

ENFORCING TELECOMS SEPS AS ABUSE OF DOMINANT POSITION: THE EUROPEAN PRINCIPLES

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DOI: <https://doi.org/10.33344/vol11Ypp48-73>

Helsinki Law Review, 1/2021, pp. 48–73

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Keywords:

Abuse of dominant position, FRAND terms, injunctions, licensing, patent infringement, standard essential patents, telecommunications.

ABSTRACT

The telecommunications industry uses extensive standardisation to ensure interoperability between the devices of competing manufacturers. SEPs, or patents incorporated in related technical standards, are of extraordinary importance in the industry. Hence seeking legal remedies for SEP infringements may compromise effective competition in the internal market and thus fall within the scope of Article 102 TFEU on abuse of dominant position. In this paper I review, on which conditions the SEP holder is allowed to seek remedies for SEP infringement and how these rules should be interpreted from the standpoint of the EU objectives and principles. I conclude that a dominant position is nearly always established through mere SEP ownership, and this dominant position is abused by bringing an SEP infringement suit if the sought remedy has a direct effect on the market access of the SEP implementer and the SEP holder does not have an objective justification to seek such remedies.

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I. INTRODUCTION

A German court recently referred the standard essential patent (hereinafter "SEP") dispute *Nokia v Daimler*² to the European Court of Justice (hereinafter "ECJ") for a preliminary ruling.³ Unfortunately for the legal community, the parties settled before the Advocate General, let alone the ECJ had had the opportunity to express their views on the preliminary questions.⁴ The settlement left many SEP-related questions unanswered; yet the case demonstrates the high topicality of legal aspects of SEPs.

Accounts on natural law aside, the rationale behind patent protection is to promote innovation. One of the means intended to promote innovation is to encourage competitors of patent holders to devise alternative technical solutions to the technical problem addressed by the patented invention.⁵ However, many substitute inventions are of little use in the telecommunications industry. Thousands⁶ of patented inventions have been incorporated in technical standards which the industry actors must follow for interoperability reasons, and to comply with the standards the industry actors must implement these particular inventions. As a result, the device manufacturers must obtain licences for the specific patents incorporated in these standards. Because standardised technology enables key functionalities of telecommunication devices, such as compatibility with 3G, 4G or 5G networks, technical standards are implemented in nearly every telecommunication device.⁷

Consequently, there are factually no alternatives to the patents which are essential to bring a device in line with a to-be-implemented technical standard, i.e. SEPs. Given the paramount importance of many functionalities enabled by technical standards, industry actors risk being excluded from the market if they fail to implement these standards. Hence, if an SEP holder takes legal action against SEP implementers instead of licensing its SEPs to them on economically reasonable terms, the SEP holder may effectively compromise free competition, which is among

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- ² Case C-182/21, *Nokia Technologies Oy v Daimler AG*.
 - ³ Decision of Düsseldorf District Court (Landgericht Düsseldorf) of 26 November 2020 – Case 4c O 17/19 – *Nokia-SEP*; Tenor.
 - ⁴ Joint press release of Nokia and Daimler AG, 1 June 2021. Daimler and Nokia sign patent licensing agreement. Available at <<https://media.daimler.com/marsMediaSite/en/instance/ko/Joint-press-release-of-Nokia-and-Daimler-AG-Daimler-and-Nokia-sign-patent-licensing-agreement.xhtml?oid=50101910>>.
 - ⁵ Haarmann, Pirkko-Liisa, 2014. *Immateriaalioikeus. 5., uudistettu painos*. Talentum, Helsinki; p. 168.
 - ⁶ Globočnik, Jure, 2017. "Smartphone wars und Missbrauch marktbeherrschender Stellung durch Inhaber standardessentieller Patente". *Podjetje in delo*, 43 (3/4), p. 566–597; p. 586; Körber, Torsten, 2016. "Abuse of a dominant position by legal actions of owners of standard-essential patents: Huawei Technologies Co. Ltd v. ZTE Corp." *Common Market Law Review*, 53 (4), p. 1107–1120; p. 1108.
 - ⁷ Summary of Commission decision of 29 April 2014 relating to a proceeding under Article 102 of the Treaty on the Functioning of the European Union and Article 54 of the EEA Agreement (Case AT.39985 – Motorola – Enforcement of GPRS standard essential patents) (notified under document number C(2014) 2892 final), OJ C 344/2014, 2 October 2014, p. 6–8; paragraph 7.

the top priorities of the EU.⁸ On the other hand, the ECJ has long since confirmed that the specific subject matter of a patent includes the right to oppose infringements,⁹ also supported by the Charter of Fundamental Rights (hereinafter "CFR").

In this paper I address the question of whether and in which circumstances an SEP holder is allowed to enforce its SEP without breaching Article 102 of the Treaty of the Functioning of the European Union (hereinafter "TFEU") on abuse of dominant position, a major European competition law provision. I approach the question from the standpoint of how these rules have been and should be interpreted in the light of the more extensive principles and objectives of EU law. I focus on the legal developments with relevance to the whole EU and therefore I disregard national case law in favour of that of EU institutions as national approaches vary to some extent between the member states.¹⁰

To begin with, I review the practices which the standard-setting organisations (hereinafter "SSOs") follow to ensure the availability of SEPs as well as their weaknesses which enable abuse of dominant position in certain circumstances. After that I discuss the legal framework which on the one hand provides for exclusionary patent rights and on the other hand restricts the freedom of action of the SEP holder to ensure proper functioning of the market. Finally, I study the preconditions which the EU institutions have set for the SEP holder to seek legal remedies in court without breaching Article 102 TFEU.

2. OVERVIEW OF STANDARDISATION PROCEDURES AND SEP LICENSING SCHEMES IN THE TELECOMMUNICATIONS INDUSTRY

2.1 Background

In its communication of 2011, the European Commission (hereinafter "the Commission") has expressed its concern about the anti-competitive effects of SEPs.¹¹ Accordingly, the EU institutions have addressed these effects in their case law. Two Commission decisions and one ECJ preliminary ruling addressing the relationship of SEPs and Article 102 TFEU have been given

to date, in cases *Motorola*¹², *Samsung*¹³ and *Huawei v ZTE*¹⁴ respectively. Albeit some scholars have identified certain similarities between the approaches of the Commission and the ECJ,¹⁵ it is widely recognised that the approach evolved into a more SEP-holder-friendly policy following the *Huawei v ZTE* ruling.¹⁶ In this paper, I take the *Motorola* and *Samsung* decisions into account to the extent they do not conflict with the *Huawei v ZTE* ruling.

Standardisation is widely used in the telecommunications industry because of its undisputed benefits. From an industry perspective, standardisation allows full benefits of economies of scale, specialisation of the industry actors in the production of certain components, integration of international markets and particularly the internal market in the EU context, as well as interoperability between the devices manufactured by different industry actors.¹⁷ For consumers, standardisation allows the choice between products of various manufacturers, increased technical development, decreased prices and increased consumer confidence which in turn speeds up adoption of new technologies.¹⁸

As noted by the Commission, the essential difference between SEPs and non-SEP patents is the inability of the SEP implementer to design its product by using alternative technical solutions without sacrificing key functionalities.¹⁹ This is because anyone using standard-compliant technology inevitably uses the teachings of the SEPs included in the standard.²⁰ Standardisation and incorporation of an SEP in a standard may thus bind telecommunications industry actors to this SEP for a long time, increasing the market power of the SEP holder.²¹ In *Samsung*, the Commission further noted that consequently an SEP may be particularly valuable to its holder

8 Raitio, Juha – Tuominen, Toni, 2020. Euroopan unionin oikeus. 2., uudistettu painos. Alma Talent, Helsinki; p. 719.

9 Case 15/74, *Centrafarm BV and Adriaan De Peijper v Sterling Drug Inc.*, ECLI:EU:C:1974:114, judgment of 31 October 1974; paragraph 9.

10 Geradin, Damien – Katsifis, Dimitrios, 2021. End-product- vs Component-level Licensing of Standard Essential Patents in the Internet of Things Context. Available at <<https://ssrn.com/abstract=3848532>>; p. 3; Maume, Philipp, 2016. "Huawei v. ZTE, or, how the CJEU closed the Orange Book". *Queen Mary Journal of Intellectual Property*, 6 (2), p. 207–226; p. 217. See also Bonadio, Enrico – McDonagh, Luke, 2020. "Sisvel v Xiaomi: an SEP dispute in the Netherlands highlights the global challenge of FRAND licensing". *European Intellectual Property Review*, 42 (9), p. 618–620; p. 620, which comes to the same conclusion but cites mainly case law of pre-Brexit relevance.

