

THE ANTITRUST FRAMEWORK FOR TECHNOLOGY TRANSFER AGREEMENTS AND PATENT POOLS IN THE EUROPEAN UNION

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Abstract: *The article provide a short explanation of the current legal framework after regulation n. 316/2014 on transfer of technology agreements and related Guidelines. In its second part it focuses on the antitrust treatment of patent pools with particular accent on Huawei case.*

1. INTRODUCTION

The general antitrust framework for technology transfer agreements within the European Union has changed recently, although not significantly, with the entry into force of the new block exemption regulation and new guidelines on the application of article 101 TFEU to technology transfer agreements³. Because of the strategic importance of cooperation in the field of technology markets,

the creation of a clear and consistent system of competition rules is a pre-condition of economic success of European companies, as well as a source of attractiveness for foreign companies willing to start a cooperation in Europe or with European counterparts.

The rationale behind the European antitrust framework for technology transfer agreements is one that is common to other jurisdictions. The assumption is that technology transfer agreements favor competition by allowing parties to share on technology markets fundamental inputs for production; moreover, licensing is supposed to fix allocative inefficiencies related to the competitive nature of parallel innovative processes by several actors. At the same time, as any other business-to-business transaction, whether it occurs between competitors or between parties that do not compete on the same market, a technology transaction has always a potential restrictive effect on competition and possible negative outcomes for consumers.

This article provides a short explanation of the current regulatory framework, which is only incrementally new with respect to the pre-existing situation, and will focus on the antitrust treatment of patent pools.

¹ Università degli Studi di Torino (par. 5-11)

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³ PAZZI, *Revised Technology Transfer Block Exemption Rules*, in 2 *Italian Antitrust Review*, 2014,153, considers “incremental changes” those of the revised regime.

2. THE BLOCK EXEMPTION REGULATION. MAJOR CHANGES AND DISTINCTIVE FEATURES OF EUROPEAN COMPETITION LAW

The new regulatory framework for technology transfer agreement is based on two sets of rules though the first is mandatory and the second a soft law only: the block exemption regulation, on the one side, the Guidelines on the other side⁴. This framework will remain stable for a number of years; alike its predecessors, Regulation 316/2014 will naturally expire in 2026. Although amendments and corrections are always possible, this temporal horizon provides for a much more reliable ground for firms.

Apart from the extended duration of the safe harbor, Regulation 316/2014 presents a lighter version of an already tested antitrust approach based on market share thresholds to determine whether bilateral technology transfer agreements can fall outside the scope of art. 101.1 TFEU. The framework of analysis is further simplified, because the Regulation considers now only two situations: when parties are competing undertakings and when they are not. The market share thresholds are 20% and 30% of the relevant market(s)

respectively (art. 3). A set of hardcore restrictions listed in art. 4 causes an agreement, which could benefit from the safe harbor, to fall outside the provision of art. 2 (*vitiatur et vitiant*). Hardcore provisions are considered dangerous as their objects have intolerable restrictive effects. Even a cursory reading of the blacklist confirms that such provisions concern limitation of output, restriction on pricing for licensees in selling the contract product downstream, allocation of markets or customers, and other restrictions that prevent licensees or third parties to conduct further research and development or to exploit potentially competing technologies.

Art. 5 lists the restrictions that cannot be exempted when contained in technology transfer agreements even if they do not impact the validity of the agreements (*vitiatur sed non vitiant*). Such restrictions are now limited to two very common terms of license agreements, such as:

- i) exclusive grant-backs or obligations to assign to the licensor improvements or new applications of the licensed technologies developed by the licensee, and
- ii) no-challenge clauses. With respect to no-challenge clauses, art. 5 has been modified and it now makes compatible with the block exemption the contractual term by which the licensor can terminate an exclusive license in the event the licensee challenges the validity of any of the licensed technology rights. Such contractual term is typically employed in bilateral arrangements to prevent opportunistic behaviors by licensees when the licensor entirely depends on the other party for the

⁴ Initial comments on the new technology transfer block exemption regulation include S. RAB, *New EU Technology Transfer Block Exemption: A Note of Caution*, in *Journal of European Competition Law & Practice*, 2015, 1, and S. BARAZZA, *The Technology Transfer Block Exemption Regulation and related Guidelines: competition law and IP licensing in the EU*, 9 *Journal of Intellectual Property Law & Practice* 186 (2014).

exploitation of the technology, such as typically in exclusive dealings⁵.

Importantly, technology transfer agreements that also contain terms and conditions that apply to a level of trade other than that of licensor and licensee are also caught by the Regulation, although they have to comply with Regulation 330/2010 if they refer to distribution.

3. THE GUIDELINES

The Regulation 316/2014 only applies to bilateral agreements and, among those, to technology transfer agreements that comply with its requirements. All other agreements are not automatically caught by art. 101.1, but can be individually exempted if they satisfy the conditions of art. 101.3. To the purposes of the individual assessment, and to also guide the interpretation of Regulation 316/2014, the regulatory framework includes the Guidelines of the application of art. 101 to technology transfer agreements.

Because of the complexity of technology transactions and the recurrence of multi-party agreements that do not fit the easy features of bilateral licensing deals, the Guidelines will prove even more useful to provide a clear and reliable framework for the antitrust assessment of such arrangements⁶. Indeed, the Guidelines

also deal with specific issues and cases, such as those of settlement agreements and patent pools. The remainder of this article will focus on patent pools, as one of the distinctive features of the contemporary markets for technology and an efficient way to clear blocking situations in a world of growing anticommons.

