report observes that while there is diversity among the various jurisdictions as to which specific conditions have to be met to avoid or respectively obtain an injunction for infringement of a FRAND-committed standard essential patent, there is increasing consistency when it comes to evaluating parties' behaviour under the rubric of good faith.

While it is recognized in the report that it is a relevant factor when evaluating the parties conduct that a potential licensee has agreed to be bound by a third party determination for the terms of a licence, it is emphasized that this should not necessarily be the only factor that a court should consider in determining whether injunctive relief is warranted in a particular case or not. The report also takes the position that patent holders should be allowed to seek injunctions for infringement of their patents. The mere act of seeking injunctive relief from a court of law for infringement of a FRAND-committed standard essential patent in and of itself, or the threat of doing so, should not automatically be considered as a competition law violation. Acknowledging that an injunction may not be appropriate under the unique circumstances of the case, the report recommends that injunctive relief should not be granted for infringement of a SEP, if the patentee has failed to comply with its obligations under FRAND, which requires the courts in any event to consider FRAND before issuing an injunction. The report further recommends that in evaluating parties' conduct, courts should hold both parties to their duty of good faith and require that the willingness to negotiate in good faith is evidenced by external conduct.

The report was published on the AIPPI website in April 2014 and has already received a lot of public attention. The report can be downloaded at: https://www.aippi.org/download/commitees/222/Report222AIPPI+report+on+the+availability+of+injunctive+relief+for+FRAND-committed+standard+essential+patentsEnglish.pdf

Managing IP has published an article about the report in its July/August 2014 edition (http://www.managingip.com/Article/3362352/Search/Making-sense-of-courts-rulings-on-FRAND-injunctions.html).

3. Recent developments relevant to the Committee's work

As per the previous years (see Annual Reports of 2011, 2012 and 2013; all available on AIPPI's website), the Committee has identified a number of important developments relevant to the Committee's work. Please note that the following overview is only listing those cases that have not already been considered in the Committee's report on the "Availability of injunctive relief for FRAND-committed standard essential patents, incl. FRAND defence in patent infringement proceedings":

3.1 Court cases

3.1.1 Europe

3.1.1.1 Landgericht Mannheim, Judgment of 17 December 2013, Docket No.: 2 O 41/13 – Vringo ./. ZTE

In this case involving a patent essential to a cellular standard, the Mannheim District Court found for patent infringement and rejected defendants request for a stay of the proceedings in view of the referral of the *Huawei v ZTE* case by the Regional Court of Düsseldorf to the Court of Justice of the European Union (CJEU) regarding the consistency of the requirements established by German Federal Supreme Court in Orange-Book-Standard are in compliance with Article 102 of the Treaty on the Functioning of the European Union rights (*for more details on the first instance decision see:* AIPPI Report on the "Availability of injunctive relief for FRAND-committed standard essential patents"). ZTE undisputedly didn't meet the Orange-Book requirements of a binding, unconditional offer to conclude a licence that the patentee must not reject, and to behave as if the licence had already been granted. Instead, ZTE merely announced that in the event that the patent in suit is infringed and held, it would be ready to take a license under the patent in suit on FRAND terms. The Mannheim court therefore found that the present case cannot be compared to the one before the Düsseldorf Regional Court because ZTE didn't not even make an offer to take a licence. The Court didn't deem it sufficiently likely that the CJEU will consider the mere declaration of being ready to take a license on FRAND terms if turns out that the patent-in-suit is in fact infringed and held to be valid, as sufficient for a successful compulsory license plea.

The court noted in this context that if one were to accept it as a sufficient requirement for a FRAND-defence that a potential licensee is willing to take a license only if infringement and validity have been determined by final judgments, this would mean in the end that SEPs no longer confer an entitlement to injunctive relief. The court emphasized with this regard that it is questionable whether such a far reaching result of the weighing of the proprietary interests of the patent proprietor on the one hand, and the interests of the potential infringer on the other hand, as well as the interests of the general public in free and undistorted competition, is not something to be left to be decided by the legislator.

The court also addressed so-called reverse "hold-up" and noted that the potential licensee's incentive to take a license is likely to decrease if he could subject his willingness to take a license to the condition of a final finding of infringement and validity, because he would then have no need to fear any injunction at all, and the patentee would have to lead a number of lawsuits.

3.1.1.2 Oberlandesgericht Karlsruhe, Decision of 19 February 2014, Docket No.: 6 U 162/13 – *ZTE ./. Vringo*

This case relates to ZTE's request for a preliminary stay of provisional enforcement of the abovementioned decision of the Mannheim court. The appellate court in Karlsruhe dismissed ZTE's request because it didn't find it evident that the Mannheim decision will be lifted on appeal. The court held that pending a decision on the referral to the CJEU the "Orange-Book-Standard" requirements decision still apply and that it was uncontested that ZTE did not meet these requirements in the case at hand. In addition, the court was of the view with respect to the uncertainty if and how the CJEU may modify "Orange-Book" that is ready for acceptance and damages for past infringement would still be required from a potential licensee and that the defendants didn't meet any of those criteria.

