



EUROPEAN COMMISSION

***CASE AT.39985 - MOTOROLA - ENFORCEMENT OF  
GPRS STANDARD ESSENTIAL PATENTS***

(Only the English text is authentic)

**ANTITRUST PROCEDURE**

**Council Regulation (EC) 1/2003**

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Article 7 Regulation (EC) 1/2003

Date: 29/04/2014

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EUROPEAN COMMISSION

Brussels, 29.04.2014  
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PUBLIC VERSION

**COMMISSION DECISION**

**of 29.04.2014**

**addressed to Motorola Mobility LLC  
relating to proceedings under Article 102 of the Treaty on the Functioning of the  
European Union and Article 54 of the EEA Agreement**

**Case AT.39985 - Motorola - Enforcement of GPRS standard essential patents**

(Only the English text is authentic)

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1/2003, of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty<sup>1</sup>, and in particular Articles 7 and 23(2) thereof,

Having regard to the Commission decision of 2 April 2012 to initiate proceedings in this case,

Having given the undertaking concerned the opportunity to make known its views on the objections raised on 6 May 2013 by the Commission pursuant to Article 27(1) of Regulation (EC) No 1/2003 and Article 12 of Commission Regulation (EC) No 773/2004 of 7 April 2004 relating to the conduct of proceedings by the Commission pursuant to Articles 81 and 82 of the Treaty<sup>2</sup>,

After consulting the Advisory Committee on Restrictive Practices and Dominant Positions,

Having regard to the final report of the hearing officer in this case<sup>3</sup>,

Whereas:

## 1. INTRODUCTION

- (1) This Decision sets out the Commission's finding that, in the exceptional circumstances of this case and in the absence of any objective justification, Motorola has infringed Article 102 TFEU and Article 54 of the EEA Agreement by seeking and enforcing an injunction against Apple before the courts of the Federal Republic of Germany ("Germany")<sup>4</sup>. Motorola sought and enforced the injunction on the basis of a standard essential patent ("SEP") reading on the General Packet Radio Service ("GPRS") standard, which it has committed to the European Telecommunications Standards Institute ("ETSI") to license on fair, reasonable and non-discriminatory ("FRAND") terms and conditions.
- (2) The exceptional circumstances in this case are the GPRS standard-setting process and Motorola's commitment to license the GPRS SEP on FRAND terms and conditions (see below section 8.2.1).
- (3) The absence of objective justification in this case in particular relates to the fact that Apple was not unwilling to enter into a licence agreement on FRAND terms and conditions (see recitals (430)-(464) below).

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<sup>1</sup> OJ L 1, 4.1.2003, p. 1. With effect from 1 December 2009, Articles 81 and 82 of the EC Treaty have become Articles 101 and 102, respectively, of the Treaty on the Functioning of the European Union. The two sets of provisions are, in substance, identical. For the purposes of this Decision, references to Articles 101 and 102 TFEU should be understood as references to Articles 81 and 82, respectively, of the EC Treaty when appropriate. The TFEU also introduced certain changes in terminology, such as the replacement of "Community" by "Union" and "common market" by "internal market". Where the meaning remains unchanged, the terminology of the TFEU will be used throughout this Decision.

<sup>2</sup> OJ L 123, 27.4.2004, p. 18.

<sup>3</sup> Final report of the Hearing Officer of 28/04/2014.

<sup>4</sup> The present Decision meets the Commission's enforcement priorities in applying Article 102 TFEU to exclusionary conduct, as set out in the Communication from the Commission - "Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings", OJ C 45, 24.2.2009, p. 7.