4. PATENT POOLS. WHAT IS NEW?

Since technology pools are not covered by the TTBER (whereas n. 7), it ensues the necessity of highlighting their treatment under the European competition rules in order “to provide adequate legal security for undertakings” (whereas n. 3)⁷.

Patent pools were already mentioned in the previous EU discipline mainly contained in the Guidelines of April 27, 2004 (points from 210 through 235)⁸, but in the updated version the paragraphs are increased in numbers (from 244 through 273) and are more detailed in their content. It is worth noting, all in all, that in many aspects the EU Guidelines reflect the American judicial experience and echoes the

⁵ PAZZI, *op. cit.*, 155.

⁶ RAB, *op. cit.*, 14.

⁷ The new regulation applies as from April 30, 2015 for those agreements in force as of April 30, 2014 and therefore-in my opinion- also the relative Guidelines (in so far as they contemplate new rules) start to apply from the same date.

⁸ For a first and short presentation see FRIGNANI, PIGNATA, *Il nuovo regolamento n. 772/2004 del 27 aprile 2004 sugli accordi di trasferimento di tecnologia*, in *Dir. comm. int.*, 2004, 662-665.

DOJ Guidelines for the licensing of intellectual property, issued on April 6, 1995⁹.

According to the Guidelines, Technology pools are defined as arrangements whereby two or more parties assemble a package of technology which is licensed not only to contributors to the pool but also to third parties. In terms of their structure technology pools can take the form of simple arrangements between a limited number of parties or of elaborate organizational arrangements whereby the organization of the licensing of the pooled technologies is entrusted to a separate entity. In both cases the pool may allow licensees to operate on the market on the basis of a single license (point 244)¹⁰.

However, the new regime seems a little bit more restrictive¹¹: the Commission justifies it with the experience developed so far¹² and with the comfort of the majority of reports collected from the stakeholders in the two public consultations of 2012¹³ and 2013¹⁴ that were launched before the new legal framework.

⁹ Available at <http://www.justice.gov/atr/public/guidelines/0558.htm#t55>. More information, through short survey, by COLANGELO, *Mercato e cooperazione tecnologica. I contratti di patent pooling*, Milano, 2008, 200.

¹⁰ It is the same definition already offered in the Guidelines 2004.

¹¹ It contains “Incremental changes” as PAZZI, *Revised Technology Transfer Block Exemption Rules*, in 2 *Italian Antitrust Review*, 2014,153 defines them.

¹² Not very extensive indeed.

¹³ Available at

http://www.ec.europa.eu/competition/consultations/2012/_technology_transfer/index_en.html.

Picking up the more important cases:

1) Case *MPMG* in 2001¹⁵, where a pool collecting the technology for digital broadcasting (audio and video) was approved by the Commission. The patents were licensed through a single, non-exclusive license program and licensees remained free to negotiate licenses outside the portfolio from any participating patent holder.

2) Case *DVD* in 2000¹⁶, where the Commission had cleared an agreement whereby some of the companies that developed the DVD (Digital Versatile Disc) technology pooled their respective patents. The agreement allowed interested manufacturers to obtain a license for all necessary DVD patents rapidly, leading to lower administration and transactions costs which ought to benefit also the consumer.

3) Case *SLA* in 2003¹⁷, where the Commission cleared the agreement subject, among others, to

¹⁴ Available at http://wc.europa.eu/competition/consultations/2013_technology_transfer/index_en.html.

¹⁵ COMP /C-38143, in *Official Journal*, June 19, 2001, C 174/6.

¹⁶ Press release IP/00/1135 October 9, 2000. The agreement consisted of a “Patent Pool” for patents covering applications of DVD technology. Certain holders of essential patents had agreed to license their patents through a single non-exclusive and non-discriminatory license program.

The investigation carried out by the Commission's competition services found that this patent pool would help promote technical and economic progress by allowing quick and efficient introduction of the DVD technology. It was also found that the agreement does not contain unnecessary or excessive restrictions on competition.

¹⁷ Press release IP/03/1152 of August 7, 2003.

these conditions: the SLA should concern only patents essential for the production of standard pre-recorded CD; an independent expert should be appointed to certify the essential nature of the patent; the pool members should be free to license their respective patents separately.

4) Case *Motorola* in April 2014¹⁸. The company had committed itself to grant licenses on FRAND terms, but asked for an exceptionally high royalty. Apple, considering this a refusal, started manufacturing the product covered by the patent without having obtained the relative license. Motorola sought for an injunction against Apple before a German court on the basis of a smartphone standard essential patent notwithstanding that it has committed himself to license it on FRAND terms and the licensee was willing to take a license on such terms. Considering the facts in the case at hand the Commission found that seeking such an injunction constituted an abuse of dominant position.

However, the Commission decided not to impose a fine on Motorola because there was no case law by the EU Courts dealing with the legality under art.102 of SEP-based injunctions and that national courts had so far reached diverging conclusions on this question.