3.1.2 United States

3.1.2.1 U.S. Court of Appeal for the Federal Circuit, *Apple Inc. v. Motorola, Inc.*, Case 2012-1548, -1549 (Fed. Cir. Apr. 25, 2014)

The Federal Circuit's ruling in the Motorola v. Apple appeal clearly establishes that there is no per se rule prohibiting injunctive relief for owners of standard essential patents (SEPs) that are subject to FRAND commitments. The Court stated among other things: *"To the extent that the district court applied a per se rule that injunctions are unavailable for SEPs, it erred. While Motorola's FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some amici urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. The framework laid out by the Supreme Court in eBay, as interpreted by subsequent decisions of this court, provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general. A patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. To be clear, this does not mean that an alleged infringer's refusal to accept any license offer necessarily justifies issuing an injunction. For example, the license offered may not be on FRAND terms. In addition, the public has an interest in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued. While these are important concerns, the district courts are more than capable of considering these factual issues when deciding whether to issue an injunction under the principles in* eBay.*"*

Nevertheless, the Federal Circuit affirmed the denial of injunctive relief to Motorola with Judge Rader dissenting. The court mainly based this ruling on the FRAND commitment and the high prevalence of Motorola's existing FRAND license agreements for the patent at bar which *"strongly suggest[ed] that money damages were adequate to fully compensate . . . for any infringement."* The court however clarified that injunctive relief may nonetheless be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. In Judge Rader's dissent, his primary contention was with regard to deciding the matter on summary judgment, arguing there were material issues of fact to resolve. Specifically, Judge Rader was unconvinced that Apple sufficiently proved its efforts towards negotiating a FRAND license. The dissent defined the terms "Hold Out" versus "Hold Up," which Judge Rader believed to be questions for a fact finder. Specifically: "Hold Out" refers to "*an unwilling licensee of an SEP seeking to avoid a license based on the value that the technological advance contributed to the prior art*." "Hold Up" refers to "*an SEP owner demanding unjustified royalties based solely on value contributed by the standardization*."

3.1.2.2 U.S. District Court for the Northern District of Illinois, *In re Innovatio IP Ventures, LLC*, Case No. 11 C 9308 (N.D. Ill. Sept. 27, 2013)

In this case, Judge Holderman generally followed the methodology developed by Judge Robart in *Microsoft v. Motorola* (2013 U.S. Dist. LEXIS 60233 (W.D. Wash. Apr.

25, 2013)) in setting a RAND rate, making modifications for the circumstances of the case. This methodology included a three-step framework for the court in determining RAND. First, the court considers the importance of the patent to the standard. Second, the court considers the importance of the alleged infringer's accused products. Third, the court examines other licenses for comparable patents, using the first and second steps' decisions to determine which patents are comparable. The court then conducts a hypothetical negotiation between the parties from the time the standard was adopted.

In the absence of comparable licenses, the court adopted an alternative "Top Down" valuation method. The approach takes the average sale price of the end product and calculates the average profit*,* the portion of sales available to pay RAND royalties. From there, the average profit is multiplied by the ratio of the total number of SEPs from the owner in question over the total number of SEPs from all owners. The opinion noted that the denominator of this ratio can be modified to account for differences in value among the SEPs. Applied to the case at bar, the *Innovatio* court determined a RAND rate of 9.56 cents per WiFi chip, which Judge Holderman stated was "comfortably within" the range of 0.8 – 19.5 cents decided in *Microsoft*.

3.1.2.3 U.S. District Court for the Northern District of California, *RealTek Semiconductor Corp. v. LSI Corp.*, Case No. C-12-3451 (N.D. Cal. June 16, 2014)

In this case Realtek has sought declaratory judgment relief for breach of RAND-obligation and declaration of a RAND-royalty rate based on LSI seeking an exclusion order in the U.S. International Trade Commission on patents deemed essential to IEEE 802.11 for which a RAND-commitment has been made.

The jury verdict awarded Realtek over $3.8 million for damages caused to Realtek by LSI's breach of the RAND obligation and assessed a RAND royalty rate totaling 0.19% of the sales price of Realtek's WiFi chips, *i.e.* 0.12% for one patent and 0.07% for the other patent, which is reportedly closer to the rate sought by patent owner LSI of 0.29% than the lower rate sought by the potential licensee Realtek of 0.017%. In its instructions to the jury, the court applied the hypothetical negotiation framework to instruct the jury on arriving at an appropriate RAND royalty rate. While the court altered some of the details of the framework applied by Judge Robart in *Microsoft v. Motorola* and Judge Holderman in *Innovatio*, it followed the same general approach.

