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Property in Europe: The  
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# Facing New Challenges at the Crossroads Between Competition and Intellectual Property in Europe: The Example of Korean Innovators

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## I. INTRODUCTION

The Free Trade Agreement between the European Union (“EU”) and Korea has been provisionally in force since July 1, 2011, nearly four years after negotiations started in May 2007. The Agreement removes tariffs and other trade barriers in an unprecedented manner, covering virtually all products. EU exporters of pharmaceutical products, auto parts, and agricultural goods are expected to be the primary beneficiaries of the Agreement. At the same time, Korean manufacturers of cars, ships, and high-tech products, such as mobile communications devices, are planning to increase their exports to the EU market. For instance, Hyundai Motor Company, the world’s fourth-largest carmaker, announced its goal of increasing European sales in 2012 by 15.4 percent.<sup>2</sup>

Although Korean high-tech companies may use this opportunity to expand their business in the EU, significant regulatory risks may arise as they navigate through the complex EU legal framework; in particular, competition rules. In this respect, striking the right balance in dealing with emerging issues at the intersection between competition and intellectual property rights (“IPRs”) can present serious challenges. Taking the experience of Korean technology companies as an example, this article briefly reflects on competition law issues which innovative companies face when enforcing certain of their IPRs against infringers. In this connection, a hotly debated issue before the European Commission concerns the compatibility of certain uses of standard-essential patents (“SEPs”), i.e. patents that are essential to implement technical standards, with EU competition law.

## II. KOREAN INNOVATORS

Many of the major Korean companies listed on the Fortune Global 500, including Samsung, Hyundai, SK, POSCO, LG, Korea Electric Power Corporation (“KEPCO”), Hanwha, and Doosan, are thriving in highly innovative technical fields. Thus, it is not surprising that Korea as a country also ranks high in terms of innovation. The country’s 2011 R&D expenditure accounted for over 3 percent of its GDP, the fourth highest in the world after Israel, Finland, and

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<sup>1</sup> Covington & Burling, Brussels. The views expressed in this article are personal and do not necessarily reflect those of law firm or clients. The authors would like to thank Ms. Julie Vandebussche for valuable suggestions and comments.

<sup>2</sup> Reuters, *Hyundai Q4 Profit Up; Bullish on European Sales* (January 26, 2012), <http://uk.reuters.com/article/2012/01/26/hyundai-idUKL4E8CO94P20120126>.

Sweden. Nearly 80 percent of Korea's total R&D is performed by the business sector.<sup>3</sup> For instance, Samsung Electronics invested over \$8 billion in R&D in 2011 and plans to increase the amount in the years to come.<sup>4</sup>

In terms of patenting activity, Korea is fifth in international patent applications, after the United States, Japan, Germany, and China.<sup>5</sup> In recent years, both Samsung and LG were in the top ten patent recipients in the U.S. Patent and Trademark Office.<sup>6</sup> They were also among the top five patent applicants in the European Patent Office.<sup>7</sup> Some statistics show that Hyundai and its sister company Kia Motors' patent registrations for electric and hybrid technology in 2011 ranked second only after Toyota.<sup>8</sup>

### III. STANDARD-RELATED IP AND COMPETITION LAW ISSUES FACED BY HIGH-TECH COMPANIES

One of the areas in which standard-related issues have become critical is the mobile communications industry. A smartphone incorporates cutting-edge technology that is densely patented. Thousands of patents that are essential (or non-essential) to mobile telecommunications standards, such as 2G or 3G, may read on this type of device. Under the traditional IPR policies of standard-setting organizations ("SSOs"), holders of SEPs are expected to disclose their SEPs in the context of the standard-setting process. SEP holders are also asked to commit to grant a license to users on fair, reasonable, and non-discriminatory ("FRAND") terms. The current global patent war in the mobile device industry largely revolves around issues arising from the nature and meaning of these FRAND commitments.

In April 2011, Apple initiated litigation against Samsung claiming that the latter's Galaxy smartphones and tablets infringed Apple's patents and other IPRs. Samsung countersued Apple for patent infringement. Both parties sought injunctive relief in multiple jurisdictions to ban each other's products from being sold in those markets. Apple mainly sought to enforce rights in designs or the "look and feel" of its mobile devices whereas Samsung's response involved patents, some of which had been declared essential for implementing certain wireless and mobile telecommunication system standards. Samsung had provided a commitment to the relevant SSO, European Telecommunications Standards Institute ("ETSI"), to make its SEPs available on FRAND terms.

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<sup>3</sup> OECD, *OECD Science, Technology and Industry Scoreboard 2011: Innovation and Growth in Knowledge Economies*, p. 76 (September 20, 2011), [http://www.oecd-ilibrary.org/science-and-technology/oecd-science-technology-and-industry-scoreboard-2011\\_sti\\_scoreboard-2011-en](http://www.oecd-ilibrary.org/science-and-technology/oecd-science-technology-and-industry-scoreboard-2011_sti_scoreboard-2011-en).

