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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
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**INTELLECTUAL PROPERTY AND STANDARD SETTING**

-- Note by Italy --

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*This document reproduces a written contribution from Italy submitted for Item VII of the 122nd meeting of the OECD Competition Committee on 17-18 December 2014.*

*More documents related to this discussion can be found at [www.oecd.org/daf/competition/competition-intellectual-property-standard-setting.htm](http://www.oecd.org/daf/competition/competition-intellectual-property-standard-setting.htm)*

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## **1. Introduction**

### ***1.1 IP and Standard setting cases between private and public enforcement of antitrust law***

1. In general, cases raising Intellectual Property (IP), Standard Essential Patents (SEPs) and inter-connected antitrust issues are more frequently brought before Courts than before National Competition Authority. This happens even in European continental law systems, in which public enforcement of antitrust rules is more advanced than private enforcement.

2. Two concurrent reasons might explain this fact. The first reason is that the nature of remedies against violation of patent and antitrust rules, which typically is compensation of damages and/or injunctions, mainly refers to the competence of Judges and not of Competition Agencies. The second reason is the broader experience of Courts in assessing FRAND (Fair, Reasonable, and Non-Discriminatory) terms and especially in dealing with the general clause of “reasonableness” in this setting (a similar approach is used in the calculation of damage).

3. Nevertheless, it will be highlighted further that Agencies could play a relevant role in the process, both indirectly, by way of a cooperation mechanism, and directly, when the cases are brought before them.

### ***1.2 The Italian framework***

4. The Italian situation is consistent with the mentioned context. The Italian Competition Authority has not taken decisions concerning the issue of IP and standard setting in the ICT sector. Therefore, certain competition topics, such as the relationship between SEPs and dominant position in ICT markets, have not been formally addressed yet.

5. However, some key judgments 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.

6. Therefore, this contribution examines the key principles adopted by national Courts to ensure that the resolution of lawsuits concerning standard setting in the ICT sector also leads to positive outcomes from the competition perspective.

### ***1.3 The Italian legislation on injunctions***

7. In Italy, cases on patents and standards fell under the competence of Specialized Divisions for IP Litigation in Ordinary Courts, established by legislative decree no. 168/2003. Later on, Law no. 1/2012 established the so called Courts for Undertakings (also ordinary Courts) in charge of dealing with this matter.

8. In the Italian jurisdiction, the patent holder is entitled to seek injunctions, definitive as well as interim injunctions, and urgent procedures for interim injunctions are frequent and usually speedy.

9. Article 24 of the Italian Constitution provides for the right of action and has been extended to the right of urgent action, including injunctive reliefs. Moreover, Article 3 of the Directive CE 48/2004, Enforcement Directive, provides that “ measures [...] shall be applied in such a manner as to [...] provide for safeguards against their abuse”.

10. Article 131 of Legislative Decree no. 30/2005 of the Italian Code of Industrial Property (ICIP) implements Article 9 and Article 11 of the Enforcement Directive and the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). It provides for: interim injunctions and permanent injunctions to protect IPRs, orders to remove the infringed goods, fines in case of lack of compliance with the order of the Court.

11. The prerequisites for any preliminary injunction claim are the existence of a danger in case of delay in the decision (“*periculum in mora*”) and good reasons to believe that the rights of the claimant have been infringed by the defendant (“*fumus boni iuris*”). Injunctions can be also granted *ex parte* (i.e., one of the parties has not received notice and, therefore, is neither present nor represented) or without hearing the defendant (“*inaudita altera parte*”) if alerting the other party and having a hearing might deprive the injunction of any effect. In practice, *ex parte* measures are very rare.

12. Following the adoption of Legislative Decree no. 131/2010, entered into force on 2 September 2010, the enforcement mechanism through interim measures has been strengthened. *Ex parte* measures are possible not only when convening the other party might undermine the implementation of the *interim* measure but also (pursuant to article 129 ICIP) “*in case of particular urgency and in particular where any delay may cause irreparable harm to the rights holder*”. Art. 120 ICIP also provides for a declaration of no-infringement through *interim* proceedings.

13. Although the wording of the Italian law on injunctive relief does not foresee a balance between the interest of the patent holder and the one of the alleged infringer, recent case-law consistently strikes a balance in this respect.