In the post-trial rulings following the jury's RAND determination, Judge Whyte declined to overturn the jury verdict damages award and denied JMOL motions by both Realtek and LSI. He also ruled on Realtek's injunction relief request by denying Realtek's request to enjoin LSI from seeking to enforce RAND-obligated patents without first making a RAND offer, because irreparable harm was too speculative at this point as the ITC's Final Determination of no domestic industry, invalidity, and no infringement extinguishes the likelihood of immediate irreparable harm. Finally, regarding Realtek's request for declaratory judgment by which Realtek sought a declaration that the patents-in-suit would be unenforceable if LSI fails to offer Realtek an ongoing license on RAND terms and conditions that are consistent with the jury's verdict, Judge Whyte denied the requested declaratory relief for the same reason he denied the permanent injunction. But Judge Whyte granted a modified version of the declaratory judgment relief sought. In contrast to the facts in *Microsoft v. Motorola*, whereby a breach of contract was alleged on the basis of offering non-RAND license terms, Realtek had not been offered any license at all. The *Realtek* case was distinguishable in that the breach of contract claim was premised on LSI instituting the ITC suit prior to offering any license. Therefore, while Judge Robart in *Microsoft v. Motorola* dismissed claims for declaratory judgment as being redundant with the breach of contract claims, Judge Whyte entered a modified declaratory judgment by declaring that *"upon Realtek's request for a license, to be in compliance with its RAND commitment, LSI must offer Realtek a license to the '958 Patent [or '867 Patent] on RAND terms, including a royalty rate of 0.12% [or 0.07% for the '867 Patent] on the total sales of Realtek's products."*

3.1.2.4 U.S. District Court for the Eastern District of Texas, *Ericsson Inc. v. D-Link Sys. et al.*, Case 6:10-CV-473 (E.D. Tex. Aug. 6, 2013)

This case seems to depart from the recent holdings of Judge Robart's *Microsoft v. Motorola*. The court shifted the burden of proof from the SEP owner proving comparable licenses were negotiated under the RAND framework (*Microsoft v. Motorola*) to the defendant's proving affirmatively that the SEP owner was actually engaging in "hold up". Similarly, Judge Robart held in *Microsoft v. Motorola* that avoiding royalty stacking was a core goal of RAND licensing and thus required considering royalties that could be demanded from *all* SEPs owners. In the present case, however, Judge Davis instead required proof of royalty stacking and refused to consider the subject on a theoretical basis. Accordingly, the court did not disturb the jury verdict. The Court further held that RAND licensing also includes an obligation to negotiate in good faith and that this obligation is a two-way street. Judge Davis noted with this regard that while Ericsson demonstrated the reasonableness of its offer by presenting substantial evidence of its licensing policies and attempts to comply with RAND obligations, the Defendants failed to negotiate in good faith and earnestly seek an amicable royalty rate, because they "*never meaningfully engaged in RAND licensing negotiations after Ericsson has made the initial offer [of $0.50 per unit]"*.

Regarding the actual RAND determinations, the decision also stated that "defendants cannot ask the court to determine a RAND rate but refuse to be bound by it." It is notable that in *Microsoft v. Motorola*, the parties agreed to be bound. Since the defendant's wavered on whether they would pay whatever RAND rate would be decided by the court, Judge Davis refrained from setting such a rate as doing so "amounted to nothing more than an advisory opinion."

3.1.2.5 U.S. District Court for the Eastern District of Texas, *Commonwealth Scientific & Indus. Research Org. (CSIRO) v. Cisco Systems, Inc.*, Case No. 6:11-cv-343 (E.D. Tex. July 23, 2014)

In this case, Judge Davis determined a reasonable royalty damages award for a CSIRO patent stipulated to be valid, infringed and essential to several versions of the

IEEE 802.11 WiFi standard where a RAND-obligation applied to one version of the standard, but not others. The case differs from Judge Robart's *Microsoft v. Motorola* decision and Judge Holderman's *Innovation* decision, because the royalty rate was determined in the context of past infringement damages, rather than setting a RAND-royalty rate.

The court denied Cisco's affirmative defense that legal and equitable estoppel should limit damages, because CSIRO actually made no RAND commitment to IEEE for later versions and revisions of the standard. *"Therefore, while CSIRO was free to offer licenses on RAND terms as to products practicing these revisions, it was not contractually obligated to do so."*