11 Communication from the Commission – Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements. OJ C 11/2011, 14 January 2011, p. 1–72; paragraph 268.

12 Case AT.39985, *Motorola*.

13 Case AT.39939, *Samsung*.

14 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*.

15 Henningsson, Kristian, 2016. "Injunctions for standard-essential patents under FRAND commitment: a balanced, royalty-oriented approach". *International Review of Intellectual Property and Competition Law*, 47 (4), p. 438–469; p. 449; Körber 2016, p. 1116; Maume 2016, p. 223.

16 Batista, Pedro Henrique D. – Mazutti, Gustavo Cesar, 2016. "Comment on Huawei Technologies (C170/13): standard-essential patents and competition law – how far does the CJEU decision go?" *International Review of Intellectual Property and Competition Law*, 47 (2), p. 244–253; p. 248; Galli, Niccolò, 2016. *The FRAND Defense Up To Huawei/ZTE*. Bocconi Legal Papers no. 7. Available at <<https://ssrn.com/abstract=3516154>>; p. 30; Henningsson 2016, p. 448.

17 Tsilikas, Haris, 2017. "Huawei v. ZTE in context – EU competition policy and collaborative standardization in wireless telecommunications". *International Review of Intellectual Property and Competition Law*, 48 (2), p. 151–178; p. 158.

18 Ibid.

19 Summary of Commission decision in case AT.39985, *Motorola*, paragraph 6; summary of Commission decision of 29 April 2014 relating to a proceeding under Article 102 of the Treaty on the functioning of the European Union and Article 54 of the EEA Agreement (Case AT.39939 – *Samsung* – Enforcement of UMTS standard essential patents) (notified under document number C(2014) 2891 final), OJ C 350/2014, 4 October 2014, p. 8–10; paragraph 8.

20 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, ECLI:EU:C:2014:2391, Advocate General Melchior Wathelet's opinion of 20 November 2014; paragraph 4.

21 Chappatte, Philippe, 2009. "FRAND Commitments – The Case for Antitrust Intervention". *European Competition Journal*, 5 (2), p. 319–346; p. 319; Tsilikas 2017, p. 163.

as alternative technologies falling out of standards may eventually disappear from the market in favour of the SEP-protected technology.²²

Below I review the preconditions for a technically suitable patent to become an SEP in a standardisation procedure. I concentrate on the procedure of the European Telecommunications Standards Institute (hereinafter "ETSI") as it is the principal SSO in the telecommunications industry in Europe. After that I examine the drawbacks of the procedure which ultimately give rise to the competition law problems discussed in this paper.

2.2 The ETSI Standardisation Procedure

The telecommunications industry strives to ensure interoperability through technology-specific standards such as UMTS, a 3G network technology, or LTE, a 4G network technology. The technical standards are created in industry-wide cooperation projects facilitated by ETSI or another SSO. In practice, the standards always have implications on intellectual property (hereinafter "IP") as it is considered impossible to create a telecommunications standard which does not include protected IP.²³

For the standards to be truly effective, standardised telecommunications technology must be available to as wide a range of industry actors as possible because otherwise interoperability is negatively affected. To prevent patent exclusivities from restricting the use of standards, ETSI follows its bespoke Intellectual Property Rights Policy (hereinafter "ETSI Policy") to ensure that telecommunications companies can utilise the standardised technology without being prevented by SEP holders. During the development of a new standard, the Policy obliges the members of ETSI to disclose any patents for inventions that are essential on technical grounds for the to-be-standardised technology to function properly.²⁴

These patents are SEPs by definition. After the disclosure of relevant SEPs, ETSI requests the holders of the discovered SEPs to give a written and irrevocable pledge, by which the SEP holder commits to license its relevant inventions to be manufactured, used or offered in the market by SEP implementers on fair, reasonable and non-discriminatory (hereinafter "FRAND") terms.²⁵ Eventually, if a licence on FRAND terms is deemed not available, ETSI either incorporates an alternative solution in the upcoming standard, ceases development of an upcoming standard or, if the objection is uncovered after the standard has already been published, considers non-recognition of the standard.²⁶

22 Summary of Commission decision in case AT.39939, Samsung, paragraph 8.

23 Haarmann, Pirkko-Liisa – Mansala, Marja-Leena, 2012. *Immateriaalioikeuden perusteet*. Toinen, uudistettu painos. Talentum, Helsinki; p. 148.

24 ETSI Intellectual Property Rights Policy, Annex 6 of ETSI Rules of Procedure, 3 September 2020, p. 39–49; sections 4.1 and 15.6.

25 *Ibid.*, section 6.1.

26 *Ibid.*, sections 8.1–8.2.

Consequently, in principle all ETSI-sanctioned SEPs should be available on FRAND terms.²⁷ Yet, in practice, the FRAND system does not work flawlessly. The FRAND commitments are not always a sufficient means to eliminate so-called patent hold-ups, that is situations in which the SEP holder refuses to license its SEPs to SEP implementers or demands excessive, non-FRAND licence fees. The reasons for the problem are discussed below.

2.3 The Drawbacks of the FRAND System

A fundamental drawback of the FRAND policies of ETSI and other SSOs is the obscurity of the terms "fair", "reasonable" and "non-discriminatory".²⁸ Neither the ETSI Intellectual Property Rights Policy nor the official FRAND pledge declaration form of ETSI contains any definition, description or delimitation of these terms. Instead, ETSI leaves the FRAND terms to be determined contractually between the SEP holder and the SEP implementer in each individual case.

This kind of approach is apt to entail unclarities and, indeed, there has already been a need to elaborate on the meaning of FRAND terms in case law. The Commission associated the terms "fair", "reasonable" and "non-discriminatory" primarily with the level of remuneration in *Motorola* and also the ECJ has arguably implied this view in *Huawei v ZTE*.²⁹ Yet, the SEP licence agreements may include, for example, non-disclosure requirements, conditions on securities and obligations to pay for unnecessarily extensive licences, such as a worldwide licence instead of a Europe-wide licence or a licence to an SEP as a part of a larger patent portfolio instead of a licence to an SEP as such. These kinds of licence terms have been all but disregarded in the case law and thus it appears that the amount of requested remuneration determines whether a licence offer is on FRAND terms or not.³⁰

In the European case law, the response for a comprehensive definition of FRAND terms from above has been unwelcoming. In *Huawei v ZTE*, the Advocate General noted that a FRAND commitment differs from a licence on FRAND terms, the latter of which is to be agreed separately between the SEP holder and the SEP implementer.³¹ The ECJ further stated that either the FRAND terms should be agreed contractually between the SEP holder and the SEP implementer or determining the amount of remuneration should be addressed to an independent third party

27 Körber 2016, p. 1108. See also summary of Commission decision in case AT.39985, Motorola, paragraph 9.

28 See also Geradin 2020, p. 8–11 and Tsilikas 2017, p. 164.

29 Summary of Commission decision in case AT.39985, Motorola, paragraph 18; case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, ECLI:EU:C:2015:477, judgment of 16 July 2015; paragraph 68.

30 Galli 2016, p. 38; Picht, Peter, 2016. "The ECJ rules on standard-essential patents: thoughts and issues post-Huawei". *European Competition Law Review*, 37 (9), p. 365–375; p. 373–374.

31 Advocate General Wathelet's opinion in case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, paragraph 10.

in each individual case, instead of determining the FRAND terms from above.³² This approach makes sense given that in the case law given to date, the FRAND terms have largely been equated to fair, reasonable and non-discriminatory royalty rates which are appropriate to be calculated flexibly on a case-by-case basis.³³ It has also been noted that ETSI-defined royalty rates could fall under the scope of Article 101 TFEU as prohibited price fixing.³⁴

Furthermore, the ETSI Policy is unclear on the question of the parties entitled to a licence on FRAND terms. Perhaps a more prominent problem in the context of the internet of things, also telecommunications companies are known to outsource the production of signal transmitting technology,³⁵ which raises the question of whether an SEP holder is obliged to license its SEPs on FRAND terms to anyone regardless of their position in the supply chain.³⁶ The question has lately been subject to a fierce debate also because in essence, *Nokia v Daimler* would have been about licensing obligations in a supply chain as the so-called telematics control units in Daimler's automobiles, in which Nokia's SEPs were implemented, were manufactured by Daimler's suppliers.³⁷

The controversy stems from the doctrine of exhaustion.³⁸ Closely tied to the single market objectives of the EU, the doctrine implies that a patent does not confer its holder the right to control the movement of patent-protected goods after the patent holder or someone authorised by it has set the goods into circulation in the European Economic Area.³⁹ Therefore the SEP holder may obtain licence revenues only once per each product and depending on the party obtaining a licence it has been argued that the SEP holder may be either undercompensated or overcompensated.⁴⁰ The question is legally uncertain after the settlement in *Nokia v Daimler* and a ruling from a European authority would be very welcome.

