

Standard-Essential Patents: The International Landscape

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Investigations and litigation involving standard-essential patents (SEPs) have begun to spring up around the globe. On April 29, 2014, the European Commission (EC) confirmed that it adopted two decisions, one involving Samsung Electronics Co., Ltd. and the other involving Motorola Mobility Inc. (MMI), that for the first time in the European Union (EU), establish a framework for determining whether and under what circumstances patent owners seeking to enforce SEPs in the European Economic Area (EEA) may violate EU antitrust laws. Both decisions create a “safe harbor” approach from injunctive relief, under which implementers can demonstrate that they are a “willing licensee” by agreeing that a court or a mutually agreed arbitrator shall adjudicate the fair, reasonable and non-discriminatory (FRAND) terms in the event that negotiations fail. The decisions do not preclude injunctive relief for FRAND-encumbered SEPs per se, nor do they make findings on the definition of a “willing licensee” outside the safe harbor.¹ While the EC’s approach is similar to the approach taken by the U.S. Federal Trade Commission (FTC) in *MMI/Google*, there are differences. For example, the EC’s decisions preclude injunctions only in the EEA, and only on patents granted in the EEA, whereas the FTC’s consent decree in *MMI/Google* covers patents issued or pending in the United States or anywhere else in the world.

In China, in April 2014, the Guangdong People’s Court made public two decisions in *Huawei v. InterDigital*, affirming the lower court’s FRAND royalty determination of 0.019 percent of the sales price for each Huawei product for InterDigital, Inc.’s (IDC) 2G, 3G, and 4G Chinese essential patents, and holding that IDC violated China’s Anti-Monopoly Law (AML) by, among other things, seeking an exclusion order in the U.S. International Trade Commission (ITC) against Huawei while negotiations were still in progress regarding IDC’s Chinese SEPs.² China’s National Development and Reform Commission (NDRC) is currently considering commitments offered by IDC in an investigation into whether IDC abused its dominant position by seeking discriminatorily high royalties on Chinese essential patents.³

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¹ EC MEMO/14/322, “Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics - Frequently asked questions” (Apr. 29, 2014), available at http://europa.eu/rapid/press-release_MEMO-14-322_en.htm (“EC MEMO/14/322”).

² April 2014 Public decisions, available at http://www.mlex.com/China/Attachments/2014-04-18_AXRC879FW8P38IO7/guangdonghpc_IDChuawei_SEP_18042014.pdf (in Chinese) and http://www.mlex.com/China/Attachments/2014-04-17_BT5BM49Q967HTZ82/GD%20verdict.pdf (in Chinese).

³ NDRC Press Briefing (Feb. 19, 2014), available at http://www.ndrc.gov.cn/xwfb/t20140219_579522.htm (in Chinese).

In February 2014, the Korean Fair Trade Commission (KFTC) issued its first decision on the issue of whether seeking injunctive relief on a FRAND-encumbered SEP constitutes a violation of Korea's Fair Trade Law, concluding that, because Apple Inc. failed to engage in good faith negotiations, Samsung's injunction claims against Apple on SEPs related to 3G mobile communication technology do not constitute an abuse of dominance or unfair trade practice.⁴ The KFTC also rejected Apple's contention that such conduct constitutes a refusal of access to essential facilities, concluding that FRAND-encumbered SEPs do not constitute essential facilities.

The Competition Commission of India (CCI) recently opened two related investigations against Ericsson, alleging that it violated its FRAND commitments by imposing discriminatory and "excessive" royalty rates and using Non-Disclosure Agreements (NDAs). In its investigation order, the CCI stated that "forcing" a party to execute [an] NDA" and "imposing excessive and unfair royalty rates" constitutes "prima facie" abuse of dominance and violation of section 4 of the Indian Competition Act, as does "[i]mposing a jurisdiction clause debarring [licensees] from getting disputes adjudicated in the country where both parties were in business."⁵ This article summarizes and compares the approaches of the countries that have addressed conduct involving SEPs, focusing on recent developments.

The U.S. Approach to Conduct Involving SEPs

In the United States, courts that have addressed the issue of failure to adhere to a commitment to license on FRAND terms have done so under contract law principles.⁶ Specifically, courts have held that: (1) a commitment to a standard-setting organization (SSO) to license on FRAND terms constitutes a binding contract between the SEP holder, the SSO, and its members⁷; (2) potential users of the standard are third-party beneficiaries of the agreements with standing to sue⁸; (3)

⁴ KFTC Press Release (Feb. 26, 2014), available at 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 (in Korean).

