

Patents and Standards

A modern framework for standardisation involving intellectual property rights

Contribution to the public consultation by the Italian Competition Authority

The Italian Competition Authority has not taken formal decisions concerning the issues related to intellectual property rights and standard setting yet. However, some key judgments addressing the issue of patents and standards have been adopted in private enforcement in Italy. Despite being aimed at defending individual interest of the claimant, these private actions underlined complex competition issues that were taken into careful consideration by national Courts. Some other cases are pending before the Italian Courts and are still confidential.

In light of the above, despite the lack of direct experience the Italian Competition Authority wishes to reply to some of the questions included in the Public Consultation on “Patents and Standards” in order to share with the European Commission the experience and reflections developed by the Italian Courts.

This contribution focuses on Section 8 of the questionnaire – Unwilling implementers and injunctions – and particularly on questions 8.1 and 8.2.

Q 8.1 Defences for patent holder: *What needs to be done to ensure that holders of standard essential patents have effective means of obtaining appropriate remuneration for their patents and to defend themselves against implementers who are unwilling to pay royalties or who delay payment of such royalties? What can standard setting organizations do in this regard?*

With regard to the means of defence patent holders can resort to, the Italian Courts largely acknowledge that standardisation and standard-essential patents may have positive effects on the market, in terms of increase of competition and interchangeability, as well as decrease of final costs for consumers (as stated by the EC, case COMP/C-3/38, 636, Rambus). Hence, there is a general consensus on the need to strike a balance between the need to ensure fair remuneration of the patent holder and the need to enable other companies to take advantage of the standard patent. The trade-off between competition protection and legitimate exercise of patent rights has been assessed case-by-case.

In the case described below, the patent holders obtained injunctions for the seizure of devices distributed by unwilling implementers.

**KONINKIJLKE PHILIPS ELECTRONIC N.V. VS COMPUTER SUPPORT ITALCARD S.R.L.
AND COMPUTER SUPPORT ITALCARD VS. KONINKIJLKE PHILIPS ELECTRONIC N.V**
Orders of 7 May 2004, 14 October 2004 and 15 November

The Court of Genoa issued three decisions concerning a case of patent and *de facto* standard on the production of re-writable compact disks. The Court decided for the seizure of the devices in a case where the defendant did not submit any request for a license and therefore did not express any intention to reach an agreement with the patent holder. At the same time, the Court established that, since the patent constituted a standard-essential for the sector, the patent holder had an obligation to contract with other producers, provided that the latter had previously approached the holder to obtain a licence right.

The orders of the Court of Genoa aim at guaranteeing and coordinating two conflicting yet contiguous requirements, namely the respect of the industrial patent and the maintenance of an effective possibility of competition in the specific market, as an application of the “essential facility doctrine” devised by US case law within the antitrust system. The judge focused his attention on the requisite of reasonableness of the refusal to grant a licence opposed by the patent holder.

The Court stated that interested parties should be able to obtain the licence at reasonable and not discriminatory conditions. Failing to do so would unduly prevent them from accessing the market. Therefore, the Court ruled that, in case of unreasonable refusal, the patent holder should be obliged to grant the licence.

Q 8.2 Protection against abuses: *How can it be ensured (at the same time) that injunctions based on standard essential patents are not abused to either exclude companies from implementing a standard or to extract unfair, unreasonable or discriminatory royalties from them?*

In a case linked to the “Samsung-Apple saga” (illustrated below), the Court of Milan argued that standard-essential patents constitute a barrier to entry into the market, insofar as they raise switching costs to competing systems that do not use of the proprietary standard. It highlighted that, in line with a well-established US and EU case-law, a patent may not be exercised so as to unduly affect competitors. In that case, the patent holder would undermine the role of stimulus to cultural and technological development played by patents.

In the injunctions adopted by the Italian Judges, the issue of quantification of FRAND terms, which represent the main problem to allow the patent holder to obtain appropriate remuneration for its patent, was not addressed because it falls outside the scope of interim assessment. Nevertheless, the Court of Milan observed that the standard-essential patent holder should be free to quantify a suitable royalty rate. Refusal to agree to an offer by the competitor is not abusive in itself. To this end, reference was made to a judgment issued by the German Supreme Federal Tribunal in 2009, stating that the patent holder is entirely free to set the royalty rate unless it intentionally hinders the activity of the counterpart or discriminates the applicant vis-à-vis the other licensees.

Another important aspect that involve standard setting organizations is the issue of over-declaration. Thousands of patents have been self-declared by firms as essential to standard

setting organizations without any actual evaluation by the relevant organizations. A risk exists that certain firms might declare patents as essential to the standard and engage in sham litigations to hamper competitors.

**SAMSUNG ELECTRONICS CO. LTD e SAMSUNG ELECTRONICS ITALIA S.P.A. VS. APPLE INC., APPLE ITALIA SRL, APPLE RETAIL ITALIA SRL, APPLE SALES INTERNATIONAL
Orders of 5 January 2012**

In the autumn of 2011 Samsung filed a claim for provisional injunctive relief before the Specialized Division of Milan. Samsung requested the judge (Pres. M. Tavassi) to prohibit Apple from selling the latest model of the iPhone in the Italian market. The launch on the Italian market of the iPhone 4S was scheduled before Christmas 2012. Samsung also requested an injunction regarding the new models of iPad, ready to be sold.

The complex issues involved the protection of some ‘families’ of patents held by the Korean firm. In the precautionary proceedings, the Milan IP Court dealt with both patent action and competition action, including a claim to establish FRAND royalties. In fact, Apple submitted a counterclaim to obtain an order against Samsung, to grant a licence to Apple with FRAND royalties, alleging an infringement of Art. 102 TFEU.

In the orders of 5 January 2012 (two different orders for different groups of European patents), the judge analysed the relationship between the parties, the previous contact between them in order to achieve an agreement on the percentage of royalties requested by Samsung, the supplies from the companies Qualcomm and Intel of the chips used to build the new Apple models and the existent agreements between Samsung and those companies (Qualcomm and Intel). Subsequently, Judge Tavassi weighed up the interests of the parties and in particular considered the potential harm to either party that may result from granting or refusing the injunction.

The judge decided to reject the adoption of the interim measure, on the basis that Apple’s use of Qualcomm and Intel chips would appear to be the exhaustion of the right of Samsung to obtain royalties for its patents. As for the alleged anticompetitive behaviour by Samsung, the judge observed that the assessment of the abuse of dominant position required gathering and studying a significant volume of elements, activity that was not consistent with the evaluation phase of interim proceedings.

The orders considered that the applicant could obtain adequate protection for its property rights in the judgment in full knowledge. In fact, the balance between conflicting interests called the judge to consider that the evaluation of the obligation to grant a patent licence to FRAND conditions and the veracity of such a measure would lead to an ascertainment that could only take place in the phase of merit also compared to the consideration that the issue of fair price implied and subtended to anticompetitive matters that had to be subjected to more thorough scrutiny. The judge further stated that the prejudice suffered by Samsung if the preliminary measures were to be rejected during the preliminary phase would consist of the amount of royalties not perceived, which may be adequately restored at the end of the merits proceedings.

The judge appointed two experts in order to assess the validity or the revocation of Samsung's patents and the ascertainment if Apple's product implements these patents, as well as an economic expert, to establish the possible percentage of a FRAND licence to implement Samsung's patents.

In summer 2014, the dispute was conciliated. The parties reached a negotiation of the relationship between them in all European countries.