

## China Quietly Slips Into The Debate On SEP Injunctions



*Law360, New York (May 08, 2014, 12:17 PM ET)* -- This past November and December, the U.S. Department of Justice and European Commission cleared Microsoft Corporation's acquisition of the bulk of the devices and services business of Nokia Corporation of Finland without any conditions. In contrast, on April 8, 2014, the Chinese Ministry of Commerce approved the acquisition subject to conditions that include an intellectual property issue that is still to be resolved in the U.S., EU and other countries: whether holders of standard-essential patents who make licensing commitments under fair, reasonable and nondiscriminatory terms should be barred from seeking injunctive relief against alleged infringers of their patents.

MOFCOM's conditional approval is not controversial for this specific transaction, but raises the question of how MOFCOM's treatment of this issue will be interpreted in future merger reviews and whether this will affect investigations related to anti-competitive conduct.

Microsoft develops, produces, licenses, and sells computer software, such as its computer operating system and PC-based productivity software, and consumer electronics. Microsoft owns both standard-essential patents and non-SEPs for Android (smartphone operating system). In general, the SEPs are important in terms of implementing certain telecommunication standards, such as 2G, 3G and 4G, in smartphones.

The target, the devices and services business of Nokia, includes a design team and business units for devices such as mobile phones and smart devices, production facilities, related sales and marketing activities and support functions, as well as design rights related to the devices produced by the devices and services business. Excluded from this acquisition are Nokia's reserves of SEPs related to telecom and smartphones (the MOFCOM decision does not specify what these SEPs are for).

MOFCOM determined that Microsoft's acquisition of Nokia's design and services business had the effect of eliminating or restricting competition in China's smartphone market both in terms of what Microsoft could do as a result of the acquisition and in terms of what Nokia could do with the assets that were not

part of the acquisition. MOFCOM conditioned its approval of the acquisition on Microsoft's and Nokia's compliance with the following conditions (an unofficial translation of the MOFCOM decision can be found here).

Microsoft must:

1. (a) With regard to SEPs, continue to adhere to the existing FRAND terms of the standard setting organizations (SSOs).

(b) Refrain from seeking injunctions for infringement of such SEPs against smartphones produced by Chinese producers.

(c) Refrain from demanding cross-licenses when licensing such SEPs except for any patents that the licensees have in the same industry.

(d) Only transfer such SEPs to a third party who agrees to comply with the above limitations. Any potential licensee with Microsoft-related SEPs should also be bound by the same principles.

2. (a) With regard to non-SEPs, continue to offer, at consistent or discounted rates, non-exclusive licenses of its non-SEPs to domestic Chinese smartphone producers

(b) For the next five years, not transfer its SEPs listed in attachment 1 or 2 (Attachment 1 lists Microsoft patents that were reviewed by MOFCOM, Attachment 2 lists Microsoft patents related to Android) to other parties. After this five-year period, Microsoft will transfer these SEPs only to those who agree to be bound by conditions imposed on Microsoft.

MOFCOM is entitled to inspect Microsoft's compliance with the above conditions and Microsoft is obligated to report its compliance 45 days after the end of each calendar year.

Nokia must:

- Make sure its commitments to license its SEPs continue to comply with the existing FRAND terms of the SSOs.
- Refrain from seeking injunctive relief against licensees of SEPs that are subject to FRAND except in the case where a licensee has breached the FRAND terms.
- Agree to define licensor or licensee "good faith" as a matter of each party's willingness to resolve FRAND terms-related disputes through arbitration and to be bound by the arbitration decision.
- Agree that licensees are not obligated to accept any license not complying with FRAND terms by Nokia.

- Transfer SEPs only to those who agree to be bound by the FRAND terms applicable to those SEPs.
- Not change its valuation standards for FRAND licenses.

MOFCOM is entitled to inspect Nokia's compliance with the above conditions and Nokia is obligated to report its compliance 45 days after the end of each calendar year.

Neither the DOJ nor the EC speculated on the likely post-merger licensing conduct of the merged entity or the portion of Nokia that was excluded from the acquisition with respect to SEPs and non-SEPs. The EC noted that concerns related to the licensing of Nokia's patent portfolio that was not part of the acquisition were beyond the scope of its review, but that it will monitor Nokia's post-merger licensing practices.