5) Case *Samsung* in 2014¹⁹. Samsung was the owner of various SEPs for the standard UMTS (Universal Mobile Telecommunications Service) and committed to license them on

FRAND terms. On April 2011, Samsung sought preliminary and permanent injunctions against Apple in numerous European jurisdictions including France, Italy, Holland, UK. The Commission raised concerns as to the compatibility of seeking such injunctions with art.102 TFEU. On September 27, 2013, Samsung offered some initial commitments: i) not to seek injunctive relief before any Court against a potential licensee that agrees to a licensing framework which provides for a negotiation period of up to twelve months for the determination of FRAND terms and conditions and, in case of default agreement, a third party determination by arbitration or Court; ii) a trustee would be appointed to monitor Samsung's compliance with this commitments. These commitments have been considered insufficient by the Commission to avoid its concerns, based also on critical issues raised by eighteen interested parties. At the end, the case was closed with these further final commitments considered adequate by the Commission:

i) in case parties do not agree on the venue of a third party determination, only specialized Courts should be competent with preference over arbitration; the non-confidential version of FRAND determinations by arbitration should be made public; eligible as arbitrators should be also people from a broader field of specialization²⁰;

¹⁸ Press release IP/14/489 of April 29, 2014

¹⁹ Case AT.39939 in *Official Journal* April 29, 2014.

²⁰ No doubt these conditions cannot hide a certain dislike of arbitration by the Commission: we propose ourselves to deal with this topic in another contribution.

ii) the commitments will not alter the burden of proof under applicable law with the respect to validity, infringement, and essentiality of the mobile SEPs in question;

iii) the invitation to negotiate must contain a minimum of information and a proposed duration for the licensee of no less than five years.

Both last cases concerned a one-company SEP and not a SEP within a technology pool. Although the closing of the case occurred on April 29, that is one month after the publication the Guidelines, their outcome may be considered a previous experience of the Commission since the relative procedure had been running for years.

Italian case law has not been absent in this worldwide debate. Let us quote some cases:

i) Tribunal of Genoa, orders of 7 May 2004, 14 October 2004 and 15 November 2004²¹, *Koninklijke Philips Electronic N.V. vs Computer Support Italcards s.r.l. and Computer Support Italcards vs Koninklijke Philips Electronic N.V.*

All these three decisions concerned the same issues arising from a *the facto* standards on the production of CD-RWs (re-writable). Having ascertained the dominant position, the Tribunal consequently decided that the relative standard imposes on the owners the obligation to contract with others producers²², provided that

²¹ The decision is published in *Diritto industriale*, 2005, 500, with a note of M. GRANIERI, *Proprietà intellettuale, standard di fatto e obbligo di licenza*.

²² To reach this conclusion the judges referred specifically to the “essential facility” doctrine.

they had previously contacted the owners to obtain a license on reasonable terms.

ii) Tribunal of Milan, October 18, November 2, 2011, *Ical, Car Mania Multimedia, Ital Video International vs Rovi Guides and United Video Properties*.

The plaintiff sought a preliminary injunction against an undertaking that exploited a patent without previously negotiating licenses. The defendants counterclaimed that the products of the plaintiff illegally exploited their patents, because they did not ask for a license. The case regarded the validity of the patents at hand as well as the conditions of a FRAND license provided that the patent could give rise to a *the facto* standard. In the pre-trial phase the judge granted a provisional seizure of the infringing products distributed on the market against undertakings exploiting the patents without previously negotiation and obtaining a license from the owner. An expert was appointed with the mission to ascertain the validity of the patent as well as its qualification as SEP. The dispute is pending on the merits.

iii) Tribunal of Milan, *Samsung vs. Apple*²³.

The case represents the Italian side of the Samsung vs Apple war blown up worldwide concerning the iPhone 4S. The case contemplated a range of different issues going from pure patent law until antitrust rules, in particular whether a SEP owner is in a dominant position and, in the affirmative case, what are its obligations towards an undertaking

²³ The case is still pending.

seeking a licenses. In the case of a provisional proceedings the judge of the Tribunal of Milan refused to grant any interim relief, because it implied a previous decision on pre-conditions, like the nature of the standard, the extension of the patent, the existence of a dominant position and other issues. An expert had been appointed, with the aim to determine the FRAND conditions for a license. The case did not reach a decision on the merits since the parties reached a settlement agreement within the scope of a worldwide agreement²⁴.

5. THE ECONOMIC ASSESSMENT OF PATENT POOLS. PATENT AGGREGATION STRUCTURES AND THEIR ROLES

The Guidelines recognize that «*technology pools can produce pro-competitive effects*»²⁵ in particular by reducing transaction costs and by setting a limit on cumulative royalties to avoid double marginalization²⁶.

More specifically other advantages (in terms of competition or efficiency) are the following: for the patent owners, pools allow owners of

patents of minor importance to escape isolation; for the prospective licensees pools avoid long researches and risks of forgetting to obtain license from one of the thousands of patents that are nowadays required for the production of complex product, such as smartphones or computers.

The history of patent pools goes back to the last quarter of XIX century²⁷, but their impact on the transfer of technology (and thus on the market economy in general) has grown up as highly relevant in the last decades of the XX century²⁸.

The patent pools raise, grow up and mature in a pure patent or in intellectual property environment (technology protection, in a broad meaning). This recognition excludes that the first purpose of patent pools is to pursue an anticompetitive object, which however may occur as a possible effect.

Among scholars (both economists and jurists) there is a convergence on the understanding about the following goals pursued by the patent pools:

- i) lowering transaction costs;

²⁴ An extensive description of these cases, not yet reported, is offered by TAVASSI, *Standard, IP rights and competition: balance or conflict* (Report to the XI Treviso conference 2014) in *Antitrust between EU Law and national law*, Bruylant Giuffrè, 2015, 150-162.

²⁵ Point 245.

²⁶ These words echo the definition of MELAMED, LERCH, *Uncertain Patents, Antitrust and Patent Pools*, in *The Interaction Between Competition Law and Intellectual Property Law*, 2007, 277.