Considering the obscurity of the meaning of FRAND, it is understandable that SEPs have repeatedly been litigated on various national courts. The proceedings have concerned not only

competition law but also civil law and the resulting legal approaches have been correspondingly inconsistent, compromising legal certainty.⁴¹ Advocate General Wathelet has expressed his doubts on the suitability of competition law to clarify the uncertainties concerning SEP licensing, which he suggests to stem from the ambiguity of the meaning of the terms "fair", "reasonable" and "non-discriminatory".⁴² He is not alone with his opinion;⁴³ in fact, the courts in the United Kingdom and the United States rather tend to solve SEP disputes as contractual disputes rather than competition law matters.⁴⁴

On the other hand, it has been argued that even though competition law is not the only way of fighting breaches of FRAND commitments, it has provided for a sufficient balance of interests in the European context.⁴⁵ Regardless of whether the contractual approach could satisfy the needs of the telecommunications industry better than the competition law approach, the civil laws and particularly contract laws of European countries remain little harmonised through the EU legislation.⁴⁶ Thus competition law and Article 102 TFEU eventually offer the most extensive Europe-wide solutions to tackle the issues of illegal use of SEPs.⁴⁷

3. OVERVIEW OF THE PATENT AND COMPETITION LAW OBJECTIVES

3.1 Introduction

The distinction between abuse of dominant position and acceptable commercial behaviour is the result of balancing the competing interests of the SEP holder, the SEP implementer and the general public. An SEP is property of its holder or at least confers its holder rights comparable to those conferred by a property right. Thus the fundamental rights of the SEP holder necessitate that it is entitled to exercise its patent rights, including the right to enforce its exclusive rights in court.

32 Case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, paragraph 68.

33 Tsilikas 2017, p. 164.

34 Ibid.; Körber 2016, p. 1119.

35 See, for example, Investopedia article "9 Major Companies Tied to the Apple Supply Chain". Available at <<https://www.investopedia.com/articles/investing/090315/10-major-companies-tied-apple-supply-chain.asp>>. Updated 17 May 2021, accessed 27 June 2021.

36 Geradin – Katsifis 2021, p. 3.

37 Case 4c O 17/19, Nokia-SEP, Tenor and paragraphs 4–5.

38 Borgogno, Oscar – Colangelo, Giuseppe, 2021. SEPs licensing across the supply chain: an antitrust perspective. TOELI Research Papers No. 1/2021. Available at <<https://ssrn.com/abstract=3766118>>; p. 6; Geradin – Katsifis 2021, p. 5.

39 Pila, Justine – Torremans, Paul, 2019. European Intellectual Property Law. Second Edition. Oxford University Press, Oxford; p. 48.

40 Borgogno – Colangelo 2021, p. 5–6; see also Geradin – Katsifis 2021, p. 8.

41 Advocate General Wathelet's opinion in case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, paragraph 7; Geradin – Katsifis 2021, p. 22.

42 Advocate General Wathelet's opinion in case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, paragraph 9.

43 See also Geradin, Damien, 2020. SEP Licensing After two Decades of Legal Wrangling: Some Issues Solved, Many Still to Address. Available at <<https://ssrn.com/abstract=3547891>>; p. 6–8.

44 Geradin – Katsifis 2021, p. 22; Henningsson 2016, p. 466; Tsilikas 2017, p. 164.

45 Henningsson 2016, p. 465–466.

46 Saarnilehto, Ari – Annola, Vesa – Hemmo, Mika – Karhu, Juha – Kartio, Leena – Tammi-Salminen, Eva – Tolonen, Juha – Tuomisto, Jarmo – Viljanen, Mika, 2012. Varallisuus oikeus. Toimen, uudistettu painos. Sanoma Pro, Helsinki; p. 327.

47 See also Batista – Mazutti 2016, p. 249.

On the other hand, the exclusive patent rights may be used to the detriment of the SEP implementer because preventing the SEP implementer from using SEP-protected technology in its products effectively excludes it from the market of certain products. This also negatively affects the general public in the form of a decline in competition which in turn may result in decreasing technical progress, soaring prices and lessening freedom of choice between different products in the market.⁴⁸ Below I review the legal grounds supporting the interests of both the SEP holder – the interests protected in patent law – and the SEP implementer as well as the general public – the interests protected in competition law.

3.2 SEP Ownership and the Right to Property

Legal scholars are not unanimous on whether a patent should be considered a property right or not.⁴⁹ Regardless of the viewpoint, it is clear that legislators all over Europe have intended to grant patent holders some rights which are similar to those conferred by a property right to a tangible object. The essential similarity between traditional property rights and patent rights is the legal power to prevent others from using the protected object.⁵⁰ Another important similarity is the possibility to enforce these rights in court and to seek a damage award or other legal remedy.⁵¹ Indeed, the similarity of property rights and patent rights from the legal standpoint can also be found in the systematisation of legal provisions. In the CFR, the provision on the protection of IP has been classified under Article 17, titled "Right to property". Article 17 (2) CFR states that "[intellectual] property shall be protected". Hence a patent, as well as an SEP, is encompassed by the right to property and the patent rights of the SEP holder are supported by this fundamental right.

In essence, a patent is an exclusionary, negative right. A valid patent does not provide a permission to use an invention as the use may be prohibited by legislation that is outside the scope of patent law. Instead, a patent essentially confers a right to exclude others from using its teaching.⁵² To emphasise the nature of patent rights as negative rights, in *Centrafarm v Sterling Drug* the ECJ confirmed that the specific subject matter of a patent includes the right to oppose infringements.⁵³ Whereas *Centrafarm v Sterling Drug* was not about competition law but internal market law, the judgment notwithstanding explicitly recognises the importance of the right to oppose infringements as an essential part of patent rights.

Moreover, the right to prohibit others from using the patented invention must not remain *lex imperfecta* in the member states of the EU. As for the fundamental rights of the patent holder, Article 47 (1) CFR guarantees everyone effective remedies in a court procedure as a response to any violation of their rights and freedoms. The CFR provision is concretised by the availability of judicial enforcement of patent rights which indeed approximates patent law to property law. The EU legislation in patent law is relatively scarce but notably, the EU legislator has included patents in the scope of the Enforcement Directive⁵⁴. Article 3 (1) of the Directive obliges member states to "provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by [the] Directive". The needs of patent holders for enforcement of their rights are explicitly addressed in the preamble of the Directive.⁵⁵ In addition, Article 41 (1) TRIPS⁵⁶ is binding to every member state of the EU and obliges them to ensure possibilities to effective enforcement of patent rights.

Access to effective remedies being a fundamental right in the EU, the fact that the patent holder has a dominant market position does not provide for a dissimilar conclusion. Quite the contrary, the wording in Article 47 (1) CFR explicitly refers to "everyone" as the subject of the right to an effective remedy. Accordingly, in *ITT Promedia*, the General Court stated that bringing a lawsuit against competitors does not, as such, amount to an abuse of dominant position.⁵⁷ Furthermore, in *Huawei v ZTE*, the ECJ confirmed that because the right to enforce the exclusive right was an integral part of an IP right, filing an infringement suit did not constitute an abuse of dominant position in itself even though the IP right holder had a dominant position.⁵⁸ Yet the protection of patent rights under the right to property or their enforcement under the right to an effective remedy are not absolute but, pursuant to Article 52 (1) CFR, may be limited if the limitation is necessary and genuinely meets the objectives of a general interest. Therefore the access to effective remedies can be restricted if there is a justification based on competition law.

3.3 Competition Law as a Means to Balance the Interests of the SEP Holder and Others

In the context of SEP litigation, the right to property and the right to an effective remedy primarily serve the interests of the SEP holder. Yet because SEPs are irreparable to enable key functionalities in telecommunication devices – for example, 4G network compatibility of a smartphone – the general interest of the public requires that SEPs must be available to be

48 Tsilikas 2017, p. 158.

49 Haarmann 2014, p. 2; Kur, Annette – Dreier, Thomas – Luginbuehl, Stefan, 2019. *European Intellectual Property Law. Text, Cases and Materials, Second Edition*. Edward Elgar Publishing, Cheltenham; p. 2–3; Pila – Torremans 2019, p. 4. See also Pila – Torremans 2019, p. 73–77.