The court rejected both parties' damages model and evaluated the evidence itself to come to a proper damages figure in application. CSIRO's damages analysis was based on applying a flat fee to each end product unit sold, because according to CSIRO the end products (network interface cards, routers, access points) were the smallest saleable patent practicing unit. CSIRO then applied a profit differential between 802.11b products, which were not accused, and the infringing 802.11a and 802.11g products. Plaintiff's expert was of the view that the improved benefits of 802.11a and 802.11g products are primarily attributable to the technology of the patent in suit. The Court identified several fundamental problems with this analysis, amongst other things the large disperity in profit margins, which makes it impossible to reliably determine where the value of the patented technology lies. Cisco's damages model was premised on a royalty based on a percentage of wireless LAN chip prices for each chip sold, with the percentage rates capped at the rates included in a license agreement with Radiata from several years before the hypothetical negotiation date. The Court was not persuaded by using chip prices as the royalty base, because the patent was not directed solely to a chip and because wireless chip prices were artificially deflated because of pervasive infringement. Judge Davis noted: "*CSIRO did not invent a wireless chip* […] *Basing a royalty solely on chip price is like valuing a copyrighted book based only on the costs of the binding, paper, and ink needed to actually produce the physical product. While such a calculation captures the cost of the physical product, it provides no indication of its actual value."* Given its unique nature and the rapid improvements between the date of the Radiata agreement and 2003 hypothetical negotiation date, the court also rejected the Radiata license as a comparable to the hypothetical negotiation for CSIRO-Cisco license.

While dismissing rates of other later license agreements, the Court used these later licenses as a basis for the structure of the hypothetical negotiation, because all of the licenses were based on per-unit royalties with volume discounts. Judge Davis then found a base starting royalty rate based on the Voluntary Licensing Program licensing rate as the upper bound of the royalty range, and a per end-product licensing offer Cisco made during negotiations as the lower bound resulting in a the range of $0.90 to $1.90 for Cisco products, and $0.65 to $1.38 for Linksys products. Judge Davis then went through the various *Georgia-Pacific* factors for adjusting this starting royalty rate. The court did not consider a modified *Georgia-Pacific* analysis for the 802.11a products for which CSIRO has made a RAND-commitment to IEEE, because *"a modified analysis as to only those products would have a* de minimus *impact on the* *overall royalty."* Eventually, the Court assessed a total royalty damage of about $16.2 million.

3.1.2.6 U.S. International Trade Commission, Initial determination by ALJ Essex, *In the Matter of Certain, Wireless Devices With 3G and/or 4G Capabilities and Components Thereof* (Inv. n° 337-TA-868)

In last year's veto by the U.S. Trade Representative (USTR) of the ITC order in Inv. No. 337-TA-794, the USTR has made clear that the ITC is generally well positioned to consider FRAND-related issues and that in some circumstances exclusion orders may be available as a remedy for FRAND-committed SEPs. Against this backdrop, the ALJ determination of ITC Investigation 337-TA-868 now states that FRAND defenses are not available to parties who have not availed themselves of SSO (standard setting organization) procedures for resolving licensing conflicts. The particular facts of the case at bar simplified matters in that the ALJ found the patent at issue had not been infringed and were also not essential to the standard at issue. However, the ALJ went on to summarize the FRAND issues at play.

The ALJ's reasoning cited the imbalance in fair negotiation under any other remedy when FRAND defenses are used by parties making, using, or selling patented works without a license. The respondent-users proposed that the remedy for a patent owner succeeding in litigation should not include exclusion orders, but only require negotiating FRAND-termed licenses. However, this causes an economic incentive for users to hold-out on paying for licenses to pressure lower royalties. As the ALJ explained, unlicensed use of a patent pressures the patent owner to settle, as the owner is not compensated during the period of exploitation. The alternative is for the patent owner to endure the time and expense of litigation, also putting their patent at risk in the investigation. If the heaviest down-side risk for an unlicensed user is paying the FRAND term license it is holding-out on for better rates, there is a strong incentive for users to not undertake FRAND negotiations in good faith. Accordingly, the ALJ ruled that there was no basis to assume that exclusion remedies were unavailable.

3.1.3 South America

3.1.3.1 Rio de Janeiro State Court, 5th Business Court, Court order of 15 April 2014, Case n° 0126070-69.2014.8.19.0001, *Vringo Infrastructure Inc. v. ZTE Corp. and ZTE do Brasil Ltda.*

In first instance, Vringo was granted an *ex parte* preliminary injunction against ZTE for the infringement of a Brazilian patent relating to UMTS and LTE on the grounds of clear evidence and likelihood of infringement and irreparable harm to the patentee because defendant was found to have no assets in Brazil sufficient so that possible damages would be difficult to recover by the patentee. While the complaint mentioned that the protected teaching of the patent relates to an essential part of the handover in 3G and 4G networks, Judge da Penha Nobre Mauro did not consider any FRAND related aspects before issuing the preliminary injunction. Vringo provided security in the form of a bond amounting to R$ 2.000.000. (approx. EUR 660.000).