²⁷ MOSSOFF, *The rise and fall of the first American Patent Thicket: the sewing machine war of the 1850s*, in 53 *Ariz. L. Rev.*, 2011; 165 GILBERT, *Antitrust for Patent Pools: a century of policy evolution*, in *Stan. Tech. L. Rev.*, 2004, 3 available at: http://stlr.stanford.edu/STLR/Articles/04_STLR_3.

²⁸ For a more detailed account in law and economics perspective, see GRANIERI, *Soluzioni contrattuali agli anticommons (pooling, collecting, standards). Esperienze europee e statunitensi a confronto*, in *Annali italiani del diritto d'autore*, 2013, 277.

ii) to speed up the process of getting licenses which include the whole necessary technology²⁹;

iii) to avoid the marginalization of the owner of the less important technology (which is often the smallest undertaking member contributing to the pool), thus allowing to some extent recovery of R&D expenditures³⁰;

iv) to avoid the leverage effect on the last necessary license (hold up problem);

v) to reduce a plurality of royalties to a cumulative one³¹.

Patent pools must be analyzed in conjunction with new institutional mechanisms that emerge on the market, by way of specialization, to enforce patents in the pools.

a) American authors³² have formulated the category of so called “offensive non-practicing entities” (NPE), whose business model does not consist in the production of goods or services³³, but in the management of the

packaged intellectual property rights and in enforcing the patents with the purpose of forcing licensing agreements and collecting royalties. The notion of offensive NPE does not represent correctly the reality, because the activity of seeking an injunctive relief against the infringers of the rights in the pool represents an agency activity on behalf of technologies’ owners which is contingent to prosecute those who do not wish to obtain licenses or ceased to pay royalties. Hence, the business goal is not to harm other undertakings, but it is rather to increase earnings by means of licensing royalties.

On the other hand, the emerge of these third entities (the so called “patent trolls”) is a question of convenience, as it is shown at point 244 of the Guidelines which do not make any difference between the case of a direct organization by the pool members and the case when licensing out of the pool technology is entrusted to a separate entity.

b) More recently the same scholarship has formulated the notion of “defensive NPE” which describes third entities in charge of collecting the IP rights in order to license them out and prosecuting the infringers of the patents, safeguarding the technology holders from the risk of expensive (and with uncertain outcome) judicial retaliations or reputational harm³⁴.

The benefit of differentiating the two above categories of NPEs, from the competition

²⁹ MASTRELIA, *Standard, patent pool e gruppi di acquisto di brevetti. Verso un nuovo modello di trasferimento di tecnologia nel settore hi-tech*, in *Dir. ind.*, 2013, 522.

³⁰ Usually such undertaking is the owner of a “substitutable patent”.

³¹ SHAPIRO, *Navigating the Patent Thicket: Cross Licensing, Patent Pools and Standard Setting*, in JAFFE, LERNER, STERN (eds), *Innovation Policy and the Economy*, MIT Press, 2001, 119 ff.

³² Among many see WANG, *Rise of Patent Intermediaries*, in *25 Berkeley Tech. L.J.*, 2010, 159-182.

³³ Which should pertain to the developers of technology, protected by IPR, with some exceptions for the technology developed by entities or institutions of pure research, like universities.

³⁴ ORR, *Patent Aggregation: Models, Harms and the Limited Role of Antitrust*, in *28 Berkeley Tech. L.J.* 2013.

point of view is almost null because it rather emphasizes one or the other among the basic purposes of the pool, which in general terms are equipped to pursue both of them.

The technology pools may serve the purpose of overcoming the so called “patent crisis”³⁵, which is linked to blocking patents situations: using the patent rights to seek an injunction against an infringer is nothing less than reaffirming the importance, in a modern economy, of IPR function. The burning problem arises when an injunctive relief granted on a specific patent blocks the exploitation of a set of other patents which are inseparably linked with it (that is, essential to the pooled technology).

From the opposite perspective, technology pools may also be restrictive of competition. The creation of the pools «necessarily implies joint selling of the pools technologies...which may amount to price fixing cartel» (Guidelines point 246). Among the parties, it may restrain competition by reducing innovation, foreclosing alternative technologies. Such conclusion depicts an exception to what usually occurs: pools (almost) never limit the members’ freedom to innovate or to develop new technologies. Having said that, the Guidelines are concerned to avoid these possible competition restraints.

The concern of anticompetitive restrictions covers both: i) the formation of technology

pools and ii) its operation (agreements between the pool and its licensees).

6. VARIOUS CATEGORIES

With the aim of avoiding the possible competition restraints above mentioned, the Guidelines make use of different notions based on economic criteria, here used to properly assess the effects of pools on competition.

Technological complements: when two technologies «are both required to produce the product or carry out the process to which the technologies relate» (point 251).

Technological substitutes: «when either technology allows the holder to produce the product or carry out the process to which the technologies relate» (point 251).

Essential technology: necessary «to produce a particular product (...) or in accordance with a standard which includes the pooled technology (...) if there are no viable substitutes (...)» (point 252).

Non-essential technology: if there are viable substitutes (both from a commercial and technical point of view) inside or outside the pool.

Such different notions represent different levels of anticompetitive risks if the related patents become part of the pool; therefore the Commission lays down different conditions for their admissibility.