50 Kur – Dreier – Luginbuehl 2019, p. 2; Pila – Torremans 2019, p. 4–5.

51 Haarmann 2014, p. 2; Pila – Torremans 2019, p. 4.

52 Pila – Torremans 2019, p. 4–5.

53 Case 15/74, *Centrafarm BV and Adriaan De Peijper v Sterling Drug Inc.*, paragraph 9.

54 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

55 Directive 2004/48/EC, preamble, paragraphs 2–3.

56 Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C to Agreement Establishing the World Trade Organization.

57 Case T-111/96, *ITT Promedia NV v Commission of the European Communities*, ECLI:EU:T:1998:183, judgment of 17 July 1998; paragraph 60.

58 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 46.

implemented by industry actors other than the SEP holder, as well. The wide use of the SEP-protected technology ensures larger freedom of choice between different products, competitive pricing in the market and technical progress to benefit the end-users.⁵⁹

On the contrary, an SEP holder vigorously seeking court injunctions against SEP implementers could easily reach a monopoly in the market of certain telecommunication devices if it was not for competition rules restricting abusive litigation. In addition to the interests of the general public, SEP implementers need to access the standardised key technologies in order not to be factually excluded from the market of affected telecommunication devices. In the absence of legislation explicitly limiting the rights of SEP holders to exercise their exclusionary patent rights, the interests of the SEP implementer and the general public have to be balanced against the interests of the SEP holder by means of competition law.

Article 102 TFEU prohibits any abuse of dominant position by one or more undertakings in a substantial part of the internal market if the abuse affects trade between EU member states. The primary objective of the article is to promote the functioning of the internal market by preventing any distortions of competition.⁶⁰ Thus, the internal market objective of maximum long-term social welfare through productivity growth has been considered a paramountly important objective of EU competition law provisions, as well.⁶¹ In addition to such efficiency, the Commission has, albeit controversially, underlined consumer welfare as one of the core objectives of Article 102 TFEU.⁶²

The terms "dominant position" and "abuse" are to be interpreted in the light of these objectives. According to the ECJ in *Hoffmann-La Roche*, a dominant position referred in the Article is related to "a position of economic strength" that allows its holder to restrict effective competition and to act independently in relation to its competitors, its customers and consumers.⁶³ The ECJ went on to describe abuse as behaviour which effectively prevents maintenance of the existing degree of competition or growth in competition in the relevant market through measures not generally used in competition by the actors in that market.⁶⁴

Pursuant to the preamble of the Enforcement Directive, the Directive does not prevent the application of Article 102 TFEU.⁶⁵ Hence it is expressly forbidden to use the legal remedies guaranteed by the Directive if the use will amount to abuse of dominant position. As for SEPs in particular, the ECJ noted in *Huawei v ZTE* that a FRAND pledge could not negate the whole substance of Articles 17 (2) and 47 (1) CFR.⁶⁶ Yet the ECJ noted that it was justified to restrict the possibilities of an SEP holder to seek legal remedies against an SEP implementer which had failed to acquire a licence for the disputed SEP.⁶⁷ Therefore, a dominant SEP holder may in certain circumstances abuse its dominant position by initiating court proceedings.

For Article 102 TFEU to become applicable, five criteria need to be satisfied. The abuse must be conducted by one or more undertakings, the undertaking(s) must have a dominant position, the dominant position must prevail on a significant part of the internal market, there must be abuse and the abuse must affect the trade between member states.⁶⁸ As for SEPs, two criteria are of particular interest: what is the influence of SEP ownership on the emergence of dominant position, and in which circumstances there is abuse of dominant position instead of legitimate use of patent rights. These two criteria are discussed in more detail below.

3.4 SEP Ownership as a Source of Market Dominance

To begin with, I address the question of whether the ownership of an SEP in itself establishes a dominant position on the SEP holder. This is a relevant question because market dominance cannot be estimated solely on the basis of market shares.⁶⁹ Whether a market position is dominant is determined on a case-by-case basis with for example the market positions of industry companies, countervailing buyer power, market entry or expansion barriers, level of pricing and, in the SEP context, the additional value brought by the related technology standard being taken into account.⁷⁰ An SEP being an exclusive right to a key technology, ownership of such certainly strengthens the market position of the SEP holder and the lack of alternatives both derogates the negotiating power of the SEP implementer and raises market barriers. The SEP holder thereby gains a strong market position due to SEP ownership, but this does not necessarily mean that the market position becomes dominant in the meaning of Article 102 TFEU.

59 Tsilikas 2017, p. 158.

60 Nazzini, Renato, 2011. *The Foundations of European Union Competition Law. The Objective and Principles of Article 102*. Oxford University Press, Oxford; p. 152-153; Raitio – Tuominen 2020, p. 748.

61 Nazzini 2011, p. 153. See also O'Donoghue, Robert – Padilla, Jorge, 2020. *The Law and Economics of Article 102 TFEU*. Third edition. Hart Publishing, Oxford; chapter 1.2.

62 Communication from the Commission – Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings. OJ C 45/2009, 24 February 2009, p. 7-20; paragraph 140 and Nazzini 2011, p. 153.

63 Case 85/76, *Hoffmann-La Roche & Co. AG v Commission of the European Communities*, ECLI:EU:C:1979:36, 13 February 1979; paragraph 38.

64 *Ibid.*, paragraph 91.

65 Directive 2004/48/EC, preamble, paragraph 12.

66 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 59.

67 *Ibid.*, paragraphs 59-60.

68 O'Donoghue – Padilla 2020, chapter 1.1; Raitio – Tuominen 2020, p. 748. See also Nazzini 2011, p. 109.

69 Globočnik 2017, p. 575-576; Raitio – Tuominen 2020, p. 756.

70 Communication from the Commission in OJ C 45/2009, paragraphs 12-18; Globočnik 2017, p. 575; Raitio – Tuominen 2020, p. 756.

Although not covered by the preliminary questions in *Huawei v ZTE*, the Advocate General suggested in his opinion that although ownership of an SEP may constitute an assumption of dominant position, mere ownership of an SEP does not inevitably establish a dominant position on the SEP holder.⁷¹ This can be said to converge on the stand of the European Commission, in accordance with which ownership of an SEP does not equate to possession of market power.⁷² However, no definitive conclusion has been given by the ECJ hitherto, and the views of legal scholars are divergent.

There are several arguments which imply that a dominant position emerges to the SEP holder solely due to its patent being an SEP because each SEP, in competition law terms, forms its own relevant market.⁷³ This is because the costs for switching from one standardised technology to another could be considered unbearably large for telecommunications industry actors after they have adapted their production or infrastructure to a particular standardised technology.⁷⁴ Therefore, they would become factually locked in a certain technology and a dominant position would be established.

Another line of arguments refers to the ECJ ruling in *Magill*, suggesting that a dominant position is established because ownership of an SEP allows the SEP holder to exclude competitors from a specific product market, without prejudice to the rare cases in which competing technology standards exist.⁷⁵ This would be because both the use of the SEP is indispensable to apply the relevant technology standard and the use of the standard is indispensable due to interoperability reasons.⁷⁶ Accordingly, even though SEP ownership would not in itself establish a dominant market position, in practice a dominant position would always emerge on the SEP holder. This would be because there are no competing standards to the major ETSI standards, including the UMTS and LTE standards enabling compatibility with the core telecommunication device technologies 3G and 4G, respectively.⁷⁷

The arguments to support the opposite outcome are equally plentiful. It has been argued that the question of dominance ought to be concluded on a case-by-case basis as the ECJ has not ruled otherwise.⁷⁸ It has also been argued that because the essentiality of SEP is based only on an unilateral declaration, the essentiality is a non-irrevocable presumption. Hence, the SEP holder

would not retain its SEP-derived market power if the SEP would be declared non-essential or invalidated.⁷⁹ It has also been argued that diverse SSOs set standards in the telecommunications industry, and therefore there is often an alternative to the standard sanctioned by ETSI.⁸⁰ This is said to be particularly true as the telecommunications market is considered a dynamic and innovative one in which alternative technical solutions are developed constantly.⁸¹ Perhaps a more convincing line of arguments states that the purpose of Article 102 TFEU is to address market actors with extraordinary economic strength. Accordingly, it has been argued that the article addresses companies with little competitive pressure and consequent freedom of action regardless of competitors and customers.⁸² Since some SEP holders definitely suffer from significant competitive pressure, Article 102 TFEU would not apply.