3.1.3.2 Rio de Janeiro State Court, Fourth Civil Panel, Decision on the Interlocutory Appeal of 11 June 2014, Case n° 0022777-86.2014.8.19.0000, *ZTE do Brasil Ltda v. Vringo Infrastructure Inc.*

On appeal the Appellate Court confirmed the ex parte injunction stating amongst other things that *"the Trial Judge was logical and had good sense, when, aware of the fast technological development of the modern society and of the numerous possibilities regarding the extension of the litigation, she foresaw that the eventual recognition of the sought right, already supported, if delayed, will cause an irreparable harm to the plaintiff's assets".* Without considering FRAND, the court further stated: *"It must be highlighted that, in spite of the appellant* [ZTE] *claims in regard to the damages that would be caused, both to it, to the carriers, and to the users of 3G and 4G networks, the requested injunction does not prevent it from using the patented technology, only conditions it to the appellee authorization* […]*. In other words, in order to continue to use the technology subject matter of the lawsuit without violating the judicial determination, the parties must negotiate in order to define the value of the patent licensing, without which, it must be said, the appellant is not prohibited to perform its commercial activities, because they are not restricted to network controller trading* […]."

3.1.4 *Asia*

3.1.4.1 Japanese IP High Court Tokyo, Decision of 28 February 2013, Cases n[os.] 2013(Ra)10007, 2013(Ra)10008 and 2013(Ne)10043 - *Samsung v Apple*

On 16 May 2014, the Grand Panel of the Intellectual Property High Court in Tokyo issued a decision in *Samsung v Apple* concerning three consolidated appeal cases. The High Court's decision arises from a review of three patent actions decided by the Tokyo District Court, two of which were filed by Samsung seeking a preliminary injunction against Apple and the third filed by Apple seeking declaratory Judgment of non-infringement and non-existence of right to recover damages. Each of the actions involves a Japanese patent that is alleged to be essential to the 3GPP standard and for which Samsung has committed to FRAND licensing. In first instance, the Tokyo District Court ruled that Samsung was not entitled to injunctive relief and that it was not entitled to monetary damages either on the grounds abuse of rights (*for more details on the first instance decision see:* AIPPI Report on the "Availability of injunctive relief for FRAND-committed standard essential patents").

In its decision, the High Court now affirmed the lower court's decision regarding the availability of injunctive relief, finding that Samsung's request for an injunction constituted an abuse of rights. The court found that it is not appropriate to grant injunctive relief for SEPs that are subject to a FRAND undertaking against a licensee who is willing to take a license on FRAND terms. The court however clarified that injunctive relief should be available against an unwilling licensee who makes or sells standards compliant products without willingness to take a FRAND license.

Regarding Samsung's damages claim, the High Court reversed the lower court's decision ruling that Samsung would be entitled to damages in an amount equal to a royalty on FRAND terms, which the Court set at ¥ 9.950.000 (approx. EUR 70.000). The High Court held in this context that while it is acceptable for the patentee to pursue a claim for damages that is within the range of FRAND terms, it would constitute an abuse if the patentee were to seek more damages than it could have obtained on FRAND, unless special circumstances exist such as the alleged infringer not having any intent to take a FRAND licence.

The court further held that a patentee's FRAND declaration to a standard-setting body is merely a statement of willingness to enter into a licence, not a licence offer that can itself be accepted.

It is noteworthy that 58 Amicus Briefs were submitted to the Court responding to the question "Should there be any restriction on the right to seek an injunction and damages based on a standard essential patent (SEP) in respect of which a FRAND declaration is made?". Amicus Briefs were never used in Japan and this is the first case where the court asked for such a submission.

3.1.4.2 Guangdong Higher People's Court*, Decision of 16 and 21 October 2013, Huawei v. Interdigital* (2013) Yue Gaofa Minsan Zhougzi N$^{os.}$ 305 and 306

In two decisions of 16 and 21 October 2013 the Guangdong People's High Court affirmed most of the rulings of the Shenzhen Intermediate Court finding InterDigital liable for violating China's Anti-Monopoly Law ("AML") and failing to license certain patents on FRAND terms (*for more details on the first instance decision see:* AIPPI Report on the "Availability of injunctive relief for FRAND-committed standard essential patents).

In the first decision, the Guangdong court held that InterDigital violated China's AML by: (1) making excessive royalty proposals to Huawei for IDC's 2G, 3G, and 4G Chinese SEPs; (2) tying the licensing of essential patents to non-essential patents; (3) seeking grant-backs from Huawei; and (4) seeking an exclusion order in the U.S. International Trade Commission against Huawei while negotiations were still in progress regarding the licensing of InterDigital's SEPs.

The Guangdong court concluded in its second decision that InterDigital was required to offer its Chinese SEPs on FRAND terms and this even in the absence of any explicit commitment by InterDigital to do so. The court was of the view that despite the fact that InterDigital is not involved in the of setting Chinese telecommunication standards, it has nonetheless an obligations to license its SEPs on FRAND terms, because InterDigital voluntarily participated in setting up relevant international standards in relevant SSOs such as ETSI and thus should have foreseen that its protected technology will also be adopted as a Chinese standard. The court eventually found that InterDigital's licence offers to Huawei did not comply with FRAND and essentially confirmed the first instance Shenzhen People's Court determination of FRAND royalties and set a FRAND rate for InterDigital's Chinese SEPs capped at 0.019 percent of the actual product selling price.