We start with point 261, headed “Safe harbour”, which lists the 7 conditions whose fulfillment permits the formation and operation

³⁵ BURK, LEMLEY, *The Patent Crisis and How the Courts can Solve it*, Univ. Chicago Press, 2009. «Patent pools as an alternative to patent wars», to borrow the title from an article by BEDNARK AND INEICHEN, , in *Intellectual Property and Technology Law Journal*, 2004, 1.

of a pool to fall outside art.101.1 irrespective of the market position of the parties:

“The creation and operation of the pool, including the licensing out, generally falls outside Article 101(1) of the Treaty, irrespective of the market position of the parties, if all the following conditions are fulfilled:

(a) participation in the pool creation process is open to all interested technology rights owners;

(b) sufficient safeguards are adopted to ensure that only essential technologies (which therefore necessarily are also complements) are pooled;

(c) sufficient safeguards are adopted to ensure that exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool;

(d) the pooled technologies are licensed into the pool on a non-exclusive basis;

(e) the pooled technologies are licensed out to all potential licensees on FRAND terms;

(f) the parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies, and;

(g) the parties contributing technology to the pool and the licensee remain free to develop competing products and technology”.

While the last three conditions concern the operation of the pool, all others refer to the creation of it. This list, which is new in respect to the old Guidelines, is certainly a welcome clarification to the benefit of pool members, although some conditions may prove too rigid.

If the technology pool comprises non essential but complementary patents, the Commission is

less strict but will take into consideration in overall assessment, *inter alia*, all these factors:

“ a) where there are pro-competitive reasons to include non essential technologies in the pool, for example to avoid the costs of assessing the essentiality of thousand of technologies;

b) whether licensors remain free to license their respective technologies independently;

c) whether the licensees may obtain a package comprising only a part of the technology pooled³⁶;

d) where the license agreements are of relatively long duration and the pooled technology serves a standard, whether the licensees can terminate at reasonable notice part of the license and obtain a corresponding reduction of royalties (point 264).”.

7. ASSESSMENT OF THE FORMATION OF THE POOL

In the assessment of possible competitive risks and efficiencies in the formation and organization of the pool the Commission will look at it from three perspectives:

a) *open participation* (to all interested parties): the Commission deems it is likely that selection will be on the basis of price/quality considerations (point 249). I believe that other selection criteria should not be considered as pursuing anti-competitive goals: the pool is a voluntary cooperation to which the patent owners adhere for a multiform purpose.

³⁶ The positive result is reduction of royalties.

b) *selection and nature of the pooled technology*: the Commission is concerned with the risks for competition when the pooled technologies are “substitutes”, since «royalties are likely to be higher than they would otherwise be, because licensees do not benefit from rivalry between the technologies in question» (point 253). This concern forgets the countervailing balance due to reduction in transactional costs and the safe harbor from infringement lawsuits likely to come from some patent owners. To this aim the Commission contemplates the intervention of independent experts in the creation and operation of the pool, mainly entrusted with the selection of essential technologies only (point 256). Also this solution may present a drawback as it undermines the necessary fiduciary relationship which should run the cooperation within the pool.

c) *exchange of sensitive information*: given the necessity to avoid exchange of sensitive information between the parties to a pool, the device foreseen by the Guidelines does not seem easily “workable”. In fact the Commission envisages an “*independent expert or licensing body*” entrusted to ensure that “*output and sales data, which may be necessary for the purposes of calculating and verifying royalties, is not disclosed to undertakings that compete on affected market*” (point 259). How can these opposite goals be attained remains unclear to me, particularly if the decision of the “necessity” of exchange of information is entrusted to an “independent expert”.

8. ASSESSMENT OF THE AGREEMENTS BETWEEN THE POOL AND ITS LICENSEES

On this issue the Guidelines lay down a certain number of guiding principles which will be applied in assessing the individual restraints, followed by rules on specific clauses. There is no specific guidance as to when the technology is included in a standard, although standards are mentioned more than once.

The principles are:

- a) the stronger the market position of the pool the greater the risk of anti-competitive effects;
- b) the stronger the market position of the pool, the more likely that agreeing not to license to all potential licensees or to license on discriminatory terms will infringe art.101³⁷;
- c) pools should not unduly foreclose third party technology or limit the creation of alternative pools;
- d) agreements for licensing out pooled technologies should not contain any hardcore restrictions, listed in art. 4 of the TTBER, namely: determination of prices, limitation of output (with one exception); allocation of markets or customers (with various exceptions).

Two final points:

- a) Both licensors and licensees should be free to develop competing products and standards (point 270).

³⁷ Points *a*) and *b*) represent economic considerations for competition concern and not a legal guidance.

b) Grant back obligations should be non-exclusive and limited to developments that are essential or important to the use of the pooled technology (point 271). The acknowledgment that also important developments exclude the illegality of non-exclusive grant back obligations is welcome because it helps licensees not to exploit the pooled technology behind the terms of the license, although it may create difficulties in its application: who is burdened to prove the “importance”?

9. THE (BURNING) ISSUES WITH STANDARD ESSENTIAL PATENT (SEP)

One important aspect is that the relationship between competition and the agreements to adopt standards was already thoroughly dealt with by the Commission in the guidelines on horizontal co-operation agreement issued in 2011³⁸

Though sometimes mentioned, the new Guidelines do not deal specifically with the setting of a standard and their implication for competition. In this context the new Guidelines refer to the old ones, without laying down any new criteria or limitations. Notwithstanding the fact that here lies the very burning issue where freedom of contract intersects with freedom of competition.

³⁸ Official Journal C-11/1 14, § 7 points from 257 through 335. See the analysis of TEMPLE LANG, *Patent Pools and Agreement on Standards*, in 36 *Eur. L. Rev.*, 2011, 887.