## 2. THE UNDERTAKINGS CONCERNED

### 2.1. Motorola

- (4) Motorola, Inc. was an American telecommunications company founded in 1928 and based in Illinois. On 4 January 2011, Motorola, Inc. was divided into two independent companies, Motorola Solutions, Inc. and Motorola Mobility Holdings Inc. ("MMI").
- (5) Motorola, Inc. designed and sold wireless network infrastructure equipment including cellular transmission base stations and signal amplifiers. These businesses now mainly form part of Motorola Solutions.
- (6) Motorola, Inc. also produced smartphones (the Mobile Devices business) and set-top boxes, end-to-end video solutions, and cable modems (the Home business). These businesses became part of MMI, which started as an independent entity in January 2011.
- (7) On 15 August 2011, Google Inc. ("Google") announced that it would acquire MMI, subject to approval from regulators in the United States, China and the European Economic Area ("EEA"). Following the receipt of such approval<sup>5</sup>, Google completed the acquisition of MMI on 22 May 2012 through the merger of Google's wholly owned subsidiary RB98 INC with and into MMI, with MMI continuing as the surviving corporation<sup>6</sup>. As a result of the merger, MMI became a wholly-owned (100%) subsidiary of Google<sup>7</sup> and subsequently changed its legal form to become Motorola Mobility LLC ("MML"). On 19 December 2012, Google announced that it would sell MML's Home business to ARRIS Inc<sup>8</sup>. The transaction was completed on 17 April 2013<sup>9</sup>.
- (8) On 29 January 2014, Google entered into an agreement to sell the smartphone business of MML to Lenovo Group Limited<sup>10</sup>.
- (9) Unless specifically specified otherwise, MMI and MML are for the purposes of this Decision referred to as "Motorola".
- (10) The following tables 1 and 2 provide data on Motorola's turnover and number of patents<sup>11</sup>:

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<sup>5</sup> For the EEA, see the Commission Decision of 13 February 2012 in Case COMP/M.6381 – Google/Motorola Mobility.

<sup>6</sup> Google Inc, Form 8-K, Current Report of 22 May 2012, available at: <http://google.client.shareholder.com/secfiling.cfm?filingid=903423-12-297>, printed on 21 January 2013 [Doc ID 458].

<sup>7</sup> Google Inc, Form 8-K, Current Report of 22 May 2012, available at: <http://google.client.shareholder.com/secfiling.cfm?filingid=903423-12-297>, printed on 21 January 2013 [Doc ID 458].

<sup>8</sup> Google Inc., Form 8-K, Current Report of 20 December 2012, available at: <http://www.sec.gov/Archives/edgar/data/1288776/000119312512510448/d457329d8k.htm>, printed on 21 January 2013 [Doc ID 457].

<sup>9</sup> See ARRIS Group, Inc, Form 8-K, Current Report of 17 April 2013, available at <http://www.sec.gov/Archives/edgar/data/1141107/000119312513160131/d522646d8k.htm>, printed on 22 April 2013 [Doc ID 513].

<sup>10</sup> See <https://investor.google.com/releases/2014/0129.html>, printed on 24 February 2014 [Doc ID 822].

<sup>11</sup> See Motorola's submission of 5 October 2012 [Doc ID 305]. This Decision refers to 2011 and 2012 figures as these years correspond to the time of the conduct assessed in the Decision.

Table 1: Motorola's turnover in 2011

<b>TURNOVER 2011 (IN MILLION)</b>		
	<b>USD</b>	<b>EUR</b>
Europe	[900 – 1,200]	[650 – 850]
Rest of world	[10,000 – 13,500]	[7,800 – 9,500]
<b>Total</b>	<b>[10,900 – 14,700]</b>	<b>[8,450 – 10,350]</b>

Table 2: Motorola's patents in September 2012

<b>PATENTS AND SEPS</b>				
	<b>PATENTS</b>	<b>APPLICATIONS</b>	<b>SEPS</b>	<b>APPLICATIONS</b>
EEA	[4500 – 5000]	[900 – 1,200]	[500 – 1000]	[250 – 350]
Rest of world	[12,000-15,000]	[4,500 – 6,000]	[1,500 - 2,000]	[1,000 – 1,500]
<b>Total</b>	<b>[16,500-20,000]</b>	<b>[5,400 – 7,200]</b>	<b>[2,000 –3,000]</b>	<b>[1,250 – 1,850]</b>

- (11) At the time of the conduct assessed in this Decision, Motorola's patent portfolio included [40 – 50] patent families that had been declared essential to the ETSI GSM<sup>12</sup>/GPRS standard and which contain at least one EEA country patent. Its portfolio included [180 – 200] patent families that it declared essential to the UMTS standard<sup>13</sup> and which contain at least one EEA country patent<sup>14</sup>.