Even though the latter view is supported by formal actors of the EU, the view of a dominant position emerging merely through ownership of an SEP is in line with the reasoning in *Magill* and is also based on otherwise stronger arguments. Whereas the higher yet economically viable costs of using alternative technology are irrelevant when assessing dominant position,⁸³ the major ETSI standards have no widespread alternatives. Hence, a failure to obtain a licence for an SEP incorporated in such a standard would effectively prevent the SEP implementer from legally accessing the market of telecommunication devices. Moreover, the Commission has even stated in its *Google / Motorola Mobility* merger control decision that each SEP constitutes a separate relevant market on its own as the SEP implementer cannot design its product around it.⁸⁴

On the contrary, the opposing argument of the applicability of Article 102 TFEU on merely the market actors with extraordinary economic strength is somewhat dubious in the light of *Magill*. The argument of an SEP being essential only until declared otherwise is undermined by the fact that if a patent considered an SEP is invalidated or declared non-essential, it ceases being an SEP altogether. In addition, one should not have a presumption of the invalidity of the SEP because registration of an IP right generally creates a strong presumption of the validity of that IP right in IP law. To summarise, it appears that in principle SEP ownership does not establish a dominant position in itself, but in reality a dominant position is always established through SEP ownership at least concerning the most widespread technical standards.

71 Advocate General Wathelet's opinion in case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraphs 57–58.

72 Communication from the Commission in OJ C 11/2011, paragraph 269.

73 *Globočnik* 2017, p. 575.

74 Chappatte 2009, p. 333. See also *Ibid.*, p. 576.

75 Cf. joined cases C-241/91 P and C-242/91 P, *Radio Telefis Eireann and Independent Television Publications Ltd v Commission of the European Communities*, ECLI:EU:C:1995:98, judgment of 6 April 1995; paragraph 47.

76 *Körber* 2016, p. 1118.

77 *Ibid.*

78 Romby, Federich, 2016. "The ECJ's Huawei judgment on standard essential patents: a step forward in the ongoing antitrust debate". *International Trade Law & Regulation*, 22 (2), p. 42–46; p. 45–46.

79 Batista – Mazutti 2016, p. 250.

80 *Ibid.*; Geradin – Katsifis 2021, p. 29; Temple Lang, John, 2015. "Standard essential patents and court injunctions in the high tech sector under EU law after Huawei". *ERA Forum*, 16 (4), p. 585–608; p. 595–596.

81 *Globočnik* 2017, p. 576.

82 Geradin, Damien – Rato, Miguel, 2010. "FRAND Commitments and EC Competition Law: A Reply to Philippe Chappatte". *European Competition Journal*, 6 (1), p. 129–174; p. 167.

83 Case C-418/01, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, ECLI:EU:C:2004:257, judgment of 29 April 2004; paragraph 28.

84 Commission decision of 13 February 2012 declaring a concentration to be compatible with the common market (Case No COMP/M.6381 - GOOGLE / MOTOROLA MOBILITY) according to Council Regulation (EC) No 139/2004, CELEX 32012M6381; paragraph 54.

4. DISTINCTION BETWEEN ABUSE OF DOMINANT POSITION AND LEGITIMATE ENFORCEMENT OF PATENT RIGHTS

4.1 Introduction

It follows from the aforementioned that depending on the circumstances, seeking legal remedies for an SEP infringement may breach the EU competition law provisions. Above I discussed the criteria for Article 102 TFEU to become applicable and highlighted the two criteria of particular importance in SEP matters. One of these criteria has been discussed above and the other is addressed in this chapter. Below I examine in which circumstances the SEP holder abuses its dominant position by bringing legal action against the SEP implementer.

The ECJ appears to consider SEP litigation as an individual ground for abuse of dominant position.⁸⁵ In other words, examination of whether SEP litigation amounts to an abuse of dominant position differs from that applied to the more commonplace cases of refusal to license specific IP rights as present in *Magill* and *IMS Health*, as well as that applied to abusive litigation as present in *ITT Promedia* and *Protégé International*.⁸⁶ Although the abusive litigation approach and, to a lesser extent, the refusal to license approach are advocated by some scholars,⁸⁷ related case law has generally not been directly used in SEP cases to determine whether the SEP holder abuses its dominant position by bringing a lawsuit against the SEP implementer.⁸⁸

Instead, it has been argued that the reasoning in *Huawei v ZTE* partially dismisses the traditional argumentation on abuse of dominant position on behalf of a more general civil law approach based on fairness aspects.⁸⁹ Yet this does not mean that case law on refusal to license or abusive litigation ought to be dismissed altogether. Instead, it should be treated as supplementary rather than as inapplicable in SEP litigation cases because factors of both forms of abusive behaviour may be present in SEP disputes depending on the circumstances.⁹⁰

85 Marko Goikoetxea, Izarne, 2019. "Huawei v ZTE should have been treated as a refusal to contract – to grant SEP licences – and not as a new category of abuse". *European Competition Law Review*, 40 (2), p. 67–75; p. 67.

86 *Ibid.*; Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraphs 48–52; Henningsson 2016, p. 449.

87 Henningsson 2016, p. 441; Marko Goikoetxea 2019, p. 67; Petit, Nicolas, 2013. "Injunctions for FRAND-Pledged SEPs: The Quest for an Appropriate Test of Abuse Under Article 102 TFEU". *European Competition Journal*, 9 (3), p. 677–719; p. 719.

88 See also Petit 2013, p. 684. On the contrary, it could be argued that in particular the case law on refusal to license would be inapplicable because the SEP holders do generally not aim at excluding a competitor from the market as required in *IMS Health* but at obtaining higher licence fees (see Tsilikas 2017, p. 167).

89 Picht 2016, p. 370.

90 E.g. Körber (Körber 2016, p. 1119), Marko Goikoetxea (Marko Goikoetxea 2019, p. 74) and Temple Lang (Temple Lang 2015, p. 604) have considered this case law in their publications.

Below, I will discuss the distinction between abuse of dominant position and legitimate use of legal remedies. I discuss the topic by addressing each of the legal doctrines developed in the case law separately and in the light of the objectives and principles of EU law to propose a test to resolve whether bringing a lawsuit for an SEP infringement conflicts with Article 102 TFEU or not.

4.2 Disputes Concerning the Content of FRAND Terms

The source of many SEP disputes has been a disagreement between the SEP holder and the SEP implementer on whether a proposed licence agreement is on FRAND terms or not.⁹¹ As stated above, ETSI merely requires SEP holders to license their SEPs on terms that are "fair", "reasonable" and "non-discriminatory" without elaborating on the amount of permitted royalty fees. Therefore, a question emerges: is the SEP holder entitled to take legal action which would otherwise be deemed abusive if the licensing negotiations with the SEP implementer stall due to divergent views on the appropriate licence fee, that is the content of FRAND terms in the present circumstances?

There is no clear answer to the question. In *Samsung*, the Commission dropped its claims against the SEP holder as the SEP holder committed to mandate an independent third party to determine the FRAND terms if any dispute would arise concerning them. This would advocate the obligation of the parties to let a third party determine the royalty amount if necessary.⁹² In fact, it has been argued that in the practice of the Commission the willingness of the SEP implementer to have disputed FRAND terms defined by an independent third party largely determined whether the SEP implementer was willing to enter into a licence agreement or not.⁹³

In *Huawei v ZTE*, the Advocate General also proposed that the SEP implementer should have a right to unilaterally request a third party to determine the content of FRAND terms without being considered to neglect its obligations towards the SEP holder, which has been argued to be a reasonable solution.⁹⁴ However, in *Huawei v ZTE* the ECJ emphasised that the SEP holder and the SEP implementer had a possibility to refer the dispute to be resolved by an independent third party by common agreement.⁹⁵ Some scholars have argued that consequently it is purely voluntary for the parties to let a third party determine the FRAND terms in an individual case and hence an injunction may be granted even if the SEP implementer alone has requested a third party to determine the licence terms.⁹⁶

91 See e.g. case AT.39985, *Motorola*.

92 Summary of Commission decision in case AT.39939, *Samsung*, paragraphs 16 and 21.

93 Marko Goikoetxea 2019, p. 71.

94 Advocate General Wathelet's opinion in case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 93; Körber 2016, p. 1117.

95 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 68.

96 Tsilikas 2017, p. 170–171; see also Galli 2016, p. 39 and Temple Lang 2015, p. 594–595. Temple Lang also noted that it is unlikely that either of the parties would reject the referral of the dispute to a third party.