⁵ CCI Order under Section 26(1) of the Competition Act, 2002, *In re: Micromax Informatics Ltd. v. Telefonaktiebolaget LM Ericsson* ¶ 17 (Nov. 12, 2013), available at <http://cci.gov.in/May2011/OrderOfCommission/261/502013.pdf>; see also CCI Order under Section 26(1) of the Competition Act, 20, *In re Intex Techn. Ltd., v. Telfonaktiebolaget LM Ericsson* ¶ 17 (Jan. 16, 2014), available at <http://cci.gov.in/May2011/OrderOfCommission/261/762013.pdf>.

⁶ See, e.g., *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609 at *4 (N.D. Ill. Oct. 03, 2013); *Microsoft Corp. v. Motorola, Inc.*, No. 11 C10 1823 JLR, 2013 WL 2111217 at *1 (W.D. Wash. Apr. 25, 2013); *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061 (W.D. Wis. 2012); *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999-1001 (W.D. Wash. 2012), *reaffirmed*, 864 F. Supp. 2d 1023, 1030-33 (W.D. Wash. 2012), *aff'd in relevant part*, 696 F.3d 872, 884 (9th Cir. 2012).

⁷ See, e.g., *In re Innovatio IP Ventures Patent Litig.*, 2013 WL 5593609 at *4 (citing *In re Innovatio IP Ventures Patent Litig.*, 921 F. Supp. 2d 903, 907 (N.D. Ill. 2013)); *Microsoft Corp. v. Motorola*, 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012); *Apple, Inc.*, 886 F. Supp. 2d at 1083-84.

⁸ See, e.g., *In re Innovatio IP Ventures Patent Litig.*, 2013 WL 5593609 at *17; *Microsoft Corp. v. Motorola*, 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012); *Apple, Inc.*, 886 F. Supp. 2d at 1083-84; *Research In Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008); *ESS Tech., Inc. v. PC-Tel., Inc.*, No. C 99 20292 RMW, 1999 WL 33520483, *4 (N.D. Cal. Nov. 4, 1999).

seeking injunctive relief on a FRAND-encumbered SEP may violate the duty of good faith and fair dealing where a SEP holder has made a contractual commitment to license on FRAND terms⁹; and (4) FRAND licensing “includes an obligation to negotiate in good faith,” and that obligation is “a two-way street.”¹⁰

With respect to the meaning of a “reasonable” royalty rate, courts have adopted a modified-version of the *Georgia-Pacific* factors to recreate a hypothetical negotiation between the parties.¹¹ Under the modified version, the proper methodology is one that: (1) limits a patent holder to a reasonable royalty on the economic value of the patented technology itself, apart from the value associated with incorporation of the technology into a standard; (2) considers the importance of the SEPs to the standard and the importance of the standard and the SEPs to the products at issue; (3) considers only comparable patents as benchmarks; and (4) takes into consideration evidence of royalty-stacking by considering the aggregate royalties that would apply if other SEP holders made royalty demands of the implementer.¹²

Regarding the U.S. ITC, in August 2013, the U.S. Trade Representative (USTR) overturned on public interest grounds the ITC decision to issue a limited exclusion order banning certain Apple products from the United States.¹³ The disapproval decision was based on various policy considerations, including concerns about hold-up and hold-out.¹⁴ (“Hold-up” refers to the potential problem that arises when a SEP holder has made a commitment to license on FRAND terms and then seeks to use injunctive relief as leverage in negotiations to obtain an unjustifiably higher royalty

⁹ See, e.g., *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013) (holding that it was a breach of the RAND commitment to seek injunctive relief in another forum (there, the ITC) before offering a license to an implementer of a standard willing to accept a RAND license); Verdict Form, *Microsoft v. Motorola*, 963 F. Supp. 2d 1176 (W.D. 2013) (the jury found that Motorola’s conduct in seeking injunctive relief violated its duty of good faith and fair dealing with respect to its contractual commitments to the IEEE and the ITU); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884-85 (9th Cir. 2012); *Apple v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913-14 (N.D. Ill. 2012).

¹⁰ *Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10 CV 473, 2013 WL 4046225 at *25 (E.D. Tex. Aug. 6, 2013).