## 2.2. Apple

- (12) Apple Inc. is an American corporation that designs, manufactures and markets a range of personal computers, mobile communication and media devices, and portable digital music players and sells a variety of related software, services, networking solutions, and third party digital content and applications. Apple Inc. and its subsidiaries Apple Retail Germany GmbH and Apple Sales International are relevant for the purposes of this Decision. Apple Inc. and these subsidiaries are collectively referred to as "Apple".
- (13) Apple Retail Germany GmbH is responsible for Apple retail stores in Germany. It is the legal entity that owns all leases for the premises in Germany where Apple's retail stores are located. It also distributes Apple products, including the iPhone, to the various different Apple retail stores in Germany.
- (14) Apple Sales International is an Irish subsidiary of Apple Inc. It imports Apple products, including the iPhone, into Europe, including Germany.

<sup>12</sup> GSM ("Global System for Mobile communications") is a standard developed by ETSI to describe technologies for second generation (2G) digital cellular networks. Developed as a replacement for first generation (1G) analogue cellular networks, the GSM standard originally described a digital, circuit switched network optimized for full duplex voice telephony. For more details see section 5.1.

<sup>13</sup> UMTS is a third generation ("3G") mobile and wireless communications system capable of supporting in particular innovative multimedia services, beyond the capability of second generation systems such as GSM.

<sup>14</sup> These standards will be explained in more detail in sections 5.1, 5.2, 6.2.5.1 and 6.2.5.2.

- (15) Apple's best-known hardware products are the Macintosh line of computers, the iPod (portable music player), the iPhone (smartphone) and the iPad (tablet computer). Its software includes, amongst others, the Mac OS X operating system and iOS, a mobile operating system. Its worldwide revenue amounted to EUR 77 765 million (USD 108 billion) in fiscal year 2011<sup>15</sup>. Apple is present in most countries within the EEA and its European headquarters are in Cork, Ireland.
- (16) Apple entered the mobile telecommunication sector in 2007 when it launched its first smartphone, the iPhone. Currently, all of Apple's mobile devices<sup>16</sup> implement the GPRS standard, including those which also implement subsequent generations of telecommunication standards (such as the UMTS standard), notably the smartphone models iPhone 3G, iPhone 3GS, iPhone 4, iPhone 4S, and – since September 2012, the iPhone 5, the iPhone 5S and the iPhone 5C.

### **2.3. Other undertakings**

#### *2.3.1. Google*

- (17) Google is an internet technology company based in the United States. As set out in recital (7), Google's acquisition of MMI was completed on 22 May 2012, three days after the approval of the merger by China's Ministry of Commerce. As a result of the merger, MML became a wholly-owned (100%) subsidiary of Google<sup>17</sup>. As outlined in recital (443), the abusive conduct, as established by this Decision, ended on 29 May 2012, when Motorola filed declarations with the German courts that the injunction proceedings against Apple were moot<sup>18</sup>. Google was therefore Motorola's parent company for a period of 7 days preceding the end of the infringement.

- (18) For the reasons set out in section 14, this Decision is addressed solely to Motorola.

#### *2.3.2. Samsung*

- (19) By letter of 22 July 2013, Samsung Electronics Co. Ltd., Samsung Electronics France, Samsung Electronics GmbH, Samsung Electronics Holding GmbH and Samsung Electronics Italia s.p.a. (together "Samsung") applied to be heard as an interested third person. By decision of 23 July 2013, the Hearing Officer decided that Samsung should be heard as an interested third person.

### **3. PROCEDURE**

- (20) On 14 February 2012, Apple submitted a complaint pursuant to Article 7 of Regulation (EC) No 1/2003 (the "Complaint") with respect to Motorola's enforcement in Germany of two patents that Motorola had declared essential to telecommunication standards, including a patent declared essential to the ETSI GSM/GPRS standard, which Motorola has committed to license on FRAND terms

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<sup>15</sup> Source: <http://www.apple.com/pr/library/2011/10/18Apple-Reports-Fourth-Quarter-Results.html>. These figures refer to year 2011 which is the year of the beginning of the behaviour at stake.

<sup>16</sup> For the purposes of this Decision, "mobile devices" cover basic and feature phones, smartphones and tablets.

<sup>17</sup> Google Inc., Form 8-K, Current Report of 22 May 2012, available at: <http://google.client.shareholder.com/secfiling.cfm?filingid=903423-12-297>, printed on 21 January 2013 [Doc ID 458]. See in more detail section 14.2.