There are two types of *standards*: *de jure* and *de facto* (Guidelines point 270): the first are those approved by a recognized standard body (like ISO, International Organization for Standardization; ETSI European Telecommunications Standard Institute)³⁹. The standard *de facto* are constituted by the specific technologies developed by undertakings which over the time have obtained a general recognition and application due to their diffusion in the market place. The most reliable standard bodies require the patent owners to commit themselves to license out on FRAND terms⁴⁰. The violation of such commitments are sanctioned within the standard body, but this commitment is enforced only within the *de jure* standard (not in the context of *de facto* standard).

In particular the Guidelines point out that standardization agreements usually produce significant positive economic effects: for example by promoting economic interpenetration on the internal market and encouraging the development of a new and improved products, and improved supply conditions. Standards thus normally increase competition and lower output and sales costs, benefitting economies as a whole. Standards may maintain and enhance quality, provide information and ensure interoperability

³⁹ For an account of the legal dynamics of standard setting and related problems, see GRANIERI, *Attività di standardizzazione, diritti di proprietà intellettuale e antitrust*, in *Riv. dir. ind.*, 2004, I, 138.

⁴⁰ For a deeper reading on FRAND licensing, MAUGERI, *Standardization and Italian Law of Contracts: F/RAND Commitments*, in *Osservatorio del diritto civile e commerciale* 2014, 99.

and compatibility (thus increasing value for consumers).

On the opposite side, standard setting can, in specific circumstances, also give rise to restrictive effects on competition by potentially restricting price competition and limiting or controlling production, markets, innovation or technical development. This might occur through three main channels, namely reduction in price competition, foreclosure of competing innovative technologies and exclusion of, or discrimination against, certain companies by prevention of effective access to the standard.

Aware, as they have always been, of the possible negative implications for competition of defining and managing SEPs, the Standard Setting Organization (SSOs) have established, on the track of ETSI, Intellectual Property Rights Policy, a minimum set of licensing rules encapsulated in the acronym FRAND (fair, reasonable, non-discriminatory). However soon they appeared insufficient because generic and non measurable⁴¹. Such an uncertainty is an incentive to cheating by licensees or prospective licensees, as shown in the last cases at the EU level⁴².

⁴¹ Reference can be made to SWANSON, BAUMOL, *Reasonable and Nondiscriminatory (Rand) Royalties, Standard Selection, and Control of Market Power*, in 73 *Antitrust L.J.*, 2005, 5: «It is widely acknowledged that, in fact, there are no generally agreed upon tests to determine whether a particular license does or does not satisfy a RAND commitment». In fact, in the case *Uniloc v. Microsoft*, 632 F.3d 1292 (Fed. Circ. 2011) judges considered as a non sense the so called “rule of thumb”, of a royalty of 25% as expected earnings.

⁴² As COLANGELO, *supra*, 435, points out, commitments are so important and essential as vague in their content.

However the Guidelines overlook the case of a standard set by governments or public authorities, thus being legally binding for all undertakings that wish to participate in a public procurement: if the standard is not complied with, the businessmen are excluded from access to the public procurement market.

The burning problem arises in presence of a SEP, which gives rise to a dominant position: sometimes one-company dominance (cases *Motorola*, *Samsung*), more frequently collective dominance (technology pool). In such a circumstance the old principle of obligation to negotiate on FRAND terms (*fair, reasonable, non-discriminatory*) is unanimously shared⁴³.

The technology pool is free to negotiate and fix the royalties as well as each technology's share of the royalties, provided that licensees must remain free to determine the price of products produced under the license. Worth to note the Commission here accepted to widen the possibility of a discussion of the royalties within the technology pool and also with future licensees, which seemed unclear in the 2011 Horizontal Cooperation Guidelines, in line with a request by legal doctrine⁴⁴.

A technology pool sometimes may lead to a *standard de facto*, but not necessarily. If the pool enjoys a dominant position, as it is the case

⁴³ HOVENKAMP, *Competition in Information Technologies: Standard –Essential Patents. Non-Practising Entities and FRAND Bidding*, in *U. Iowa Legal Studies Research Paper* No.12-32, 2012.

⁴⁴ For example TEMPLE LANG, *supra*, 890, who emphasizes the « need for clarification».

with a SEP⁴⁵, royalties and other licensing terms should be non – excessive, non – discriminatory and licenses should be non exclusive⁴⁶ The determination whether the above conditions are met requires a case by case analysis, with the *a priori* uncertainty like applying art. 102 lett.a) and c) TFEU⁴⁷.

10. THE CASE HUAWEI-TECHNOLOGIES/ZTE⁴⁸

In general terms the issue to be decided is whether an action for infringement brought by the SEP-holder against an undertaking which manufactures products in accordance with that standard constitutes an abuse of a dominant position.

The request for a preliminary ruling has been made in the course of a dispute between, on

⁴⁵ For a quick account of problems arising at the intersection of intellectual property and antitrust as regards SEPs, see GRANIERI, *Violazione di brevetti essenziali su standard: l'antitrust può essere una difesa?*, in A. BARTOLINI, D. BRUNELLI, G. CAFORIO, *I beni immateriali tra regole privatistiche e pubblicistiche*, Napoli, 2014, 77.

⁴⁶ But the issue is who controls the implementation of these criteria? Commission's answer is: an independent expert.

⁴⁷ See FRIGNANI, BARIATTI (a cura di), *Disciplina della concorrenza nella UE*, Padova, 2012, 286 ff., 324 ff.