¹¹ *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609 at *4-5; *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 *3, 16-20.

¹² See Jury Instructions and Verdict, *Realtek Semiconductor Corp. v. LSI Corp.*, Case No. C-12-3451-RMW (N.D. Cal. filed Feb. 23, 2014); *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609 at *5-6 (N.D. Ill. Oct. 03, 2013); *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 at *3, *12. Compare *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 at *20 (concluding that the appropriate RAND royalty for Motorola’s patents must take into account the royalty rates that could be demanded by other SEP holders without requiring Microsoft to show what royalties it was currently paying for its 802.11-compliant products) with *Ericsson Inc. v. D-Link Systems, Inc.*, 2013 WL 4046225, *18 (E.D. Tex. 2013) (refusing to limit Ericsson’s FRAND royalties without “evidence of actual hold-up or royalty stacking”).

¹³ Disapproval of the ITC’s Determination in the Matter of Certain Electronic Devices, Including Wireless Communications Devices, Portable Music and Data Processing Devices, and Tablet Computers, Investigation No. 337-TA-794 (Aug. 3, 2013), available at http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

¹⁴ *Id.* at 2-3.

than would have been possible ex ante. “Hold-out” or “reverse hold-up” refers to the situation where a firm using the SEP delays good faith negotiations of a FRAND license.)¹⁵

The U.S. antitrust agencies have taken the position that injunctive relief on FRAND-encumbered SEPs should be granted only in rare circumstances,¹⁶ and that the Supreme Court’s decision in *eBay v. MercExchange LLC* provides a framework that courts can use to mitigate the risk of patent hold-up.¹⁷ On April 25, 2014, the U.S. Court of Appeals for the Federal Circuit, in *Apple Inc. and Next Software, Inc. v. Motorola, Inc.*, rejected a per se rule that injunctions are unavailable for SEPs, stating that the Supreme Court’s decision in *eBay* “provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general.”¹⁸ Prior to *eBay*, permanent injunctive relief was virtually automatic following a district court’s finding of infringement given the general presumption of irreparable harm. In *eBay*, a unanimous Supreme Court rejected the presumption of irreparable harm and other categorical approaches in favor of a case-by-case application of “traditional equitable principles,” including requiring proof of the patent holder’s irreparable harm and the inadequacy of money damages.

¹⁵ Following the USTR’s determination, the Department of Justice’s Antitrust Division (DOJ) closed its investigation into Samsung, which was focused on Samsung’s attempts to use its SEPs to obtain exclusion orders from the ITC relating to certain iPhone and iPad models, stating that, as a result of the USTR’s action, the DOJ has determined that “no further action is required at this time.” Statement of the Department of Justice Antitrust Division on Its Decision to Close Its Investigation of Samsung’s Use of Its Standards-Essential Patents (Feb. 7, 2014), available at <http://www.justice.gov/opa/pr/2014/February/14-at-129.html>.

¹⁶ See, e.g., DOJ and PTO Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary FRAND Commitments at 7-8 (Jan. 8, 2013), available at <http://www.justice.gov/atr/public/guidelines/290994.pdf>; Renata Hesse, “The Art of Persuasion: Competition Advocacy at the Intersection of Antitrust and Intellectual Property” at 8-9 (Nov. 8, 2013), available at <http://www.justice.gov/atr/public/speeches/301596.pdf> (“11/8/13 Hesse Speech”).

¹⁷ See, e.g., Brief for FTC as Amicus Curiae Supporting Neither Party, *Apple Inc. and NeXT Software, Inc. v. Motorola, Inc. and Motorola Mobility, Inc.*, Nos. 2012-1548, 2012-1549 at 7-9 (Fed. Cir. Dec. 4, 2012), available at http://www.ftc.gov/sites/default/files/documents/amicus_briefs/apple-inc.and-next-software-inc.v.motorola-inc.and-motorola-mobility-inc./121205apple-motorolaamicusbrief.pdf. Commissioner Maureen Ohlhausen did not vote in favor of submitting the brief. Commissioner Joshua Wright was not a member of the Commission when the brief was filed.