<sup>18</sup> See Motorola's submission of 15 October 2012, point 6 [Doc ID 309]. Motorola kept open the proceedings pending in the Karlsruhe Higher District Court ("Oberlandesgericht Karlsruhe", hereinafter the "Karlsruhe Appellate Court") with respect to damages for past infringement and accounting.

and conditions. Apple also complained about Google's alleged involvement in Motorola's conduct.

- (21) On 17 February 2012, the Commission sent a non-confidential version of the Complaint to Motorola<sup>19</sup>, which responded to the Complaint on 2 March 2012<sup>20</sup>. On 9 March 2012, Google also responded to the Complaint<sup>21</sup>.
- (22) On 2 April 2012, the Commission initiated proceedings against Motorola with a view to adopting a decision under Chapter III of Regulation (EC) No 1/2003.
- (23) On 6 May 2013, the Commission notified a Statement of Objections ("SO") to Motorola.
- (24) On 2 July 2013, Motorola submitted its reply to the SO. By letter of the same date, Motorola requested the opportunity to express its views at an oral hearing pursuant to Article 12(1) of Regulation (EC) No 773/2004.
- (25) On 14 June 2013, the Commission provided Apple with a copy of the non-confidential version of the SO pursuant to Article 6(1) of Regulation (EC) No 773/2004. On 22 July 2013, Apple submitted its views on the SO.
- (26) On 9 September 2013, the Commission informed Samsung in writing of the nature and subject matter of the procedure pursuant to Article 13(1) of Commission Regulation (EC) No 773/2004. On 26 September 2013, Samsung made known its views.
- (27) On 30 September 2013, an Oral Hearing took place, during which Motorola, Apple and Samsung developed their arguments.
- (28) In the course of the investigation, Motorola and Apple have kept the Commission informed about the evolution of the litigation between them, both in Germany and in the United States<sup>22</sup>. They have also kept the Commission informed of the evolution of the FRAND rate-setting proceedings before the Landgericht Mannheim (hereinafter "Mannheim District Court")<sup>23</sup>.

#### **4. BACKGROUND**

##### **4.1. Patent rights and their enforcement within the EEA**

- (29) The relevant type of intellectual property ("IP") right in this case is the patent right. The specific subject-matter of a patent right is to guarantee the reward of the

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<sup>19</sup> Doc ID 31 to 49.

<sup>20</sup> Doc ID 95 to 101, 107 and 108.

<sup>21</sup> Doc ID 110 to 120.

<sup>22</sup> See in particular Annex 1 of Motorola's response to the Complaint [Doc ID 96] and the Appendices thereof [Doc ID 190]; Motorola's letter of 18 May 2012 to Apple [Doc ID 401]; Apple's letter of 29 May 2012 to Motorola [Doc ID 393]; Motorola's response to the Commission's request for further information ("RFI") of 3 May 2012 [Doc ID 254], Apple's response to the RFI of 3 May 2012 [Doc ID 477].

<sup>23</sup> See in particular Motorola's submission of 9 October 2012 to the Mannheim District Court [Doc ID 388]; Motorola's submission of 11 October 2012 to the Mannheim District Court [Doc ID 387]; Apple's claim of 6 June 2013 for interlocutory declaratory judgment, submitted on 13 September 2013 [Doc ID 719]; Apple's submission of 2 September 2013 to the Mannheim District Court [Doc ID 805]; Motorola's submission of 30 August 2013 to the Mannheim District Court [Doc ID 689]; Apple's submission of 13 November 2013 [Doc ID 795]; the Mannheim District Court's order of 8 November 2013 [Doc ID 807] and its letter of 15 November 2013 to the Commission [Doc ID 806].

inventive effort of the inventor, who has "*the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements*"<sup>24</sup>.