On the other hand, there are considerations which would suggest the opposite, constituting a more convincing interpretation. It has been proposed that also contract law and patent law alone prohibit the SEP holder from initiating infringement proceedings if the SEP implementer requests a third party to determine FRAND licence terms.⁹⁷ Furthermore, in *Huawei v ZTE*, the context of the notion of the possibility to agree on a third party determining FRAND terms appears such that the ECJ seems to expect the parties to enter into such agreement in case of dispute, regardless of the wording used in the judgment. This view is also more in line with the objectives the ECJ advocated in *Huawei v ZTE* and hence it can be reasoned on teleological grounds.⁹⁸

The view is also in line with the *Protégé International* ruling in which the General Court presented a two-step test to consider litigation abusive. To consider bringing a lawsuit an abuse of dominant position, the lawsuit must both be brought in order to harass the opposing party rather than to genuinely utilise the benefits provided by the rights in question and be part of a more extensive plan of eliminating competition.⁹⁹ If there is a plausible possibility of entering into a licence agreement between the SEP holder and the SEP implementer after the parties have agreed on FRAND terms, seeking an injunction mainly acts to harass the SEP implementer and the first condition of the *Protégé International* test is satisfied. On the contrary, if the SEP implementer is unwilling to agree on a licence to the SEP, the lawsuit serves the purpose of enforcing exclusionary patent right and therefore fails to satisfy the *Protégé International* test.

On the aforementioned grounds the SEP holder does not appear to be entitled to initiate legal proceedings that are otherwise deemed abusive merely because the negotiations on the licence agreement fail between the parties. Instead, dispute on the meaning of "fair", "reasonable" and "non-discriminatory" in some individual circumstances provides the SEP holder with no safe harbour in respect to Article 102 TFEU and this kind of action will meet the criteria for abuse of dominant position. However, as I will discuss in chapter 4.5, this rule is not without exceptions.

4.3 Doctrine of Direct Effect on Market Access

In *Huawei v ZTE*, the ECJ presented what I refer to as the doctrine of direct effect on market access. The doctrine implies that the legal remedies which directly affect the market access of the SEP implementer fall within the scope of Article 102 TFEU whereas those which do not cannot be addressed under the Article, at least on the basis of abusive SEP litigation.¹⁰⁰ Hence it is clear that Article 102 TFEU does not completely prevent the SEP holder from enforcing its SEP-derived patent rights but rather restricts the choice of available remedies in some circumstances. The underlying rationale appears to be that the SEP holder could more easily

use the remedies directly affecting the market access as a leverage to factually determine the licence terms unilaterally.

The ECJ also specified which legal remedies fall into which category. The court stated that bringing an action for patent infringement and thereby seeking a damage award or the rendering of accounts in relation to the past use of the SEP by the SEP implementer does not account for abuse of dominant position as these remedies have no direct effect on the market access of the SEP implementer.¹⁰¹ On the other hand, the ECJ considered it possible that seeking an injunctive relief or a product recall could in itself amount to abuse of dominant position in certain circumstances.¹⁰² The division is sound as the latter-mentioned remedies arguably may exclude the SEP implementer from the market of affected telecommunication devices.

The doctrine follows the objectives of Article 102 TFEU, as stated by the Commission. Excluding the SEP implementer from the market would certainly lead to a decline in competition which would compromise the proper functioning of the internal market and indirectly damage consumers. Instead, seeking a damage award and the rendering of accounts in relation to the past use of the SEP simply aim at setting the SEP holder in the position in which it would be, had the SEP implementer originally obtained a licence for the SEP.¹⁰³ These remedies are also necessary for the SEP holder to be properly remunerated in a situation of an SEP infringement.¹⁰⁴ However, as for the full acceptance of remedies with no direct effect on market access, the view of the ECJ has also been criticised. It has been argued that a high damage reimbursement claim concerning illegitimate use of an SEP often puts significant pressure on the SEP implementer. This, in turn, would allow the SEP holder to force higher licence fees.¹⁰⁵ However, this interpretation is not supported by the case law given to date.

To sum up, Article 102 TFEU does not restrict the SEP holder from resorting to legal remedies which have no effect on the market access of the SEP implementer. The considerations below are therefore limited to the legal remedies directly affecting the market access of the SEP implementer.

4.4 Doctrine of Exceptional Circumstances

In *Magill* and *IMS Health*, the ECJ stated that exercising the exclusive rights conferred by IP rights constitutes an essential part of these rights and consequently it cannot as such establish abuse of dominant position.¹⁰⁶ However, the ECJ noted that enforcing such rights may constitute

97 Temple Lang 2015, p. 592.

98 See chapter 4.5.2 below.

99 Case T-119/09, *Protégé International Ltd v European Commission*, ECLI:EU:T:2012:421, judgment of 13 September 2012; paragraph 49.

100 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraphs 74–75.

101 *Ibid.*, paragraph 76.

102 *Ibid.*, conclusion.

103 As for damage reimbursement, see Hemmo, Mika, 2005. *Vahingonkorvausoikeus*. WSOYpro, Helsinki; p. 144.

104 *Globočnik* 2017, p. 592.

105 *Picht* 2016, p. 374.

106 Joined cases C-241/91 P and C-242/91 P, *Radio Telefís Éireainn and Independent Television Publications Ltd v Commission of the European Communities*, paragraph 49; case C-418/01, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, paragraph 34.

abuse of dominant position in exceptional circumstances.¹⁰⁷ Furthermore, a principle laid down in *ITT Promedia* allows legal proceedings to be considered an abuse of dominant position only if the circumstances are wholly exceptional.¹⁰⁸ This case law confirms that filing a lawsuit may be considered abuse of dominant position at least in exceptional circumstances.

The circumstances in SEP disputes can often be considered exceptional, as referred in *ITT Promedia*. Both in *Motorola* and *Samsung*, the European Commission regarded the circumstances of the case as exceptional. The Commission further elaborated that the exceptional circumstances in these cases were the standard-setting processes and the commitments of the SEP holders to license their SEPs under FRAND terms and conditions.¹⁰⁹ This reasoning has been criticised because the market power of an SEP holder is not as such established by standard-setting processes but the patented technology, and this technology may be factually essential for patent implementers regardless of whether it has been incorporated into an SSO-sanctioned standard or not.¹¹⁰ On the other hand, this criticism can be considered ungrounded because the line of arguments present in SEP litigation cases applies arguably also to cases concerning patents essential to a de facto standard as far as the factual circumstances do not significantly differ from SEP cases.¹¹¹

Regardless of the scholarly criticism concerning the assessment of the exceptionality of the circumstances of *Motorola* and *Samsung*, no obvious legal barriers for regarding an SEP litigation as an abuse of dominant position exist. Quite the contrary, the ECJ considers it the starting point that refusal to grant a licence on FRAND terms after giving a FRAND pledge is to be regarded as an abuse of dominant position, due to the legitimate expectations of the SEP implementer.¹¹² Therefore, after an SEP holder gives a FRAND pledge, the exceptionality presumption becomes inverted: without prejudice to circumstances exceptional in the SEP practice, taking legal action instead of granting a licence on FRAND terms creates such exceptional circumstances to which the *ITT Promedia* test refers. This is because seeking an injunctive relief or a product recall has certain anti-competitive effects: the distribution of the products of the SEP implementer is temporarily prohibited, the SEP implementer must potentially accept disadvantageous licensing terms, and standard-setting is negatively affected.¹¹³

107 Joined cases C-241/91 P and C-242/91 P, *Radio Telefis Eireainn and Independent Television Publications Ltd v Commission of the European Communities*, paragraph 50; case C-418/01, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, paragraph 35.

108 Case T-111/96, *ITT Promedia NV v European Commission*, paragraph 60.

109 Summary of Commission decision in case AT.39985, *Motorola*, paragraphs 20–21; summary of Commission decision in case AT.39939, *Samsung*, paragraph 13.

110 Marko Goikoetxea 2019, p. 74.

111 *Globočnik* 2017, p. 592–593; *Körber* 2016, p. 1119.

112 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraphs 53–54.

113 Cf. summary of Commission decision in case AT.39985, *Motorola*, paragraph 20.

4.5 Doctrine of Objective Justification

4.5.1 Objective Justification as a Precondition for Legal Action

On the aforementioned grounds, seeking legal remedies directly affecting the market access of the SEP implementers in the case of an SEP infringement, that is injunction reliefs and product recalls, establishes such exceptional circumstances that the SEP holder generally abuses its dominant position by its conduct. However, this rule is not without exceptions. Whereas some restrictions apply on seeking injunction reliefs and product recalls, Articles 9 and 10 of the Enforcement Directive explicitly oblige the EU member states to adopt legislation which allows competent authorities to grant these particular legal remedies to IP right holders. Hence a total ban of injunction reliefs and product recalls on SEP disputes is out of the question.¹¹⁴ To balance the competing interests, it is necessary to determine what kind of justification is such that it entitles the SEP holder to resort to these particular remedies as well as other legal remedies which have a direct effect on the market access of the SEP implementer.

