



EUROPEAN COMMISSION

## MEMO

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# **Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics - Frequently asked questions**

## **What is an injunction?**

An injunction is a court order aimed at preventing the continuation of a patent infringement. Generally, it includes the prohibition to sell the product infringing the patent. Such injunctions can be preliminary – as a precautionary measure typically for the time of the assessment of the case on the merits by the court. Injunctions can also be permanent as a result of the decision on the merits by a court.

## **What is a standard essential patent (SEP)?**

SEPs are patents essential to implement a specific industry standard. This means that it is impossible to manufacture standard-compliant products such as smartphones or tablets without using technologies that are covered by one or more standard essential patents (SEPs). SEPs can therefore confer significant market power on SEP holders which they would not have had absent the standard. The standards in question are agreed by standard-setting organisations such as ETSI (European Telecommunications Standards Institute) in which patent holders and manufacturers of standard-compliant products participate.

## **What is the issue in the two cases?**

Standards bring benefits to consumers and businesses alike in terms of interoperability and innovation. It is therefore important that the standardised technology is accessible to all interested parties at reasonable conditions. In order to ensure such access, standard-setting organisations require that patent holders commit to license their SEPs on fair, reasonable and non-discriminatory (FRAND) terms. Commitments to license on FRAND terms seek to address the issue of market power that can be conferred on SEP holders once a standard has been adopted and implementers (such as smartphone producers) have invested in developing standard-compliant products. However, in practice, there can be disagreement on what FRAND terms should be. Against this backdrop, the Commission's aim is to prevent SEP holders from using SEP-based injunctions in an anticompetitive way, in order to extract licensing conditions that may restrict competition and ultimately harm consumers. At the same time, SEP holders should be entitled to appropriate remuneration for their SEPs.

Today's action by the Commission clarifies that it is anti-competitive to use injunctions in relation to SEPs in the following circumstances: when in a standardisation context, a SEP holder has committed to license the SEP on FRAND terms and the licensee is willing to take a licence on such terms. In these circumstances, the seeking of injunctions can distort licensing negotiations and lead to licensing terms with a negative impact on consumer choice and prices.

### **What do these decisions mean in practical terms for patent holders and implementers of standards?**

The Motorola decision provides a "safe harbour" for standard implementers who are willing to take a licence on FRAND terms. If they want to be safe from injunctions based on SEPs by the patent holder, they can demonstrate that they are a willing licensee by agreeing that a court or a mutually agreed arbitrator adjudicates the FRAND terms.

Samsung's commitments implement in this case the "safe harbour" concept established in the Motorola decision in practical terms. They provide for a "safe harbour" available to all potential licensees of the relevant Samsung SEPs. Potential licensees are protected against injunctions sought by Samsung on the basis of such SEPs if they submit to the licensing framework provided for by the commitments.

### **What are the general implications of the cases for patent protection?**

Intellectual property (IP) rights are one of the cornerstones of the Single Market and therefore have a key role in promoting innovation. Today's decisions strike a fair balance between the interests of SEP holders to be appropriately remunerated for their IP and the interests of implementers of standards to get access to standardised technology on FRAND terms. The Commission will continue to attach high importance to effective patent protection and an efficient patent system.

### **Is the Commission generally questioning the use of injunctions by patent holders?**

No. Recourse to injunctive relief is generally a legitimate remedy for patent holders in case of patent infringements. Moreover, SEP-based injunctions should be available when there is an unwilling licensee. 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.

### **When is a company considered to be a willing licensee?**

Whether a company can be considered a "willing licensee" needs to be determined on a case by case basis taking into account the specific facts. Today's decisions provide a "safe harbour" for willing licensees who want to avoid the risk of being the subject of an injunction on the basis of SEPs, i.e. companies which, in case of dispute, are willing to have FRAND terms determined by a court or arbitrators (if agreed between the parties) and to be bound by such a determination. The decisions do not make findings on the willingness of licensees outside this "safe harbour".

## **Is a potential licensee who challenges validity, essentiality or infringement of SEPs unwilling?**

No. Potential licensees of SEPs should remain free to challenge the validity, essentiality or infringement of SEPs. It is in the public interest that potentially invalid patents can be challenged in court and that companies, and ultimately consumers, are not obliged to pay for patents that are not infringed.

## **Does the Commission outline what a reasonable royalty rate is?**

No. The Commission believes that courts and arbitrators are well-placed to set FRAND rates in cases of disputes. To the extent they deem necessary, national courts may seek guidance from the Commission on the interpretation of EU competition law. In November 2013, the Mannheim Regional Court has asked the Commission a number of questions in relation to the setting of FRAND rates in the SEP dispute between Motorola and Apple. The Commission will publish the response to these questions on its website in due course.

## **Why did the Commission not impose a fine on Motorola?**

The Commission can, in exceptional cases, exercise its discretion not to impose a fine. It has chosen to not impose a fine in this case, because: (i) there is no Commission decisional practice or EU court case law regarding injunctions based on SEPs<sup>1</sup>; and (ii) national courts within the EU have reached different conclusions on this question.

## **Does the Commission's prohibition decision in the Motorola case affect lawsuits pending before national jurisdictions?**

National courts remain free to decide lawsuits pending before them as long as EU law is respected. In order to ensure the uniform application of EU competition law, Article 16 of Regulation 1/2003 provides that when national courts rule on practices which have already been subject to a Commission decision, they "*cannot take decisions would run counter the decision adopted by the Commission*".

## **Are the decisions in conflict with the German Federal Court of Justice's so-called German "Orange Book" case law on injunctions?**

No. The 2009 "Orange Book" ruling of the German Federal Court of Justice established that a potential licensee can raise a competition law defence against an application for injunctive relief by showing that (i) it has made an unconditional offer to license under terms that cannot be rejected by the patent holder without abusing its dominant position, and (ii) it actually acted as if it had entered into a valid patent licence. The German Federal Court of Justice's ruling did not specifically relate to SEPs and is therefore not directly applicable to the cases on which the Commission decided. The Motorola decision does, however, conclude that in the context of SEPs, if the ruling was to be interpreted as meaning that a willing licensee is essentially not entitled to challenge the validity, infringement and essentiality of the SEPs in question, this would be anti-competitive.

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<sup>1</sup> This does not mean that the Commission cannot impose a fine where there is no such Commission decisional practice or EU court case law.

**What is the link between today's decisions and the request for a preliminary ruling by the Regional Court of Düsseldorf to the European Court of Justice in the SEP-based litigation between Huawei and ZTE?**

The Commission has adopted today's decisions in order to address the issues raised in the two cases in question in a way that can also provide guidance to the industry. The Commission has provided observations outlining its position to the European Court of Justice in the pending Huawei/ZTE case. The Commission will naturally fully take account of any further guidance by the Court of Justice.