Commissioners Ohlhausen and Wright believe that FRAND commitments “generally should not be interpreted or implied to prohibit the pursuit of injunctive relief by a SEP holder, including any conduct reasonably ancillary to pursuing such relief, unless the prohibition is expressly provided for in a RAND commitment or clearly acknowledged by a SEP holder.” Prepared Statement of the FTC Before the U.S. Senate Committee on the Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights Concerning “Standard Essential Patent Disputes and Antitrust Law” at 7 n.22 (July 30, 2013), available at http://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-concerning-standard-essential-patent-disputes-and/130730standarlessentialpatents.pdf. “It is important to recognize that a predictable threat of injunction can create a significant deterrent to infringement and can promote licensing that allows the SEP holder to obtain the full market value for the patent without costly litigation,” and that “private licensing agreements are generally preferable to court fashioned rates because the parties will have better information about the appropriate terms of a license than would a court, and more flexibility in fashioning efficient agreements.” *Id.* at 8 n.26 (citations omitted).

¹⁸ Case No. 2012-1548, -1549 (Fed. Cir. April 25, 2014) at 71-72, available at <http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/04/12-1548.Opinion.4-23-2014.1.pdf>.

While the DOJ is “continu[ing] to explore where there is room for liability under Section 2 of the Sherman Act in cases where holders of FRAND-encumbered SEPs seek injunctive relief after a standard is in place,”¹⁹ the FTC, in at least two instances (*Bosch* and *MMI/Google*), has looked beyond contract law to enjoin the seeking of injunctive relief against willing licensees under the “unfair methods of competition” prong of Section 5 of the Federal Trade Commission Act.²⁰ With respect to how to calculate a reasonable royalty rate, the U.S. antitrust agencies have taken the position that FRAND royalties should be capped “at the incremental value of the patented technology over alternatives available at the time the standard was chosen.”²¹

Open issues in the United States include the definition of a willing licensee²², whether royalties should be based on the component or end-product, whether refusals to license component manufacturers violates the FRAND commitment, and the legality of tying SEPs within a standard.

The EU Approach to Conduct Involving SEPs

While the European courts have yet to address the issue,²³ on April 29, 2014, the EC confirmed that it adopted two decisions, one in *Samsung* and the other in *MMI*, establishing a framework for determining whether and under what circumstances patent owners seeking to enforce SEPs in the EEA may violate EU abuse of dominance law. The EC has explicitly stated that it takes no position

¹⁹ 11/18/13 Hesse Speech at 8.

²⁰ Decision and Order, *In the Matter of Robert Bosch GmbH*, FTC Docket No. C-4377 at 13 (April 23, 2013), available at <http://www.ftc.gov/sites/default/files/documents/cases/2013/04/130424robertboschdo.pdf>; Decision and Order, *In the Matter of Motorola Mobility LLC, and Google Inc.*, Docket No. C-4410 at 7-8 (July 23, 2013), available at <http://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf> (“Google/Motorola Final Order”). In both matters, Commissioner Ohlhausen dissented and Commissioner Wright did not participate. See, e.g., Dissenting Statement of Commissioner Maureen K. Ohlhausen, *In the Matter of Motorola Mobility LLC and Google Inc.*, FTC File No. 121-0120 at 1 (Jan. 3, 2013) (dissented from imposing liability on an owner of a SEP “merely for petitioning the courts or the International Trade Commission,” in part on the grounds that such conduct can constitute protected petitioning of the government under the *Noerr-Pennington* doctrine), available at <http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaohlhausenstmt.pdf>.

²¹ FTC, “The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition” at 22-23 (Mar. 2011), available at <http://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf>; see also 11/18/13 Hesse Speech at 18.

²² The court in *Ericsson Inc. v. D-Link Systems, Inc.* provided some guidance on the meaning of a “willing licensee,” holding that Intel was not a willing licensee based on the following facts: (1) Ericsson offered Intel a license prior to trial; (2) the license offer was at the same rate and on the same terms as Ericsson’s offers to other defendants; (3) after trial, Ericsson amended its license offer to Intel to reflect the jury verdict; and (4) “Intel itself never meaningfully engaged in licensing talks with Ericsson after Ericsson’s initial offer.” 2013 WL 4046225 at *16 (E.D. Tex. Aug. 6, 2013).