14. Finally, Article 3 of the Enforcement Directive prescribes the limits of fairness, equity and proportionality of measures. It is a so-called “open clause”, suitable to be filled with standards by the Court: measures have to be congruous to the enforcement of IPRs but without prejudice of fundamental rights of the counterparties and without sacrifice of their interests that is not strictly required by the mentioned enforcement.

## **2. The Italian Case Law: injunctions on FRAND encumbered SEPs**

15. Some relevant injunctions adopted by Italian Courts over the last few years are illustrative of the complex balance between the SEP-holder’s right to intellectual property and the freedom to conduct business which economic operators enjoy.

**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.

**CARD MANIA MULTIMEDIA SRL, ITALVIDEO INTERNATIONAL SRL AND ICAL SPA VS. ROVI CAST INC. AND STARSIGHT TELECAST INC, order of 10 March 2011.**

The Court of Turin, by an injunction of 10 March 2011, ascertained the counterfeiting by Card Mania and Italvideo of a patent held by Rovi and Starsight related to methods and systems for navigating through DTT television program listings. Accordingly, the Court ordered the seizure of TV decoders produced by Card Mania and Italvideo and prohibited their production and sales in Italy. However, the defendants asserted the invalidity of the patent and requested the restitution of damages. Subordinately, they claimed that Rovi's and Starsight's conduct constituted unfair competition and abuse of dominant position and asked the judge to impose the granting of the licence at FRAND terms. On 15 November 2013, on the basis of an opinion by an expert witness, the Court declared the patent invalid for lack of innovative step. Nevertheless, it did not assess unfair competition or abuse of dominant position on the part of Rovi and Starsight. In particular, the Court argued that the patent had almost reached its expiration without any ruling of invalidity. In addition, it had been licenced throughout the years to several companies that considered it valid and paid for the relevant royalties. In light of that, the Court concluded that Rovi and Starsight were exercising their intellectual property in good faith. The Court also stated that in this case the potential damage they would have incurred in case of counterfeiting was not merely economic, but also entailed a potential loss of credibility before other licensees.

**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, applied 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.

### **3. The trade-off between barriers to entry and interchangeability**

#### **3.1 Courts on SEPs and antitrust defense**

16. Both the Court of Genoa and the Court of Milan were fully aware of the antitrust implication of their decision, and made explicit reference to competition case-law. The Court of Genoa applies the essential facility doctrine, whereas the judge of the Specialized Division of Milan starts its reasoning by making reference to the EU Guidelines on the application of Article 101 TFEU to technology transfer agreements. The judge observes that the right of patent holders to limit third parties' access has been gradually reduced with a view to enhancing technical development and competition. Patent licensing becomes all the more relevant in high technology sectors, where it represents a key tool to enable technology transfer.

17. The Milan Court argues 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 highlights 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. However, the judge acknowledges that 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 need to strike a balance between foreclosure effects and positive effects on technological development. The trade-off between competition protection and legitimate exercise of patent rights must be assessed case-by-case.

### 3.2 Courts on FRAND terms

18. In the described injunctions, the issue of quantification of FRAND terms was not addressed because it falls outside the scope of *interim* assessment. Nevertheless, the Court of Milan observes 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. However, the fee should be FRAND and follow a negotiation rather than being unilaterally imposed on the licensee. Noteworthy, constitutive judgments (judgments that have the effect of an agreement between the parties or impose the obligation to reach an agreement) are admissible only in “cases established by law” as cited in Art. 2908 of the Italian Civil Code and hence represent an exception from the general rule of contractual freedom of the parties. Reference is 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. Indeed, the standard-essential patent holder might abuse its market power by unduly refusing FRAND economic offers by a competitor with the aim of artificially delaying the launch of a competing product.

19. This is all the more serious taking into account the issue of over-declaration. Thousands of patents have been self-declared by firms as essential to standard-setting organizations. Yet many standard-setting organizations do not evaluate whether any of these patents are valid and essential<sup>1</sup>. This might create incentives for firms to declare patents as essential to the standard and engage in sham litigations to hamper competitors. As illustrated, in 2011 the Court of Turin issued an injunction that entailed the seizure of devices marketed by a firm in Italy, because allegedly they infringed a standard-essential patent. However, at a later stage, it emerged that the patent in question was invalid. The Court excluded any abuse of dominant position because the alleged patent-holders were acting in good faith. However, the case shows how complex it is for the judge to take an *interim* decision while no thorough technical analysis on the validity of the patent has been carried out yet.