- (30) Currently, patent rights within the EEA are granted in essence through three systems: the national patent systems of the Contracting Parties of the EEA Agreement, the European patent system, based in particular on the 1973 Munich Convention on the European Patent ("EPC"), and international applications under the Patent Cooperation Treaty.
- (31) Patents that are granted by the European Patent Office based on the EPC ("European Patents") do not create a uniform protection right throughout the EEA. They, rather, provide an applicant with protection in as many of the 38 Signatory States to the EPC as it wishes. Upon grant, European Patents become a bundle of national patents, one for each of the Signatory States designated by the patentee and for which, inter alia, the fees have been paid. In each designated Signatory State, a European Patent gives the patentee the same rights as those which are conferred by a national patent granted in that Signatory State<sup>25</sup>. The enforcement of European Patents is governed by the different national laws of the Signatory States to the EPC. Any infringement of a European Patent is therefore dealt with under the national law of the relevant Signatory State<sup>26</sup>.
- (32) The Agreement on Trade-Related Aspects of Intellectual Property Rights ("the TRIPS Agreement")<sup>27</sup> also contains provisions on the means of protecting and enforcing patent rights by which all EEA Contracting Parties are bound.
- (33) Article 28 of the TRIPS Agreement provides that a patent gives its owner the right to prevent others from making, using or selling the invention without its permission.
- (34) Article 8(2) of the TRIPS Agreement further stipulates that: "*Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology*"<sup>28</sup>.
- (35) In accordance with the TRIPS Agreement, Directive 2004/48 of the European Parliament and of the Council ("the Enforcement Directive")<sup>29</sup> aims at approximating the legislative systems of the Member States with regard to the enforcement of IP

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<sup>24</sup> Case 187/80 *Merck & Co Inc. v Stephar BV and Petrus Stephanus Exler* [1981] ECR 2063, paragraph 4.

<sup>25</sup> Articles 2 and 64 of the EPC.

<sup>26</sup> Article 64 of the EPC.

<sup>27</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, 1 January 1995. Uruguay Round of Multilateral Trade Negotiations (1986- 1994) - Annex 1 - Annex 1C - Agreement on Trade-Related Aspects of Intellectual Property Rights (WTO) (OJ L 336, 23.12.1994, p. 214).

<sup>28</sup> See also Article 40(2) of the TRIPS Agreement: "*Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.*"

<sup>29</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L 157, 30.4.2004, p. 45).

rights so as to ensure "a high, equivalent and homogeneous level of protection in the internal market"<sup>30</sup>.

#### 4.1.1. *Means of redress for infringements of IP rights under the Enforcement Directive*

- (36) The Enforcement Directive distinguishes between provisional and precautionary measures, and measures resulting from a decision on the merits of the case.
- (37) The provisional and precautionary measures mentioned in the Enforcement Directive consist of interlocutory/preliminary injunctions, the seizure of goods suspected of infringing an IP right and the precautionary seizure of the movable and immovable property of the alleged infringer. The measures resulting from a decision on the merits of the case consist of corrective measures, injunctions, alternative measures and damages.
- (38) Furthermore, Member States may apply other appropriate sanctions in cases where IP rights have been infringed<sup>31</sup>.
- (39) For the purposes of this Decision, permanent injunctions and damages are relevant. The 'loser pays' principle and the proportionality of remedies and safeguards against abuses contained in the Enforcement Directive are also relevant.

#### 4.1.2. *Permanent injunctions*

- (40) Pursuant to the Enforcement Directive, measures resulting from a decision on the merits available to judicial authorities in the Member States include corrective measures, permanent injunctions and damages. For these measures to apply, it is a precondition that an infringement of an IP right is found in proceedings on the merits.
- (41) At the request of the IP right holder, a court may order that appropriate measures be taken with regard to goods found to be infringing an IP right. These corrective measures include recall from the channels of commerce, definitive removal from the channels of commerce, and destruction<sup>32</sup>. In addition, a permanent injunction may be issued against an infringer. A permanent injunction is not limited in time and prohibits an infringer from continuing to infringe the IP right at stake<sup>33</sup>.

#### 4.1.3. *Damages*

- (42) Pursuant to Article 13 of the Enforcement Directive, Member States shall ensure that judicial authorities can order damages against an infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity. The infringer must pay the right holder damages commensurate with the actual prejudice suffered as a result of the infringement. When the judicial authorities establish the level of damages, they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement. Alternatively, judicial authorities may set the damages as a lump sum on the basis of elements, including at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the IP right in

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<sup>30</sup> Recital 10 of the Enforcement Directive.

<sup>31</sup> Article 16 of the Enforcement Directive.

<sup>32</sup> Article 10(1) of the Enforcement Directive.

<sup>33</sup> Article 11 of the Enforcement Directive.

question<sup>34</sup>. Finally, Article 13(2) of the Enforcement Directive provides that judicial authorities have the ability to order the recovery of profits or the payment of damages, where the infringer engaged in an infringing activity unknowingly or without reasonable grounds to know.