The Commission unequivocally found in its decisions in *Motorola* and *Samsung* that the SEP holder may be entitled to enforce its exclusionary patent rights, including seeking an injunction relief or a product recall, if it has an objective justification to do so. However, both in *Motorola* and *Samsung* the Commission emphasised that seeking a court injunction in an SEP dispute is apt to constitute abuse of dominant position particularly if no objective justification for refusal to grant a licence is presented.¹¹⁵ By absence of objective justification, the Commission referred primarily to the SEP implementer's willingness to enter into a licence agreement on FRAND terms.¹¹⁶

Here the concept of the "willing licensee" appears significant; a willing licensee is a licensee that wants to enter into a licence agreement on FRAND terms. However, it has been argued that a willing licensee is not expected to enter into a licence agreement at any cost but rather to agree that an independent third party determines the FRAND terms.¹¹⁷ Yet the ECJ has not confirmed this view and in *Nokia v Daimler* Düsseldorf Regional Court asked the ECJ for such a confirmation.¹¹⁸ The Regional Court itself considered that no formal requirements should be set on the licence offer of the FRAND implementer and that the decisive factor should be the general willingness of the SEP implementer to obtain a licence to the SEP, rather than its willingness

114 See also *Henningsson* 2016, p. 465 and *Picht* 2016, p. 373.

115 Summary of Commission decision in case AT.39985, *Motorola*, paragraph 20; summary of Commission decision in case AT.39939, *Samsung*, paragraph 13.

116 Summary of Commission decision in case AT.39985, *Motorola*, paragraph 22; summary of Commission decision in case AT.39939, *Samsung*, paragraph 13. See also *Henningsson* 2016, p. 445.

117 *Henningsson* 2016, p. 445.

118 Case 4c O 17/19, *Nokia-SEP*, Tenor.

to obtain a licence on FRAND terms regardless of their contents.¹¹⁹ The Regional Court noted that otherwise the SEP holder would be released from its negotiation liabilities which would undermine the balance of the obligations between the SEP holder and the SEP implementer.¹²⁰

On the other hand, an SEP holder may appeal to objective justification to legally refuse to license its SEP even if the SEP implementer is willing to conclude a licence agreement on FRAND terms. In *Motorola*, the Commission provided a short, non-exhaustive list of such objective justifications that allow the SEP holder to refuse to license its SEP regardless of whether the SEP implementer is willing to obtain the licence on FRAND terms. This list consists of the insolvency of the SEP implementer and the assets of the SEP implementer being located in jurisdictions that provide for restricted licence fee enforcement possibilities.¹²¹

Together with the refusal of the SEP implementer to obtain the licence to the SEP on FRAND terms and to set an appropriate deposit while the SEP is used during licence negotiations¹²², the common factor in the objective justifications for initiating legal proceedings is the inability of the SEP holder to obtain reasonable remuneration for the use of the SEP. These considerations in *Motorola* still appear valid as they do not conflict with *Huawei v ZTE*. Moreover, in its landmark ruling the ECJ addressed the question of whether an objective justification is established if the SEP implementer is virtually a willing licensee but its actions suggest otherwise. These considerations are reviewed below.

In practice, the case law of the Commission merely confirms that refusal to license an SEP on FRAND terms upon request by an SEP implementer, and consequently, initiating legal proceedings upholds the presence of abuse of dominant position unless objective justification for this conduct exists. The referred objective justification appears to arise primarily but not exclusively in cases of the SEP implementer using the SEP-protected invention while being unwilling to enter into a licence agreement on FRAND terms.

4.5.2 Inactivity of the SEP Implementer as the Basis of Objective Justification

The abovementioned case law of the Commission emphasised the general rule that an objective justification for the SEP holder to seek a court injunction or a product recall is established if the SEP implementer does not appear to be a willing licensee. However, it is not always clear whether the SEP implementer is a willing licensee or not. The SEP implementer may wish a so-called hold-out situation to be established, in which the SEP holder uses the SEP when paying little or no royalties and relies on potentially high litigation costs and uncertainty of the outcome

119 Ibid., paragraphs 34–35 and 38.

120 Ibid., paragraph 36.

121 Summary of Commission decision in case AT.39985, *Motorola*, paragraph 23.

122 See case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 67.

preventing the SEP holder from filing an infringement claim against it.¹²³ Hence, it may remain inactive during the licence agreement negotiations while pretending to be a willing licensee. For the patent system to work truly effectively, the SEP holder must be able to intervene in this kind of business strategy.¹²⁴ Therefore it is considered that the SEP holder does not breach Article 102 TFEU if it enforces its exclusionary patent rights after the negotiations on the licence agreement have stalled due to inactivity of the SEP implementer. In practice, the question of how extensive negotiations for a licence agreement are required before the SEP holder may seek a court injunction or a product recall has been subject to much debate.

In practice, it may often be necessary to presuppose (un)willingness and the preliminary questions in *Nokia v Daimler* concerned also whether (a) the SEP implementer may be considered unwilling to enter into a licence agreement if it has remained passive for several months although it has submitted a nominally formulated licensing request, (b) on the basis of the licence terms the SEP implementer has offered, it may be deducted that the SEP implementer has factually been unwilling to enter into a licence agreement, and (c) if the response to the question (b) is affirmative, does it matter that it neither is obvious nor confirmed in case law that the proposed licence terms are not considered FRAND terms.¹²⁵ The ECJ could not express its views on presupposing unwillingness, but a case-by-case assessment ought to be advocated as the Commission is considered to have emphasised such approach in its decisions in *Motorola* and *Samsung*.¹²⁶ Yet more detailed guidelines from the ECJ would have contributed to legal certainty.

Prior to *Huawei v ZTE*, the most important European line of reasoning on the required procedure of licence negotiations before taking infringement action was similar to that of the German Federal Supreme Court ruling in *Orange-Book-Standard*, albeit the case was not about “proper” SEPs tied to FRAND pledges but patents essential to a de facto standard.¹²⁷ Although formally part of German national law, to some extent it was considered an important preliminary ruling throughout the EU.¹²⁸

In accordance with the *Orange-Book-Standard* test, the patent holder abuses its dominant position only when the patent implementer has made an unconditional and binding licensing offer not limited exclusively to infringement cases, refusal of which by the patent holder would unfairly

123 Batista – Mazutti 2016, p. 249; Maume 2016, p. 222; Picht 2016, p. 366; Tsilikas 2017, p. 163.

124 Batista – Mazutti 2016, p. 249.

125 Case 4c O 17/19, *Nokia-SEP*, Tenor.

126 Henningsson 2016, p. 445.

127 Judgment of the Federal Supreme Court (Bundesgerichtshof) of 6 May 2009 – Case KZR 39/06 – *Orange-Book-Standard*. On the general applicability to also de jure standards, see Globočnik 2017, p. 586. On the international application of the line of reasoning, see Körber, 2016, p. 1111. The prior importance of the *Orange-Book-Standard* ruling is showcased by its great significance in the reasoning of Landgericht Düsseldorf in case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*; see paragraph 47 of the Advocate General’s opinion.

128 Henningsson 2016, p. 444. Cf. Maume 2016, p. 217.

disadvantage the patent implementer or be discriminatory.¹²⁹ Secondly, the *Orange-Book-Standard* test sets an obligation on the patent implementer to retroactively fulfil its liabilities under the licence agreement from the moment it began to use the patented technology.¹³⁰ The *Orange-Book-Standard* approach is considered to have been rather beneficial to SEP holders in contrast to the competition-centric approach applied by the European Commission in *Motorola* and *Samsung*.¹³¹

The European case law on the appropriate negotiation procedure has since been complemented along with *Huawei v ZTE*. After the ruling, there is no longer space for the *Orange-Book-Standard* test to be applied in relation between Article 102 TFEU and SEPs.¹³² The *Orange-Book-Standard* test was not considered by the ECJ, but the Advocate General explicitly dismissed it in his opinion due to significantly differing circumstances of the cases;¹³³ the *Orange-Book-Standard* case concerned neither a formal standard nor a FRAND commitment. Instead, the *Huawei v ZTE* ruling is considered more similar to the Commission decisions in *Motorola* and *Samsung* which arguably required the SEP holders to take more comprehensive measures to negotiate a licence agreement than the *Orange-Book-Standard* test.¹³⁴ Consequently, *Huawei v ZTE* undermines the possibilities of the SEP holder to enforce its patent rights in court, compared to the earlier national case law representing the *Orange-Book-Standard* line of arguments.