⁴⁸ Reference should be made to COLANGELO, *Aspettando Huawei Technologies: standard, brevetti essenziali ed impegni F/Rand*, in *Mercato Concorrenza Regole*, 2014, 435 for an extensive analysis of all issues involved. The decision of the European Court of Justice on July 16, 2015, can be read on *Foro it.*, 2015, IV, 477, with a comment of COLANGELO, *Antitrust, standard ed impegni di licenza: il caso Huawei*.

the one hand, Huawei Technologies, a multinational group of undertakings active in the telecommunications sector, and, on the other, ZTE Corp., established in Shenzhen, and ZTE Deutschland GmbH, established in Düsseldorf (members of a group of undertakings, also multinational, operating in the same sector). By its action for infringement, Huawei seeks an injunction prohibiting the continuation of the infringement and an order for the rendering of accounts, the recall of products and the assessment of damages⁴⁹.

It emerges from the order for reference that, between November 2010 and the end of March 2011, Huawei and ZTE engaged in discussions relating, *inter alia*, to the infringement of the patent and the possibility of concluding a licensing agreement. Huawei named the amount which it considered to be a reasonable royalty. ZTE 'ought a cross-licensing agreement. It also emerges from the order for reference that, on January 30, 2013, ZTE made an offer for a cross-licensing agreement and proposed, but did not pay, a royalty to Huawei. Furthermore, the referring court states that «[t]he parties did not exchange any specific offers in relation to a licensing agreement». On April 28, 2011, Huawei brought before the referring court the action which has given rise to these preliminary ruling proceedings.

The referring Court points out that the BGH in its judgment of May 6, 2009, *Orange Book*

⁴⁹ The conduct of SEP-holders who have given a commitment to grant licenses to third parties on FRAND terms has given rise to a plethora of actions before the courts of several Member States and third countries.

*Standard*⁵⁰ found that where the patent owner seeks a prohibitory injunction against a defendant who has a claim to a license for that patent, patent owner abuses his dominant position “*only where the following conditions are met*”:

First, the defendant must have made the applicant an unconditional offer to conclude a licensing agreement (an offer which, specifically, must not contain a clause limiting the license exclusively to the cases of infringement), it being understood that the defendant must consider itself bound by that offer and that the applicant is obliged to accept it, since its refusal of the offer would unfairly hamper the defendant or breach the principle of non-discrimination.

If the defendant considers the amount of royalty claimed by the applicant to be excessive, or if the applicant refuses to quantify the royalty, the offer of an agreement is regarded as unconditional if it provides that the applicant is to determine the amount of the royalty fairly.

Secondly, if the defendant is already making use of the subject-matter of the patent before the applicant accepts its offer, it must meet the obligations which, for use of the patent, will be incumbent on it under the future licensing agreement. That means, in particular, that the defendant must render an account for its acts of use in accordance with the terms of a non-discriminatory agreement and that it must meet the resulting payment obligations.

⁵⁰ KZR 39/06 of May 6, 2009. First comment by ULLRICH, *Patent and Standards. A Comment on the German Supreme Court Decision Orange Book Standard*, in *IIC*, 2010, 337.

No doubt this position reflects the approach of the German judges in favor of intellectual property, in line with the ETSI Intellectual Property Rights Policy, without any given priority to the competition perspective. The circumstances of the case at hand show that the Court is called to determine the “*willing licensee test*”⁵¹.

In the opinion of Advocate general Wathelet, the problems can be resolved in the context of other branches of law other than the rules of competition law (point 9); at the front line the IPR law whose goals are to provide the necessary protection of IP to enhance investments, innovation⁵². Another pivotal role is played by the law of contracts, where the freedom recognized to the parties gives them the necessary flexibility to mould their contractual relationship in order to better pursue their legitimate business objectives.

The Advocate general efforts consist in striking a balance between the two bodies of law, sometimes considered conflicting, and proposes the following answers:

- 1) “*The fact that a holder of a standard-essential patent (SEP) which has given a commitment to a standardization body to grant third parties a license on*

⁵¹ Advocate general opinion point 32.

⁵² The intermingled relationship between intellectual property law and competition law is thoroughly dug in the book by CAGGIANO, MUSCOLO, TAVASSI (eds), *Competition Law and Intellectual Property. A European Perspective*, The Hague, 2012, and thoroughly explored by ULLRICH, *Approaching a patent law problem via competition policy in The interaction between competition law and intellectual property law*, *European Competition Law Annual 2005* (editors Ehlermann, Atanasiu), Oxford 2007, 305 ff.

FRAND terms makes a request for corrective measures or brings an action for a prohibitory injunction against an infringer, in accordance with Artt.10 and 11 of Directive 2004/48/ of 29, April 2004 on the enforcement of intellectual property rights, which may lead to the exclusion from the markets covered by the standard of the products and services supplied by the infringer of an SEP, constitutes an abuse of its dominant position under Art. 102 TFEU where it is shown that the SEP-holder has not honored its commitment even though the infringer has shown itself to be objectively ready, willing and able to conclude such a licensing agreement.

2) Compliance with that commitment means that, prior to seeking corrective measures or bringing an action for a prohibitory injunction, the SEP-holder, if it is not to be deemed to be abusing its dominant position, must - unless it has been established that the alleged infringer is fully aware of the infringement - alert the alleged infringer to that fact in writing, giving reasons, and specifying the SEP concerned and the manner in which it has been infringed by the infringer. The SEP-holder must, in any event, present to the alleged infringer a written offer of a license on FRAND terms which contains all the terms normally included in a license in the sector in question, in particular the precise amount of the royalty and the way in which that amount is calculated.