²³ On March 21, 2013, the Düsseldorf Regional Court referred a patent dispute between Huawei Technologies Co. Ltd. and ZTE Corp. to the EU’s Court of Justice for guidance on a number of issues, including whether seeking injunctive relief on a FRAND-encumbered SEP against a patent infringer that is willing to negotiate a license constitutes an abuse of dominance, and what constitutes a willing licensee.

on what a reasonable royalty rate is, stating that “[n]ational courts or arbitrators are generally well equipped to do this.”²⁴

In *Samsung*, the EC accepted commitments that the firm will, for five years, not seek injunctive relief in the EEA on any of its Mobile SEPs against licensees who commit to a specified licensing framework.²⁵ (Under Samsung’s commitments, “Mobile SEP” is defined as “a patent (including existing and future members of its family in the EEA) granted in the EEA that is or may become, and remains, Essential to any Mobile Standard in at least one EEA Contracting Party and which has been declared as such to an SSO.”²⁶) Under the framework, after a negotiation period of up to 12 months, any dispute over FRAND terms for the Mobile SEPs in question will be resolved by a court, or if both parties agree, by an arbitrator.²⁷

Under its commitments, Samsung is permitted to file a claim for injunctive relief if:

- (1) the potential licensee fails to agree or comply with the provisions of the licensing framework;
- (2) the potential licensee is facing imminent default (e.g., winding up or dissolution);
- (3) the potential licensee has filed and maintains a claim for injunctive relief in the EEA against Samsung or customers of Samsung for a mobile device or component thereof that is made, marketed, distributed, or sold by Samsung, based on infringement of any of the potential licensee’s Mobile SEPs, when Samsung has offered to be bound by the licensing framework; or
- (4) Samsung terminates a unilateral license or cross-license in response to a potential licensee filing a claim for injunctive relief in the EEA against Samsung based on infringement of Mobile SEPs, when Samsung has offered to be bound by the licensing framework.²⁸

In *MMI*, the EC found that seeking and enforcing an injunction against Apple on a FRAND-encumbered SEP constituted an abuse of a dominant position where Apple had agreed to be bound by a court’s determination of the FRAND royalties. The EC ordered MMI “to eliminate the negative effects resulting from” its conduct.²⁹ The EC says the decision provides a “safe harbor” for standard implementers who are willing to agree that a court or a mutually agreed arbitrator adjudicates the

²⁴ EC Memo re Statement of Objections Against Motorola at 1 (May 6, 2013), available at [http://europa.eu/rapid/press-release MEMO-13-403_en.htm](http://europa.eu/rapid/press-release_MEMO-13-403_en.htm).

²⁵ EC Press Release, “Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions” (Apr. 29, 2014), available at [http://europa.eu/rapid/press-release IP-14-490_en.htm](http://europa.eu/rapid/press-release_IP-14-490_en.htm).

²⁶ Samsung Commitments Offered to the EC § G at 14 (Sept. 27, 2014), available at http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1301_5.pdf (“Samsung’s Commitments”).

²⁷ *Id.* § A.1 at 1.

²⁸ *Id.* § 2 at 2-3.

²⁹ EC Press Release, “Antitrust: Commission finds that MMI infringed EU competition rules by misusing standard essential patents” (Apr. 29, 2014), available at [http://europa.eu/rapid/press-release IP-14-489_en.htm](http://europa.eu/rapid/press-release_IP-14-489_en.htm).

FRAND terms, and to be bound by such determination.³⁰ The EC also found anticompetitive MMI's insistence, under the threat of the enforcement of an injunction, that Apple give up its rights to challenge the validity or infringement by Apple's mobile devices of MMI SEPs. The EC did not fine MMI, reasoning that there is no EU case law on the issue and European national courts have reached different conclusions on the issue.³¹

The EC's approach is similar to the approach taken by the FTC in *MMI/Google* in that, under both approaches: (1) a neutral third-party (either a court or an arbitrator) can set FRAND royalty rates; (2) there is a defensive use exception (however, the EC's defensive use exception requires the SEP-holder to agree that a court or a mutually agreed arbitrator adjudicates the FRAND terms); (3) potential licensees of SEPs remain free to challenge the validity, essentiality, or infringement of SEPs; and (4) the antitrust agencies do not determine the reasonable royalty rate.