On 14 April 2014, InterDigital filed a petition for retrial of the second proceeding (the FRAND case) with the Chinese Supreme People's Court, seeking dismissal of the judgment or at least a higher, market-based royalty rate for a license to InterDigital's Chinese SEPs.

While the first instance decision of the Shenzhen Intermediate Court has not yet been published, the decisions by the Guangdong court are publicly available in redacted form. The "antitrust decision" can be found here (Chinese language only): http://www.gdcourts.gov.cn/gdcourt/front/front!content.action?lmdm=LM43&gjid=20140417024309113155. The "FRAND-rate decision" is available at: http://www.gdcourts.gov.cn/gdcourt/front/front!content.action?lmdm=LM43&gjid=20140417030902158689

3.2 Activities by antitrust enforcement agencies

3.2.1 Europe

3.2.1.1 European Commission, DG Competition, Decision of 29 April 2014, C(2014) 2892 final, *Motorola Mobility Inc.*

In the case against Motorola, the Commission issued a formal finding of infringement according to Article 7 Regulation (EC) 1/2003. The Commission found that Motorola breached competition law by seeking and enforcing an injunction in Germany on the basis of a patent essential to the GPRS standard against Apple, where Apple had agreed to take a licence and be bound by a determination of the FRAND royalties by the relevant German court. The Commission took particular issue with Motorola requiring Apple to give up its right to challenge the validity of the SEP or any potential infringement. The Commission has not imposed a fine against Motorola, but it ordered Motorola to eliminate the negative effects of its conduct.

The Commission found that it was abusive for Motorola to both seek and enforce an injunction against Apple in Germany on the basis of an SEP which it had committed to license on FRAND terms and where Apple had agreed to take a licence and be bound by a determination of the FRAND royalties by the relevant German court. Without going into more detail of the scope and exact framework of such a possible adjudication process, the Commission found that *"the acceptance of binding third party determination for the terms of a FRAND licence in the event that bilateral negotiations do not come to a fruitful conclusion is a clear indication that a potential licensee is willing to enter into a FRAND licence"*. The Commission also found it anticompetitive that Motorola insisted, under the threat of the enforcement of an injunction, that Apple give up its rights to challenge the validity of Motorola SEPs. The Commission is of the view that *"implementers of standards and ultimately consumers should not have to pay for invalid or non-infringed patents, and that implementers should therefore be able to ascertain the validity of patents and contest alleged infringements."*

The Commission however clarified that injunctions for infringement of a FRAND-committed SEP should be available against unwilling licensees and that neither the Motorola nor the Samsung case stands for the elimination of injunctive relief. The Commission emphasized with this regard that it is not questioning the use or pursuit of injunctions by patent holders, noting that recourse to injunctive relief is generally a legitimate remedy for patent holders in infringement cases. *"The cases are therefore not about eliminating the use of injunctions by patent holders. Rather, in the specific circumstances where the holder of a SEP has given a commitment to license on FRAND terms and where the company against which an injunction is sought is willing to enter into a FRAND licence agreement, the seeking of an injunction on the basis of SEPs can constitute an abuse of a dominant position."*

The Commission also made clear that whether a company can be considered a "willing licensee" is to be determined on a case by case basis. While the Motorola decision provide a "safe harbour" for willing licensees, no findings have been made regarding the willingness of licensees that are not willing to have binding FRAND terms determined by a third party in the event of a dispute.

Although Motorola was found to be engaged in anticompetitive behavior, the Commission declined to impose a corresponding fine, reasoning that (i) there is an absence of case-law by EU courts dealing with the legality of SEP-based injunctions under pertinent antitrust law prohibiting abusing a dominant position and (ii) European national courts have issued diverging opinions on the issue.

The decision is available at: http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf. The Press Release by the European Commission is available at: http://europa.eu/rapid/press-release_IP-14-489_en.htm?locale=en. The accompanying Memo can be found here: http://europa.eu/rapid/press-release_MEMO-14-322_en.htm.

3.2.1.2 European Commission, DG Competition, Commitment Decision of 29 April 2014, C(2014) 2891 final, *Samsung Electronics Co., Ltd., et. al.*

On 29 April 2014, the European Commission, DG Competition, accepted legally binding commitments from Samsung. Samsung has for a period of five years committed not to seek any injunctions on its SEPs in Europe on the basis of any of its SEPs that are implemented in smartphones and tablets against any company that agrees to a particular framework for licensing the relevant SEPs.

This decision arises from Samsung's efforts to enforce FRAND-committed SEPs relating to the UMTS standard. When this standard was adopted in Europe, Samsung gave a commitment that it would license the patents which it had declared essential to the standard on FRAND terms. In 2011, Samsung started to seek injunctive relief before courts in various European Member States against Apple based on claimed infringements of certain of its 3G SEPs. During the Commission's investigation, Samsung withdrew its claim for injunctions and offered commitments that were market tested and then amended. The Commission's decision has now made these commitments legally binding.

