Hold-Out After the CJEU Huawei Decision

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ABSTRACT

This article describes how the Court of Justice of the European Union, with its Huawei v ZTE ruling in July 2015, has attempted to prevent abuses from SEP-holders (hold-ups) and implementers (hold-outs) by balancing the interests of both sides. This decision establishes a contractual negotiation framework both parties must comply with. However, it leaves some questions open. This article makes a review of hold-out risks under the Samsung and Motorola decisions from the European Commission and hold-out remedies under the Huawei decision and how national courts in Europe have applied it. It also examines potential improvements of competition law and the application of Article 102 of the Treaty on the Functioning of the European Union to deal with a holding-out company in Europe.

KEYWORDS

Abuses, CJEU, Competition, FRAND, Hold-Up, Implementer, Injunction, SEP-Holder

INTRODUCTION

The mobile technology has changed the way we communicate, travel and work. We enjoy nowadays affordable, high performance, interoperable smartphones thanks to standardization. Standardization is a collaborative process to develop standards, i.e. a set of rules that allow devices to ‘talk’ to each other. This is what makes the phone of company X being able to communicate to the phone of company Y, although each of them may be in different countries and use a different network equipment. Through standardization some companies share their best technologies resulting from large investments in research and development (R&D) in exchange of a “fair return on investment”

In Standard Development Organizations (SDOs), innovators commit to make their patents essential to the standard, meaning that no technical alternative to those patents exists in order to comply with the standard2 on Fair, Reasonable and Non-Discriminatory (FRAND) terms and conditions. Having access to the standard under FRAND terms, companies that have not invested in R&D or have chosen to keep their technologies proprietary can at the same time successfully enter the ICT market, as examples like Apple, Xiaomi and LG have shown. The FRAND commitment is also created to avoid the so-called “hold-up” and “hold-out” behaviors. “Hold-up” refers to a situation where a standard-essential patent-holder (SEP-holder) successfully extort disadvantaging licensing terms and conditions from a standard implementer, including excessive fees, potentially under the threat of an injunction (Lemley and Shapiro, 2007). Conversely, “hold-out” covers an abusive behavior from the implementer, who tries to delay licensing negotiations, proposes below FRAND royalty rates and uses the SEPs for free as long as possible (Layne-Farrar, 2016). The fierce competition

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amongst innovators to get their technology incorporated into a standard combined with the access to standardized technology on FRAND terms has led to an unprecedented success in the ICT sector (The Boston Consulting Group, 2015).

In July 2015, the Court of Justice of the European Union (CJEU) handed down a ruling on the right for the holder of the SEP-holder to request an injunction on its SEPs in the case Huawei Technologies Co., Td. V. ZTE Corp. and ZTE Deutschland GmbH (CJEU, Huawei Technologies Co., Td. V. ZTEC Corp. and ZTE Deutschland GmbH, July 16, 2015) [hereinafter Huawei decision].

Previously, some have argued that the right of a SEP-holder to prevent standard implementers from manufacturer and / or selling standard-compliant products through an injunction could breach competition law. In Europe, the issue of the right of an injunction on SEPs is often examined under Article 102 of the Treaty on the Functioning of the European Union (TFEU), which outlaws any abuse of a dominant position. The special scenario of standardization (with competitors jointly selecting some technologies to be incorporated in a standard, leaving aside other proposed solutions), combined with the FRAND commitment voluntary made by some SEP holders have also been a focus under antitrust law.

Before the Huawei decision, the right of an injunction on SEPs had been controversial, contested and subject to potentially contradicting rulings in Europe, in particular the Federal Supreme Court in Germany Orange Book Standard order (Bundesgerichtshof, Orange Book Standard, May 6, 2009) versus the European Commission (EC)’s decisions in the Samsung and Motorola cases (EC, Samsung-Enforcement of UMTS standard essential patents, and Motorola-Enforcement of GPRS standard essential patents, April 29, 2014). While the Orange Book Standard decision stated that SEP-holders are entitled to injunctions, unless the alleged infringer has made an unconditional offer that the SEP-holder cannot reject without being anticompetitive, the EC decisions ruled differently. Following the EC decisions, SEP-holders would be entitled to an injunction only against “unwilling licensees”.

Those German and European decisions have been equally criticized: The Orange Book Standard was accused of being pro-patentees (increasing the chances of hold-up) whereas the EC’s decisions were perceived as pro-implementers (risking a hold-out behavior from the implementers’ side).

With the Huawei decision, the CJEU has aimed to find a balance between SEP-holders and users of the standard, limiting abuses from both sides through a hold-up or hold-out conduct. To that effect, it has set up a negotiation framework with duties to comply with for the implementer as well as for the SEP-holder.

Whereas literature and case law mostly focus on hold-up (cf. among for example Lemley & Shapiro, 2007; Farrell et al., 2007; Hesse, 2012; Prywes & Bell, 2015 and endnote 4) the aim of this article is to analyze whether the Huawei decision provides sufficient safeguards against potential patent hold-out from standard implementers.

A first section will be dedicated to patent hold-out under competition law and the previous decisions aforementioned, the Orange Book Standard and the two EC’s cases. A second section will analyze the CJEU decision and its potential impact on hold-out. The third section will try to find potential ways to improve existing legislation to counter hold-out.

The question will be analyzed under European competition law and case law, with insights from foreign countries.

HOLD-OUT AND EUROPEAN COMPETITION LAW BEFORE THE HUAWEI DECISION

The question of hold-out has emerged from case law in Europe, the U.S. and Asia through litigations related to patent hold-up. Those cases have raised the concern that users of the standard may have alleged hold-up conduct in order to concede a hold-out strategy. If true, this would be highly problematic, since hold-out, as hold-up, may negatively affect competition.
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