The major differences between the EC's decisions in *Samsung* and *MMI* and the FTC's decision in *MMI/Google* are:

- (1) the EC's decisions put the burden on the implementer to show that it is a willing licensee, for example by taking advantage of the safe harbor, whereas the FTC's Consent Decree in *MMI/Google* sets up a process that MMI and Google must follow prior to seeking or enforcing injunctive relief, with the initial burden on MMI and Google to prove that the licensee is not willing;
- (2) the EC's decisions preclude injunctions only in the EEA, and only on patents granted in the EEA, whereas the FTC's Consent Decree in *MMI/Google* covers patents issued or pending in the United States or anywhere else in the world;
- (3) the EC's decisions require a license only to EU patents, whereas the FTC's *MMI/Google* consent requires Motorola and Google to offer global licenses;
- (4) the EC's decisions apply to both current and future injunctions, whereas the *MMI/Google* Consent Decree did not require the parties to withdraw pending injunctions, but rather prohibited the parties from enforcing existing injunctions or filing future injunctions prior to following the procedures set forth in the Order; and
- (5) under the EC's decisions, arbitration is required only when both parties agree, whereas under the *MMI/Google* Consent Decree, MMI and Google are required to offer and commit to arbitration if the licensee wishes to arbitrate instead of seeking a FRAND declaration in court.

³⁰ EC MEMO/14/322.

³¹ *Id.*

China's Approach to Conduct Involving SEPs

In April 2014, the Guangdong Higher People's Court published its October 28, 2013 decisions in *Huawei v. IDC*, affirming two separate decisions of the Shenzhen People's Court in related disputes between Huawei and IDC.³² The first decision held that IDC violated China's AML by: (1) making excessive royalty proposals to Huawei for IDC's 2G, 3G, and 4G Chinese essential patents; (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. ITC against Huawei while negotiations were still in progress regarding IDC's Chinese SEPs.³³ The second decision concluded that IDC was required to offer its Chinese essential patents on FRAND terms, despite the absence of any explicit commitment to do so, and that IDC's offers to Huawei did not comply with FRAND.³⁴ Applying a framework similar to that of Judge Robart's in *Microsoft v. Motorola*, the Shenzhen People's Court determined that the royalties to be paid by Huawei for IDC's Chinese SEPs should not exceed 0.019% of the actual sales price of each Huawei product. Thus, unlike in the United States and in Europe, in China it appears that SEP holders are required to license at least Chinese SEPs on FRAND terms even in the absence of an explicit commitment to do so.

In 2008, the Supreme People's Court issued an Advisory Opinion regarding Patents Incorporated into Standards stating that: (1) where a patentee engages in standard setting or agrees that its patent be incorporated into a national, industrial, or local standard, the patentee is "deemed to have permitted others to exploit the patent while implementing the standard," and thus exploitation of the patent "does not constitute patent infringement" under Chinese law; and (2) essential patents must be licensed at an amount "significantly lower than the normal license fee."³⁵

Currently, there is at least one pending investigation before the NDRC (against IDC) involving allegations that a company abused its dominant position by seeking discriminatorily high royalties on Chinese essential patents.³⁶ The NDRC is currently considering a commitment offer from IDC to resolve the investigation.

³² April 2014 Public decisions, available at http://www.mlex.com/China/Attachments/2014-04-18_AXRC879FW8P38IO7/guangdonghpc_IDChuawei_SEP_18042014.pdf (in Chinese) and http://www.mlex.com/China/Attachments/2014-04-17_BT5BM49Q967HTZ82/GD%20verdict.pdf (in Chinese). The observations in this section are also based on IDC's 2013 SEC filings (available at <http://ir.interdigital.com/secfiling.cfm?filingID=1405495-13-10&CIK=1405495>), the Guangdong Higher People's Court's press release regarding the decision (available at http://rmfyb.chinacourt.org/paper/html/2013-10/29/content_72136.htm?div=-1) (in Chinese), and an article written by the three judges who decided the Shenzhen Court decision (available at http://www.iprchn.com/Index_NewsContent.aspx?newsId=66660) (in Chinese).

³³ IDC's 2013 Annual Report at 22-23, available at <http://ir.interdigital.com/secfiling.cfm?filingID=1405495-13-10&CIK=1405495>.

³⁴ *Id.* at 23.

³⁵ SPC Min San Ta Zi No. 4 (2008), Letter re whether Chaoyang Xingnuo Corporation's exploitation of a patent an industrial standard context constitutes patent infringement, available in Chinese at http://www.chinaipr.com/show_News.asp?id=13651&key=%B1%EA%D7%BC. While the SPC's advisory opinion is case-specific, in practice, Chinese lower courts generally follow such SPC instructions in subsequent similar cases.