Samsung's commitments implement in this case the "safe harbour" concept established in the Motorola decision in practical terms. Samsung has committed not to seek injunctions for five years in Europe on the basis of SEPs for smartphones and tablets against any potential licensees who agree to accept a specified licensing framework. In essence, the licensing framework consist of

- a mandatory negotiation period of up to 12 months;
- and, if the negotiation fails, a determination of FRAND terms by a third party – either by a court, or if mutually agreed, by arbitration.

In this context, the decision states that *“the court or tribunal called upon by Samsung to grant injunctive relief would need to evaluate all the circumstances of the case at hand in order to decide whether a potential licensee is indeed unwilling to enter into a licence agreement on FRAND terms and conditions.”*

Samsung’s commitments can be found at: http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1502_5.pdf. The Commission’s decision is available at: http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf. The official Press Release by the European Commission and the accompanying Memo can be found here: http://europa.eu/rapid/press-release_IP-14-490_en.htm?locale=en. and here http://europa.eu/rapid/press-release_MEMO-14-322_en.htm.

3.2.2 Asia

3.2.2.1 Korean Fair Trade Commission, Decision of 26 February 2014, *Samsung Electronics Co., Ltd.*

In February 2014, the Korean Fair Trade Commission (KFTC) closed its investigation into Apple’s claims that Samsung violated completion law by seeking injunctive relief on a FRAND-committed SEP. Apple has lodged the complaint in April 2012. The KFTC now concluded that Samsung's enforcement efforts did not violate Korea’s Monopoly Regulation and Fair Trade Law *inter alia* because Apple failed to engage in good faith negotiations.

The KFTC found that Apple engaged in reverse hold-up, because it did not have the intent to pay any royalties until the litigation was concluded. The KFTC also rejected Apple’s argument that Samsung’s conduct constitutes a refusal of access to essential facilities. The agency pointed to a 2009 study from Fairfield Resources International showing that dozens of companies hold thousands of patents relating to 3G wireless standards and concluded that SEPs do not constitute essential facilities.

In its decision, the KFTC made also note of the commitments Samsung has made to the European Commission, to the findings of the U.S. International Trade Commission that Apple infringed Samsung's patents (which led to an appeal to the Federal Circuit), as well as to the U.S. Department of Justice decision to close its investigation into Samsung’s alleged abuse of its standards-essential patents.

The official Press Release by the KFTC is available at (Korean language only): http://www.ftc.go.kr/news/ftc/reportView.jsp?report_data_no=5542&tribu_type_cd=&report_data_div_cd=&currpage=2&searchKey=&searchVal=&stdate=&enddate

3.2.2.2 Ministry of Commerce of the People's Republic of China (MOFCOM), Decision of 8 April 2014, *Nokia/Microsoft merger review*

On 8 April 2014, China's Ministry of Commerce (MOFCOM) cleared Microsoft's €5.4 billion acquisition of Nokia's devices and services business with conditions. The merger review decision deals at great length with the question of the licensing of standard essential patents, and non-SEPs in the ICT sector.

MOFCOM concluded that, post-acquisition, Microsoft would have the capability to restrict competition in the upstream patent license market for smartphones, particularly with respect to Microsoft's package license for Android phones. The technologies used in Android phones include Microsoft's SEPs and non-SEPs, which are bundled as Microsoft Android Project Licensing for licensing purposes. MOFCOM also found that post-acquisition, Nokia will have the incentive and ability to increase its own patent licensing royalty rates for smartphone-related patents noting that Nokia has "thousands" of standard-essential patents relevant to telecommunications. MOFCOM highlighted that since Nokia is essentially exiting the downstream device and service market, it will no longer require cross-licensing arrangements for its handset business. In this context, MOFCOM also noted that potential licensees will not be able to rely on cross-licensing to counterbalance Nokia's advantageous bargaining position it obtains from the sale of its business. As a result, MOFCOM imposed numerous conditions on both Microsoft and Nokia, including commitments to honor FRAND commitments to standard-setting organizations on SEPs, not to seek injunctive relief against Chinese smartphone manufacturers, and imposing FRAND-like commitments, as well as commitments not to increase royalty rates, on specified non-SEPs. MOFCOM's decision is in contrast to both, the U.S. Department of Justice and the European Commission, which previously cleared the transaction without conditions.

Conditions imposed on Microsoft are:

- With regard to smartphone-related SEPs held by Microsoft, Microsoft must (generally subject to reciprocity):
  - continue to license such SEPs under FRAND terms as per its commitments to the relevant SSOs;
  - not seek injunctions or exclusion orders based on its SEPs against smartphones are produced in China;
  - not require a licensee to license its patents back to Microsoft, unless the licensee holds SEPs in the same sector (e.g. smartphones); and
  - transfer SEPs to third parties only if they agree to comply with these conditions.

  These conditions are indefinite unless MOFCOM agrees to modify or terminate them.