In *Huawei v ZTE*, the ECJ stated that Article 102 TFEU does not prevent the SEP holder from seeking a court injunction or a product recall provided that certain preconditions are satisfied. The SEP holder must have notified the SEP implementer of the infringement, designated the infringed patent and specified the manner in which the patent has been infringed.¹³⁵ The rationale behind this obligation is the fact that telecommunications standards consist of a large amount of patented inventions and therefore the SEP implementer may not even be aware of infringing the patent.¹³⁶ Furthermore, the SEP implementer having expressed its willingness to enter into a licence agreement on FRAND terms, the SEP holder must have presented a specific and written offer for a licence, including the conditions on determining the royalty.¹³⁷

After that the SEP holder has the right to seek an injunction relief or a product recall under Article 102 TFEU if the SEP implementer neglects to respond to the offer diligently, without

applying delaying tactics, and in accordance with the recognised commercial practices in the telecommunications industry.¹³⁸ In its response the SEP implementer must either accept the licence offer or present its own proposal for FRAND licence terms, as well as set an appropriate deposit in accordance with the general practices in the industry if the SEP holder rejects the licence offer by the SEP implementer.¹³⁹

It has been argued that *Huawei v ZTE* causes legal uncertainty because the licence offer proposed by the SEP holder before initiating legal proceedings must be on FRAND terms. Because neither the ECJ nor the European Commission has provided guidance on how to calculate a FRAND royalty rate, the SEP holder may not know whether its offer is based on FRAND terms or not and therefore whether it is allowed to seek a court injunction or a product recall.¹⁴⁰ It has been proposed that *Huawei v ZTE* obliges the SEP implementer to follow the set procedure even though it disagrees on the meaning of FRAND terms with the SEP holder because neither of the parties surely knows the exact content of FRAND terms beforehand, but the existing case law is still indecisive.¹⁴¹

Also the term "delaying tactics", which release the SEP holder from the restrictions under Article 102 TFEU if applied by the SEP implementer, has been considered to cause unclarity as the ECJ expressed no guidance on the timeframe for a tolerable delay.¹⁴² On the other hand, the vague wording used by the ECJ has also been praised because it allows for more flexibility to apply the test to various divergent circumstances.¹⁴³ Indeed, this unclarity is not just a subject to scholarly debate but was also explicitly addressed in the preliminary questions of *Nokia v Daimler*.¹⁴⁴

To resolve these and any other obscurities concerning an appropriate procedure for licence negotiations, I propose an approach that is based on legal principles and teleological argumentation, both of which are of paramount importance in EU law.¹⁴⁵ Therefore, it is important to identify the underlying objectives of the reasoning of the ECJ and, to a lesser extent, of the Commission. It has been argued that in *Motorola* and *Samsung* the Commission wanted to prevent the SEP holders from applying such conducts that exclude the SEP implementers from the market or force them to accept "disadvantageous" licence terms.¹⁴⁶ On the other hand, it has been considered that the ECJ prioritised the need to strike a fair balance between the SEP holder and the SEP implementer, preventing patent hold-ups and hold-outs from being established, as

129 Case KZR 39/06, *Orange-Book-Standard*, paragraphs 29 and 32.

130 *Ibid.*, paragraphs 29 and 33.

131 Henningsson 2016, p. 444–445; Körber 2016, p. 1110; Petit 2013, p. 691.

132 Körber 2016, p. 1116.

133 Advocate General Wathelet's opinion in case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 48.

134 Körber 2016, p. 1116.

135 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, conclusion.

136 *Ibid.*, paragraph 62; Körber 2016, p. 1109.

137 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, conclusion.

138 *Ibid.*

139 *Ibid.*, paragraphs 66–67.

140 Henningsson 2016, p. 449.

141 Geradin 2020, p. 5; Picht 2016, p. 373; Tsilikas 2017, p. 172.

142 Batista – Mazutti 2016, p. 251; Henningsson 2016, p. 449; Picht 2016, p. 373.

143 Galli 2016, p. 36; Maume 2016, p. 223.

144 Case 4c O 17/19, *Nokia-SEP*, Tenor.

145 Raitio, Juha, 2016. *Euroopan unionin oikeus*. Talentum, Helsinki; p. 195.

146 Tsilikas 2017, p. 167.

well as clarifying the proper conduct on licensing negotiations over the Commission's aims.¹⁴⁷ The latter has probably been intended to promote legal certainty.

Whereas these aims do not exclude each other, the objectives behind the reasoning of the ECJ must be considered primary after *Huawei v ZTE*. Given the clearly set objectives of *Huawei v ZTE*, the appropriate procedure for negotiations is arguably meant to be interpreted from the perspective of the objectives, instead of rigidly following this procedure in each individual case. In fact, in some circumstances, a procedure different to that presented in *Huawei v ZTE* may better correspond to the objectives of the ECJ. It has also been argued that the ECJ advocated licensing negotiations in good faith and in accordance with recognised commercial practices rather than following rigid procedural steps.¹⁴⁸

In addition, it has been argued that the Commission deliberately diverged from the *Orange-Book-Standard* approach in *Motorola* and *Samsung* as for the required unconditionality of the licence offer by the SEP implementer which factually disabled SEP implementers from challenging the validity or essentiality of the SEP afterwards.¹⁴⁹ To support this view, the ECJ referred to Article 47 CFR in *Huawei v ZTE* in order to reason that the SEP implementer does not have to waive its right to challenge the validity or the essentiality of the SEP in question in its licence offer.¹⁵⁰ The unconditionality requirement would then have been replaced with the prohibition of delaying tactics which addresses primarily the SEP implementers with a blatant lack of intent to engage in licence negotiations.¹⁵¹ This can be considered a means of combating patent hold-outs as well as striking a fair balance between the parties.

Besides principle-based and teleological approaches, the upcoming SEP disputes are likely to become strongly affected by rulings of national courts due to the scarcity of EU level case law. Rulings of French courts are of particular importance because the ETSI Intellectual Property Rights Policy has in principle to be interpreted under French law.¹⁵² In practice, also the German case law strongly directs the European approach to abusive SEP litigation due to the sheer quantity of German SEP rulings, Germany being the preferred jurisdiction for many SEP holders.¹⁵³ This national case law is, however, subordinate to EU law and its role is hence merely complementary.

5. CONCLUSIONS

Article 102 TFEU may be breached by an SEP infringement action solely if the SEP holder enjoys a dominant position. As stated above, the emergence of a dominant position through mere SEP ownership remains controversial in the absence of decisive case law at the EU level. However, particularly when the disputed SEP relates to a widely used, ETSI-sanctioned standard such as UMTS or LTE, ownership of an SEP creates a dominant position on the SEP holder on the aforementioned grounds.

From the competition law perspective, the acceptability of bringing an SEP infringement suit against the SEP implementer can be resolved based on evaluation which can be described as a two-step test. The first question concerns whether the sought legal remedy has a direct effect on the market access of the SEP implementer and therefore the ability of being used as leverage to force excessive licence fees from the SEP implementer. If there is no such direct effect, the litigation in question is not abusive in the meaning of Article 102 TFEU. Seeking compensation for unauthorised use and any damages as well as seeking the rendering of accounts in relation to the past use of the SEP by the SEP implementer fall within this category and never in itself conflict with Article 102 TFEU.

Yet if the answer to the first question is affirmative, also a second question needs to be assessed. The question is whether the sought legal remedy is objectively justified and thus non-abusive within the meaning of Article 102 TFEU, and needs to be assessed particularly in relation to seeking a court injunction or a product recall. Whether an objective justification exists is decided on a case-by-case basis, and the assessment must follow the objectives of Article 102 TFEU in the SEP context: legal certainty, fair balance between the interests of the parties and ensuring that a fair and reasonable remuneration will be paid for the use of SEPs. In the assessment, it should be decisive whether the SEP holder can obtain a fair compensation without restricting the market access of the SEP implementer through legal proceedings. In most cases, failing to follow the procedure set in *Huawei v ZTE* hence constitutes a breach of Article 102 TFEU. Yet this rule is not without exceptions and the SEP holder may be allowed to ignore this procedure, for example in case of insolvency of the SEP implementer as the SEP holder may be unable to obtain licence payments from the insolvent SEP implementer.

147 Galli 2016, p. 33; Geradin 2020, p. 4; Tsilikas 2017, p. 169. See also Advocate General Wathelet's opinion in case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 63.

148 Pila – Torremans 2019, p. 111.

149 Batista – Mazutti 2016, p. 247; Picht 2016, p. 367.

150 Case C-170/13, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, paragraph 69.

151 Batista – Mazutti 2016, p. 247–248.

152 Geradin 2020, p. 7.

153 Maume 2016, p. 212.