³⁶ NDRC Press Briefing (Feb. 19, 2014), available at http://www.ndrc.gov.cn/xwfb/t20140219_579522.htm.

On December 19, 2013, the Standardization Administration of China (SAC) and the State Intellectual Property Office (SIPO) published Interim Regulations on National Standards Involving Patents, which went into effect on January 1, 2014.³⁷ The Interim Regulations require: (1) the disclosure of essential patents owned or known about; (2) that patents included in national standards must be licensed on FRAND terms; and (3) that, for mandatory national standards, if an essential patent holder does not agree to license on FRAND terms, the SAIC, SIPO, and relevant authorities must negotiate with the patent holder regarding a method for the patent holder to divest the relevant patents.³⁸

Korea's Approach to Conduct Involving SEPs

On February 26, 2014, the KFTC issued its first decision assessing whether a SEP holder's injunction claim violates the Korean Fair Trade law, concluding that Samsung's injunction claims against Apple on SEPs related to 3G mobile communication technology do not constitute an abuse of dominance or unfair trade practice.³⁹ The KFTC's decision was based on its finding that Apple failed to engage in good faith negotiations (i.e., was not a willing licensee) and had engaged in reverse hold-up. Specifically, the KFTC found that Apple was not a willing licensee because it (1) filed patent infringement litigation against Samsung while proceeding with negotiations, (2) proposed license terms that devalued Samsung's patent value, and (3) engaged in reverse hold-up as evidenced by the fact that it did not have the intent to pay any royalties until the litigation was concluded. Conversely, the KFTC found that Samsung did negotiate in good faith because (1) before and after filing the injunction claims, Samsung proposed various license terms to Apple and proceeded with substantial negotiations, and (2) the royalty rates proposed by Samsung were not excessive.

Whereas the EC's decisions in *Samsung* and *MMI* create a "safe harbor" approach from injunctive relief for implementers that agree that a court or a mutually agreed arbitrator shall adjudicate the FRAND terms, 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.

With respect to Apple's allegations regarding the essential facilities doctrine, the KFTC concluded that Samsung's injunction claim does not constitute a refusal to use or access essential facilities because the essential element of "exclusive controllability" is not satisfied given that a FRAND-encumbered SEP holder is obligated to permit licensing, and thus certain limits are imposed on the exclusive ownership or control of SEPs. The KFTC further noted that over 50 companies hold over

³⁷ Administrative Regulation on National Standards Involving Patents-Interim (Interim Regulations), available at http://www.sipo.gov.cn/zcfg/flfg/zl/bmgfxwj/201401/t20140103_894910.html (in Chinese).

³⁸ *Id.*

³⁹ KFTC Press Release (Feb. 26, 2014), available at 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 (in Korean).

15,000 SEPs related to 3G technology, and thus this is not the usual case where only one essential facility exists.

India's Emerging Approach to Conduct Involving SEPs

Since becoming fully functional in October of 2009, the CCI has brought two investigations involving SEPs, one in November 2013 and the other in January 2014, both against Ericsson based on allegations that it violated its FRAND commitments by imposing discriminatory and “excessive” royalty rates and using Non-Disclosure Agreements (NDAs)⁴⁰ According to the CCI, “forcing a party to execute [an] NDA” and “imposing excessive and unfair royalty rates” constitutes “prima facie” abuse of dominance and violation of section 4 of the Indian Competition Act, as does “[i]mposing a jurisdiction clause debarring [complainants] from getting disputes adjudicated in the country where both parties were in business.”⁴¹

In both matters, the CCI stated that “prima facie the relevant product market” is “the provision of SEP(s) for 2G, 3G and 4G technologies in GSM standard compliant mobile communication devices,” in India, in which “prima facie it is apparent that Ericsson was dominant.”⁴²

The investigations allege that Ericsson “seem[s] to be acting contrary to the FRAND terms by imposing royalties linked with cost of product of user for its patents.”⁴³ Thus, “[f]or the use of GSM chip in a phone costing Rs 100, royalty would be Rs. 1.25 but if this GSM chip is used in a phone of Rs. 1000, royalty would be Rs. 12.5.”⁴⁴ According to the CCI, “[c]harging of two different license fees per unit phone for use of the same technology *prima facie* is discriminatory and also reflects excessive pricing vis-à-vis high cost phones.”⁴⁵ Furthermore, contends the CCI, “[t]ransparency is the hallmark of fairness,” alleging that, Ericsson’s use of NDAs “is contrary to the spirit of applying FRAND terms fairly and uniformly to similarly placed players.”⁴⁶