- With regard to the non-SEPs held by Microsoft, Microsoft is required to:
  - continue to offer non-exclusive licenses to smartphone manufacturers in China;
  - maintain essentially the same price and non-price terms in its licensing agreements as those imposed before the transaction;

- for five years not to transfer any non-SEPs to third parties, and thereafter only if the new patent holders agrees to abide by these conditions and comply with all the applicable licensing commitments made by Microsoft; and
- not to seek injunctions against potential licensees unless such licensees are considered not to have negotiated in good faith.

The conditions on Microsoft generally are imposed for 8 years with some exceptions

Microsoft's detailed commitments can be found at: http://www.microsoft.com/en-us/news/download/docs/0414chinaannouncement.pdf

Nokia is required (generally subject to reciprocity):

- to continue to license its SEPs under FRAND terms as per its commitments to the relevant SSOs;
- not to seek injunctions or exclusion orders based on its SEPs unless the potential licensee fails to agree to such FRAND terms in good faith and comply with them;
- not to license its SEPs on condition that the licensee also takes a license for Nokia patents that are not subject to FRAND undertakings;
- to transfer its SEPs to third parties only if they agree to comply with commitments to the relevant SSOs; and
- not to depart from its current generally offered FRAND per unit running royalty rates for its current portfolios of cellular communication SEPs.

MOFCOM made clear that the conditions imposed on Nokia are effective indefinitely.

The decision is available at (Chinese only): http://www.mofcom.gov.cn/article/b/e/201404/20140400542508.shtml.

3.2.2.3 *National Development and Reform Commission* of the Government of the People's Republic of *China* (NDRC), Decision to suspend investigation against InterDigital

On 22 May 2014, InterDigital announced that China's National Development and Reform Commission (NDRC) formally suspended its AML investigation of the company for alleged abusive enforcement of standard essential patents and seeking of non-FRAND terms and conditions. The decision followed commitments that InterDigital has submitted to the NRDC on 3 March 2014. In essence, InterDigital agreed for the licensing of the Chinese parts of its patent portfolio for 2G, 3G, and 4G wireless mobile standards to Chinese manufacturers of cellular terminal units to the following:

(1) offer the option to take a worldwide portfolio license of only its SEPs and to comply with FRAND principles while negotiating license agreements with Chinese manufacturers;

(2) as part of the licensing offer, not to require royalty-free, reciprocal cross licenses; and

(3) before seeking exclusionary or injunctive relief, to offer *expedited* binding arbitration *under fair and reasonable procedures to resolve disputes over FRAND terms and conditions of a worldwide license under InterDigital's* 2G, 3G, and 4G

SEPs. *If the Chinese manufacturer accepts the arbitration offer, InterDigital will not seek an injunction or similar relief.*

InterDigital's detailed commitments are available at: http://ir.interdigital.com/releasedetail.cfm?ReleaseID=849959

3.4 Other

3.5.1 European Commission Directorate-General for Enterprise and Industry, "Patents and standards: A modern framework for IPR-based standardization", Ref. Ares(2014)917720, 25 March 2014, available at: http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/intellectual-property-rights/patents-standards/index_en.htm

3.5.2 U.S. National Academy of Sciences Report, "Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communications Technology", 15 October 2013, available at: http://sites.nationalacademies.org/PGA/step/IPManagement/

3.5.3 IBIL Conference "Standards, FRAND, NPEs and Injunctions", London, 5-6 November 2013

Chaired by The Rt Hon Professor Sir Robin Jacob, this conference combined commentary from key industry and legal experts from major jurisdictions. This event was held under the Chatham House Rule. The conference included amongst other things judicial keynote addresses from The Hon Mr Justice Floyd (High Court Judge of the Patents Court, UK) and Judge Crabb (US District Judge for the Western District of Wisconsin) and a panel of renowned judges from various jurisdictions who discussed how to best resolve disputes over licensing of portfolios. The panel was composed of Judge Klaus Grabinski (German Federal Court of Justice), Mr Justice Birss, (Justice of the High Court of England and Wales), Judge Rian Kalden (Court of Appeal, The Hague), and Judge Robart (US District Judge for Western District of Washington). Cases regarding royalty rate disputes under FRAND have been discussed as well as the conditions under which implementers of a standard can avoid injunctions for the infringement of a SEP. Committee members present and speaking at this conference were Gertjan Kuipers and Michael Fröhlich (both in their 'corporate' function).

4. Recommendations

- The Committee recommends that this Report be addressed in the ExCo meetings in Toronto this is to allow and encourage wider involvement of the membership of AIPPI in the work of Q222.

- The Committee further reiterates its recommendation that AIPPI should plan a workshop dedicated to ‘Standards and Patents’ during the AIPPI Congress in Rio de Janeiro 2015. Given the ever-increasing relevance of the topic, the dynamics of the current debate, and the high complexity of the interface of IP, antitrust, and standardization, the Committee believes that participants would greatly benefit from such a workshop.

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