3) The infringer must respond to that offer in a diligent and serious manner. If it does not accept the SEP-holder's offer, it must promptly present to the latter, in writing, a reasonable counter-offer relating to the clauses with which it disagrees. The making of a request for corrective measures or the bringing of an action for a prohibitory injunction does not constitute an abuse of a dominant position if the infringer's conduct is purely tactical and/or dilatory and/or not serious.

4) If negotiations are not commenced or are unsuccessful, the conduct of the alleged infringer cannot be regarded as dilatory or as not serious if it requests that FRAND terms be fixed either by a court or by an arbitration tribunal. In that event, it is legitimate for the SEP-holder to ask the infringer either to provide a bank guarantee for the payment of royalties or to deposit a provisional sum at the court or arbitration tribunal in respect of its past and future use of the patent.

5) Nor can an infringer's conduct be regarded as dilatory or as not serious during the negotiations for a FRAND license if it reserves the right, after concluding an agreement for such a license, to challenge before a court or arbitration tribunal the validity of that patent, its supposed use of the teaching of the patent and the essential nature of the SEP in question".

11. CONCLUSION

It is doubtful whether the Commission has extensively weighted the hidden risk behind its approach, that is a reduction of patent owners' incentives to license patents outside the pool.

Furthermore the grounds upon which the technology pools fall outside the realm of TTBER are not explained by the Commission. It seems that, from one side, for what concerns the agreement setting up the pool, its object is not the "production" of products made on the basis of technology under license and, from the other, that for what concerns the agreements between the pool and its licensees quite always they constitute a multiparty agreement (art.1.1 lett. c(1) Reg. n.316). The first assumption deserves a short comment: the production of "contract products" may intervene "directly or

indirectly” as set forth in art. 1.1. lett g Reg. n.316: to give a sense to this statement we must admit that production can be carried out by a third party without subverting the nature and purposes of the pool.

As to the second conclusion, whenever the pool is a third and separate entity (agent) acting on behalf of the members (point 244 Guidelines) the license agreement is entered into between two parties, thus cannot be identified with a multilateral agreement.

The question is whether for a better legal environment of business men (in the particular perspective) it is more suitable to have the pools governed by a TTBER or to leave them outside. The stakeholders reports on the consultation show they were quite happy of the situation as it was at the time, mainly because they could enjoy more flexibility than that allowed by the conditions and limitations laid down in a TTBER. Furthermore no severe critiques were raised on the principles contained in the 2004 Guidelines.

The much awaited Huawei holding was pronounced on July 16, 2015⁵³. The Court tried to strike a balance between the IPR protection and competition law including the possibility of access to a standard for newcomers.

The Court of Justice starts re-affirming that for the IPR owner the exercise of such right

cannot in itself constitute an abuse of dominant position (§ 46), which is in line also with the Directive 2004/48 on the enforcement of intellectual property rights, but substitutes the exception of “exceptional circumstances” (applied in the judgments *Volvo, McGill, IMS*) with the new concept of “legitimate expectations” (§ 53) that the alleged infringer of an IPR has when the IPR owner has signed a FRAND agreement with the Standard Setting Organization (SSO). The basic assumption is that if the IPR owner seeks an injunction without observing the FRAND obligations it commits an abuse of dominant position. The core part of Huawei holding is devoted to explain how should be interpreted the FRAND commitments, from both sides (IPR owner and alleged infringer) considering that the FRAND terms are generic and flexible.

Following to a great extent the conclusions of the Advocate General, the court holds that:

“ 1. *Article 102 TFEU must be interpreted as meaning that the proprietor of a patent essential to a standard established by a standardisation body, which has given an irrevocable undertaking to that body to grant a licence to third parties on fair, reasonable and non-discriminatory (‘FRAND’) terms, does not abuse its dominant position, within the meaning of that article, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:*

– *prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific,*

⁵³ For a first comment see BANASEVIC, *The Implication of the Court of Justice’s Huawei/ZTE Judgment*, in 6 *Journal of European Competition Law and Practice*, 2015, 7; LO BUE, *Huawei v. ZTE: Open Issues after ECJ’s Judgment*, in *Osservatorio permanente sull’applicazione delle regole della concorrenza*, Agosto 2015.

written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and

– where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

2. Article 102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding a patent essential to a standard established by a standardisation body, which has given an undertaking to the standardisation body to grant licences for that patent on FRAND terms, from bringing an action for infringement against the alleged infringer of its patent and seeking the rendering of accounts in relation to past acts of use of that patent or an award of damages in respect of those acts of use.”

It is disappointing that the Court did not address the question (it was the right occasion) whether a SEP owner is in a dominant position (leaving it to the referring national Court), but we appreciate that it stressed in particular the “willingness to conclude a license agreement” test on the part of the alleged infringer, and clarified how should the FRAND terms be interpreted, thus overcoming the patent crisis fight between the IPR owner and the prospective licensees⁵⁴.

⁵⁴ On the much debated relationship between the IPR protection and the competition policy let me refer to the recent surveys of OSTI, *Ma a che serve l'antitrust?*, in *Foro it.*, 2015, V, 114 ff., and VAN DEN BERGH,

GIANNACCARI, *L'approccio più economico nel diritto comunitario della concorrenza. Il più è troppo o non (ancora) abbastanza?*, in *Mercato Concorrenza Regole*, 2014, 393 ff.

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