<sup>4</sup> Samsung Electronics, Consolidated Statements of Income as of December 31, 2011, [http://www.samsung.com/us/aboutsamsung/ir/financialinformation/auditedfinancialstatements/downloads/consolidated/2011\\_con\\_quarter04\\_soi.pdf](http://www.samsung.com/us/aboutsamsung/ir/financialinformation/auditedfinancialstatements/downloads/consolidated/2011_con_quarter04_soi.pdf).

<sup>5</sup> World Intellectual Property Organization (WIPO), *International Patent Filings Set New Record in 2011* (March 5, 2012), [http://www.wipo.int/pressroom/en/articles/2012/article\\_0001.html](http://www.wipo.int/pressroom/en/articles/2012/article_0001.html).

<sup>6</sup> E.g., USPTO, Patenting by Organizations 2010, [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/topo\\_10.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/topo_10.htm).

<sup>7</sup> EPO, Annual Report 2011 - Statistics and Trends: Top Applicants (March 23, 2011), <http://www.epo.org/about-us/office/annual-report/2011/statistics-trends/top-applicants.html>.

<sup>8</sup> E.g., Autobild, Innovationen für Elektromobilität: Korea holt auf (*Innovations for electric mobility: Korea is catching up*) (November 15, 2011), <http://www.autobild.de/artikel/elektromobilitaet-innovationen-2286141.html>.

The patent dispute between the two competitors became an antitrust issue when the Commission decided to open formal proceedings against Samsung in January 2012 to assess whether its enforcement of SEPs was in compliance with EU competition rules.<sup>9</sup>

In April 2012, the Commission announced the opening of another investigation. Having received complaints from Apple and Microsoft, the Commission decided to examine “as a matter of priority” whether Google and Motorola Mobility Inc. (“MMI”), which have now merged, may have breached the FRAND commitment Motorola made to ETSI by seeking injunctions against competitors’ products on the basis of the SEPs.<sup>10</sup> The Commission would also consider whether such behavior might constitute abuse of a dominant position violating EU competition rules.<sup>11</sup>

There is no precedent in national or EU law addressing the issue of whether, by having recourse to an injunction, an SEP holder breaches its FRAND commitment and/or Article 102 TFEU. Moreover, in its Guidelines on Horizontal Cooperation Agreements, the Commission took a careful position by saying that there was no presumption that holding or exercising IPRs essential to a standard equated to the possession or exercise of market power.<sup>12</sup> Although the option to seek injunctive relief against unauthorized use is normally inherent in granted IPRs, the Commission appears to be signaling some concern about abusive use of IPRs in certain circumstances.

#### IV. ALIGNING IP STRATEGY WITH ANTITRUST COMPLIANCE

The Commission’s ongoing investigations on the use of SEPs will have an impact beyond the parties concerned. What could be viewed as a legitimate IP strategy may well raise anticompetitive concerns under certain circumstances. Although it will take time to achieve a measure of legal certainty on this issue, at the present stage, companies may pre-emptively consider better aligning their IP strategy, both in terms of licensing and litigation, with applicable competition rules.

##### *A. Aligning IP Litigation Strategy with Antitrust Compliance*

National courts in EU Member States can directly apply Article 102 TFEU, a provision that prohibits abuse of dominance under EU competition law. This provision can therefore be invoked in a so-called “Euro-Defence” by manufacturers being accused of infringing SEPs. On the other hand, the fact that substantive patent laws are not yet harmonized in the EU makes it difficult to predict the outcome of multi-jurisdictional patent litigation.

Specifically in relation to patent suits pending in several European jurisdictions, effective coordination among local IP counsel, on the one hand, but also among IP counsel and EU competition counsel, on the other, has become increasingly important, in particular if a

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<sup>9</sup> European Commission, Antitrust: Commission Opens Proceedings against Samsung, IP/12/89, (January 31, 2012), <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/89>.

<sup>10</sup> European Commission, Antitrust: Commission Opens Proceedings against Motorola, IP/12/345, (April 3, 2012), <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/345&format=HTML&aged=0&language=EN>.

<sup>11</sup> *Id.*

<sup>12</sup> European Commission, Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the European Union (TFEU) to Horizontal Co-operation Agreements, 2011/C 11/01, ¶ 269.

complaint has been lodged against alleged abusive uses of SEPs before the Commission. Parallel proceedings before the national patent courts and the European Commission require strategic thinking as such proceedings are likely to influence each other.