MOFCOM, in contrast, without providing any basis for its conclusion other than speculation on the companies' motives, stated that:

(1) Microsoft "could" exclude and impede competition in China's smartphone market based on its patents for Android: "Microsoft has the motive to raise royalty fees" — MOFCOM provides no basis for this conclusion other than the observation that, before the acquisition, Microsoft was not a player in the smartphone market. Now, with the SEPs and non-SEPs related to the Android system, it has the potential for excluding and restricting competition in the smartphone market because the Android smartphone has an 80 percent share of the China market.

(2) Nokia "could abuse its reserve of patent licenses" ("the acquisition enhances Nokia's motive to rely on profits from patent licensing") — MOFCOM provides no basis for this conclusion. MOFCOM states: "As Nokia will basically exit from downstream market of devices and services, Nokia will not have to obtain cross-licenses for its smartphone business after the acquisition, so its motivation to maintain a low level royalty fee in the smartphone industry will go down. Such lack of need will enhance Nokia's motive to rely on profits from patent licensing."

As in the Google-Motorola deal in 2012, this time both the DOJ and the EC took a "wait and see" approach: They will continue to monitor Microsoft's and Nokia's post-merger conduct. MOFCOM took its analysis a step further. MOFCOM wanted in black and white Microsoft's and Nokia's confirmations of what they are obligated to do under the FRAND terms of the standard setting organizations. MOFCOM also wanted Microsoft to confirm that it would not seek an injunction against Chinese companies; such policy is actually already in Microsoft's website statement of Feb. 8, 2012, where, in reference to essential patents that are offered under FRAND terms, Microsoft announced that it would not seek an injunction against any firm on the basis of a SEP.

MOFCOM, without any discussion but merely by imposing a condition that the SEP holders, Microsoft and Nokia are barred from seeking injunctive relief against alleged patent infringers, has opened the door for debate in China. The issue of whether a FRAND commitment precludes a patent owner from seeking injunctive relief is still being debated in the U.S., EU and other jurisdictions. In July, 2013,

the Federal Trade Commission lifted the ban against injunctions for FRAND patents in the Google-Motorola Mobility case.

In August, 2013, the U.S. Trade Representative wrote a letter to the U.S. International Trade Commission stating that it opposed the injunction order of the ITC but included in a footnote when injunctions would be appropriate, including but not limited to when the “putative licensee is unable or refuses to take a FRAND license and is acting outside the scope of the patent holder’s commitment to license on FRAND terms ... if a putative licensee is not subject to the jurisdiction of a court that could award damage.”

The bottom line was that public interest considerations must be part of the determination whether or not to grant injunctive relief. The EC’s stance is reflected in the Google/Motorola merger review decision of February, 2012 — that competition may be threatened if SEP holders threaten injunctive relief.

MOFCOM’s approach may well have been influenced by Chinese domestic competitors raising concerns about the merger; in the media it has been reported that ZTE and Huawei, among others, raised concerns. Of course, this is part of the merger review process, so it is not unusual for competitors to influence proceedings, but one must not forget that MOFCOM appears to wear two hats: supporting China’s industrial policy and antitrust enforcer.

Furthermore, perhaps MOFCOM required these confirmations because it would be more difficult for the enforcement agencies, the National Development and Reform Commission and the State Administration of Industry and Commerce, to monitor the companies’ actions in the future.

The relevance of this decision is the following:

- MOFCOM applies the antitrust laws as a regulator: Rather than waiting to see how the parties behave, it micromanages their conduct (Microsoft and Nokia are already bound by FRAND terms that can include voluntary limitations on seeking injunctive relief).
- How will SAIC use the condition regarding the ban on injunctive relief in abuse of dominance investigations? Will the condition imposed by MOFCOM be interpreted as the definitive government position even though MOFCOM did not address this issue in its analysis? If so, then there is the potential that a holder of an SEP may be accused of violating Chinese antitrust law if it seeks injunctive relief against an alleged infringer because it is allegedly abusing its dominant position (assuming that this holder is found to have a dominant position in the relevant market).
- Will SAIC include a ban on injunctive relief related to FRAND-encumbered SEPs in its final rules concerning intellectual property rights and the enforcement of Chinese antitrust law?
- It may be prudent for holders of SEPs to review their FRAND commitments.

- Potential patent infringers might want to check if there are FRAND commitments that would protect them.

This acquisition shows once more that for offshore acquisitions, which have been cleared by other jurisdictions, Chinese antitrust clearance is not to be taken for granted. This time China has quietly stepped into the debate over injunctive relief for FRAND-encumbered SEPs.

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