### 3.3 Courts on “the willing licensee”

20. For the adoption of the *interim* injunction, a key factor that has been considered is whether the defendant requested a license from the holder of the standard-essential patent and “serious”, though unsuccessful, negotiations were carried out.

21. The Court of Genoa decided for the seizure of the devices taking into account that 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. That might mean that the company tried to elude its royalty obligations. It would be

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<sup>1</sup> A preliminary evaluation of almost 8 thousand patents and patent applications declared essential to the 3GPP and 3GPP2 standards suggests that approximately 21% of the declared patents are actually essential. See D.J. Goodman and R.A. Myers, *3G Cellular Standards and Patents* (IEEE Wire-LessCom, 2005)

unfair to recognize the right of those who produce or sell goods in violation of patents to pay royalties only when their attempt is discovered.

22. In the *Samsung vs. Apple* case, the judge established that “serious negotiations” had been carried out. The fact that “serious negotiations” have been conducted has two important implications:

- from the defendant perspective, it shows a clear intention to recognize and solve the rights of the patent holder.
- from the patent holder perspective, negotiations show that it was willing to grant the license to the defendant. The failed agreement simply relates to the amount of the remuneration, which can be quantified and restored at the end of the trial.

23. Therefore, irreparable harm may not be claimed by the patent holder (unless there is a qualified risk that the defendant might become insolvent by the end of the trial) and hence there is no grounds for an *interim* intervention.

24. The Court of Milan concludes that the assessment is consistent with the objective to strike a balance between the interests of the two conflicting parties and, more in general, with consumer welfare. It argues that preventing the sale of the device at stake (already launched in the market) would greatly harm the company and consumers, while not intervening at that preliminary stage would only entail a potential economic harm for the patent holder that would be easy to quantify and restore at the end of the trial (it can be considered as a credit right).

25. Noteworthy, the reference to serious negotiations by the Italian Courts as a decisive factor for the assessment is consistent with the recent Advocate General’s opinion in Case C-170/13 *Huawei Technologies Co. Ltd vs. ZTE Corp., ZTE Deutschland GmbH*. In particular, Advocate General Wathelet states that, where the proprietor of a standard-essential patent holds a dominant position and made a commitment to grant third parties a license on FRAND terms, it constitutes an abuse of dominant position to seek an injunction against an infringer where it is shown that the SEP holder has not honored its commitment even though the offending company was objectively ready, willing and able to enter into such a licensing agreement. To that end, the Advocate General foresees a written procedure that should allow to verify to what extent the SEP holder actually engaged in negotiation and whether the infringer responded to the offers in a “diligent and serious manner”.

#### **4. Concluding remarks: a cooperation perspective**

26. The analysis of the Italian case law concerning standard setting and intellectual property shows the interplay between competition issues and private interests. Both national courts and competition agencies need to take into account key issues related to market foreclosure, on the one hand, and technological innovation, on the other. They are expected to identify a suitable trade-off, following a thorough case-by-case assessment, which should consider the ultimate effects of the decision on consumer welfare.

27. There is a clear need and potential for coordination and experience sharing between competition agencies and judges.

28. Article 15.3 of Regulation no. 1/2003 provides for the power of national competition authorities to “*submit written observations*” on their own initiative (and even oral observations with the Court’s permission) in competition law procedures, “*in the name of general interest*”. The wording of the Commission Notice on Cooperation between the Courts and the Commission expressly refers to “*amicus curiae*”.

29. In the Italian legislation no special provision exists that explicitly enables the Italian Competition Authority to file *amicus curiae* briefs and no use of this mechanism has been made by Italian Competition Authority so far, although private enforcement actions are increasingly treated before Italian Courts. The lack of recourse to this cooperation tool in Italy has been explained by scholars as a consequence of the strict separation between Administrative and Judicial functions. However, it might also be explained by the absence of any compulsory notification system on pending cases, which could enable the Italian Competition Authority to intervene in trial procedures.

30. Finally, Article 17.3 of the Directive on antitrust damages actions provides that, in proceedings relating to an action for damages related to infringements of Article 101 or 102 TFEU or of national competition law, national competition authorities will be able, upon request of a national court, to assist that national court with respect to the determination of the quantum of damages. FRAND terms may also be used in the calculation of damages caused by infringement of standard-essential patents. Therefore, it seems fair to raise the question about the role that national competition authorities might play in the future with regard to actions for compensation of damages caused by infringement of standard-essential patents if a competition law defense has been raised by the parties, also in light of the mentioned Directive.