On whether an SEP holder's seeking injunctive relief may trigger an EU competition law issue, the Commission's *Google/MMI* merger decision underlines the importance for both would-be licensors and would-be licensees of acting in "good faith."<sup>13</sup> Although the *Google/MMI* decision did not address the issue of whether recourse by an SEP holder to an injunction could amount to an abuse of a dominant position, this decision, in the absence of case law of the EU courts, provides some insight into the way the Commission is likely to assess this issue. In particular, this decision draws a useful distinction between two distinct situations:

1. On the one hand, the decision states, "it may be legitimate for the holder of SEPs to seek an injunction against a potential licensee which is not willing to negotiate in *good faith* on FRAND terms."<sup>14</sup>
2. On the other hand, the decision states, "[an SEP holder] would be in a position to cause a significant impediment to effective competition, in particular by having recourse to injunctions against *good faith licensees*, with the aim of: (i) raising the royalty levels (both rate and base) ...; (ii) forcing potential licensees into cross-licenses on terms which they would otherwise not have agreed to; and/or (iii) excluding competitors from the market."<sup>15</sup>

Putting this into an abuse of dominance context, the above statements in the decision suggest that:

- It may be legitimate for an SEP holder to seek an injunction against a potential licensee that is not willing to negotiate in good faith on FRAND terms.
- It may not be legitimate for an SEP holder to seek an injunction against a potential licensee that is willing to negotiate in good faith on FRAND terms in order to *exploit* that potential licensee (by extracting excessive royalties or an unjustified cross-license) or to *exclude* it from the market.

Although the second bullet point contains some ambiguities, the language contained in the *Google/MMI* decision can probably form the basis of a test that would allow us to determine the circumstances where recourse by an SEP holder to an injunction could be abusive.

### ***B. Aligning IP Licensing Strategy with Antitrust Compliance***

If a patent holder had previously committed to grant licenses on FRAND terms, such commitment must be respected throughout the process of licensing negotiations. A FRAND-compliant licensing strategy for SEPs would require that, on the one hand, the process of licensing negotiations is not abusive but in "good faith" and, on the other hand, the specifics of a licensing offer are within the appropriate limits of FRAND conditions.

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<sup>13</sup> Case No. COMP/M.6381 - Google / Motorola Mobility (February 13, 2012), ¶ 107.

<sup>14</sup> *Id.* at ¶ 126.

<sup>15</sup> *Id.* at ¶ 109.

There is no one-size-fits-all formula to calculate whether or not an offer is FRAND. It should be examined based on all relevant facts and circumstances of the offer being made, including the nature of the consideration available from the potential licensee *e.g.* a royalty, a cross-license, or the combination of both. Also, it may be useful to monitor certain benchmarks as a reference to assess whether a given price is excessive or not. Examples include historical prices comparing the prices charged today and in the past, prices in different geographic markets, and prices charged by competitors for similar technology.

In sum, proper coordination between IP enforcement and antitrust compliance must be emphasized. Without consistency between the two, high-tech companies in Korea and elsewhere may run the risk of seeing their enforcement actions before national patent courts countered by claims of breach of EU competition rules, and of exposing themselves to investigations by the Commission.

### *C. Moving Forward with EU Law and Policy Making*

Companies that are located outside the EU, and not fully familiar with the EU legal and regulatory regime, are particularly at risk of underestimating the importance of compliance with EU competition rules, especially as they apply to innovative sectors. In this respect, engagement with the Commission should not be limited to defending Commission investigations when they arise, but should also include pro-active communication with the Commission when it opens public consultations on important subjects. For instance, the Commission is currently revising the rules for the assessment of licensing agreements for technology transfer under EU competition law, also known as the Technology Transfer Block Exemption Regulation (“TTBER”) and the accompanying Guidelines, the present version of which is set to expire in April 2014. This review process will offer opportunities to high-tech companies to express their views on the new legislation.

Returning to the Korean experience in the EU, Hyundai’s pro-active EU relations experience may provide one reference in that direction. Being commercially present in Europe for more than three decades, Hyundai and Kia Motors have been sharing their positions in EU legislative discussions as relevant to them; for example, concerning certain branding issues in vertical sales agreements.<sup>16</sup> The Korean Automobile Manufacturers Association (“KAMA”), which has both companies as its members, has participated in such processes as well.<sup>17</sup>

Whether from Korea or other non-European countries, innovators may wish to consider increasing their visibility in the EU rules-making process. A proactive approach can help such companies to better integrate in the EU’s internal market and to compete on a level playing field.

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<sup>16</sup> *E.g.*, Kia Motors, Kia Motors Europe GmbH (Kia) Comments on the Draft Commission Notice - Supplementary Guidelines on Vertical Restraints in Agreements for the Sale and Repair of Motor Vehicles and for the Distribution of Spare Parts for Motor Vehicles (February 10, 2010), [http://ec.europa.eu/competition/consultations/2010\\_motor\\_vehicles/kia\\_motors\\_en.pdf](http://ec.europa.eu/competition/consultations/2010_motor_vehicles/kia_motors_en.pdf).

<sup>17</sup> *E.g.*, KAMA, KAMA Comments on the Commission’s Evaluation Report on the Block Exemption Regulations (July 29, 2008), [http://ec.europa.eu/competition/consultations/2008\\_motor\\_vehicle/kama\\_en.pdf](http://ec.europa.eu/competition/consultations/2008_motor_vehicle/kama_en.pdf).

More importantly, the Commission is at the forefront of ensuring that IPRs are not used to impede, but to stimulate competition as well as innovation. In doing so, it does not hesitate to take on novel issues emerging from IPRs.