The second investigation further alleges that, although Ericsson publicly claims that it offers a broadly uniform rate to all similarly placed potential licensees, its refusal to share commercial terms

⁴⁰ See CCI Order under Section 26(1) of the Competition Act, 2002, *In re: Micromax Informatics Ltd. v. Telefonaktiebolaget LM Ericsson* ¶ 17 (Nov. 12, 2013), available at <http://cci.gov.in/May2011/OrderOfCommission/261/502013.pdf>; CCI Order under Section 26(1) of the Competition Act, 20, *In re Intex Techn. Ltd., v. Telfonaktiebolaget LM Ericsson* ¶ 17 (Jan. 16, 2014), available at <http://cci.gov.in/May2011/OrderOfCommission/261/762013.pdf>. The first investigation was brought based on complaints from Micromax Informatics Ltd.; the second was brought based on complaints from Intex Technologies (India) Ltd.

⁴¹ CCI Order, *In re: Intex* ¶ 17; see also CCI Order, *In re: Micromax* ¶ 16.

⁴² CCI Order, *In re: Micromax* ¶ 15-16; see also CCI Order, *In re: Intex* ¶ 15-16;

⁴³ CCI Order, *In re: Intex* ¶ 17; see also CCI Order, *In re: Micromax* ¶ 17.

⁴⁴ CCI Order, *In re: Intex* ¶ 17; see also CCI Order, *In re: Micromax* ¶ 17.

⁴⁵ CCI Order, *In re: Intex* ¶ 17; see also CCI Order, *In re: Micromax* ¶ 17.

⁴⁶ CCI Order, *In re: Intex* ¶ 17.

and royalty payments on the grounds of NDAs is “strongly suggestive of the fact that different royalty rates/commercial terms were being offered to the potential licensees belong to the same category.”⁴⁷

The CCI has also expressed concern about hold-up and royalty stacking, stating that “FRAND licenses are primarily intended to prevent patent hold-up and royalty stacking. . . . from the perspective of the firm making the product, all the different claims for royalties must be added or ‘stacked’ together to determine the total burden of royalty to be borne by the manufacturer.”⁴⁸

On January 23, 2014, in response to Ericsson’s writ petition challenging the CCI’s jurisdiction to investigate Ericsson, the High Court of Delhi stated that it was “prima facie of the view that a substantial question of jurisdiction” is at issue based on Ericsson’s argument that the Patent Act provides an adequate mechanism to balance the rights of the patentee and other stakeholders.⁴⁹ The High Court ordered the CCI not to issue a final order or report prior to the date of the next hearing while Ericsson may provide information in response to the investigation; not to interfere with the ongoing litigation between Ericsson and Micromax, which is currently before the High Court; and limited the CCI to discovery from Ericsson’s “local officers,” prohibiting the CCI from seeking information from any officer stationed abroad without leave of the High Court.

Conclusion

Investigations and litigation involving SEPs have begun to emerge across the globe. While recent investigations and litigation in the United States and Europe have focused primarily on the availability of injunctive relief on FRAND-encumbered SEPs and the meaning of a “willing licensee,” matters in China and in India have extended beyond these issues to address matters such as the charging of “excessive” or discriminatory royalties and the use of NDAs and forum selection clauses.

⁴⁷ CCI Order, *In re: Intex* ¶ 7; *see also* ¶ 17 (Ericsson’s use of NDAs “fortifies the accusations of the [complainant] regarding alleged discriminatory commercial terms imposed by [Ericsson]”).

⁴⁸ CCI Order, *In re: Intex* ¶ 13.

⁴⁹ Order, *Telefonaktiebolaget LM Ericsson v. Competition Commission of India* (Jan. 21, 2014), available at http://delhihighcourt.nic.in/dhcqrydisp_o.asp?pn=10114&yr=2014 (re the CCI’s investigation into complaints lodged by Miramax); *see also* Order, *Telefonaktiebolaget LM Ericsson v. Competition Commission of India* (Feb. 17, 2014), available at http://delhihighcourt.nic.in/dhcqrydisp_o.asp?pn=33798&yr=2014.