#### 4.1.4. *The 'loser pays' principle*

(43) Article 14 of the Enforcement Directive provides that Member States must ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this.

#### 4.1.5. *Proportionality of remedies and safeguards against abuses*

(44) Pursuant to Article 3(2) of the Enforcement Directive, the mentioned remedies shall "[...] be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse".

(45) Recital 12 of the Enforcement Directive further states that the Directive "[...] should not affect the application of the rules of competition, and in particular Articles [101] and [102] of the Treaty. The measures provided for in the Directive should not be used to restrict competition unduly in a manner contrary to the Treaty".

## 4.2. **Standards, standard-setting organisations and standard essential patents**

### 4.2.1. *Standards*

(46) Standards ensure compatibility and interoperability between related products. This has many benefits<sup>35</sup>. Standards can encourage innovation and lower costs by increasing the volume of manufactured products. Standards can strengthen competition by enabling consumers to switch more easily between products from different manufacturers. Standards may also further the Treaty objective of achieving the integration of national markets through the establishment of an internal market. The European Union has accordingly promoted standardisation as a tool for European competitiveness<sup>36</sup>.

### 4.2.2. *Standard-setting organisations*

(47) Standard-setting organisations ("SSOs") are organisations whose primary activity is to develop and maintain standards by bringing together industry participants to evaluate competing technologies for inclusion in standards.

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<sup>34</sup> Article 13(1) of the Enforcement Directive.

<sup>35</sup> Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements ("the Horizontal Guidelines"), OJ C 11, 14.1.2011, p. 1, paragraph 263.

<sup>36</sup> See Communication from the Commission of 11 March 2008 to the Council, the European Parliament and the European Economic and Social Committee, "Towards an increased contribution from standardisation to innovation in Europe", COM(2008) 133 final; and Communication from the Commission of 1 June 2011 to the European Parliament and the European Economic and Social Committee: "A strategic vision for European standards: Moving forward to enhance and accelerate the sustainable growth of the European economy by 2020", COM(2011) 311 final. See also Regulation (EU) No 1025/2012 of the European Parliament and of the Council of 25 October 2012 on European standardisation, amending Council Directives 89/686/EEC and 93/15/EEC and Directives 94/9/EC, 94/25/EC, 95/16/EC, 97/23/EC, 98/34/EC, 2004/22/EC, 2007/23/EC, 2009/23/EC and 2009/105/EC of the European Parliament and of the Council and repealing Council Decision 87/95/EEC and Decision No 1673/2006/EC of the European Parliament and of the Council, OJ L 316, 14.11.2012, p. 12.



- (48) SSOs also seek to ensure that industry participants contribute technology that will create valuable standards and that these standards are widely adopted. The broader the implementation of a standard, the greater the interoperability benefits.
- (49) Participants in a standard-setting process can obtain significant benefits if their technology becomes part of a standard. These include potential royalties from licensees, a large base of licensees, increased demand for their products and improved compatibility with other products using the standard.
- (50) The European Union and the European Free Trade Association (EFTA) have recognised three SSOs as official European standardisation bodies: the European Committee for Standardisation (CEN), the European Committee for Electrotechnical Standardisation (CENELEC) and ETSI<sup>37</sup>.

#### 4.2.3. *Standard essential patents*

- (51) Standards frequently make reference to technologies that are protected by patents, especially in industries such as telecommunications. Hundreds or even thousands of patents may read on a single standard. Thus, when a user of a standard (also known as an "implementer") manufactures standard-compliant products, it cannot avoid that its products use technologies that are covered by such patents.
- (52) Patents that are essential to a standard are those that cover technology to which a standard makes reference and that implementers of the standard cannot avoid using in standard-compliant products. These patents are known as SEPs. SEPs are different from patents that are not essential to a standard ("non-SEPs"). This is because it is normally technically possible for an implementer to design around a non-SEP without sacrificing key functionality. By contrast, an implementer has to use the technology protected by a SEP when manufacturing a standard-compliant product.
- (53) SEPs can therefore be of great value to their holders. A SEP holder can expect a substantial revenue stream, in particular for SEPs covering standards that are destined to be implemented in numerous products sold to millions of consumers. Once a particular patented technology has been chosen and incorporated into a standard, alternative competing technologies may disappear from the market.

### **4.3. The European Telecommunication Standards Institute (ETSI)**

- (54) This Decision concerns the enforcement by Motorola of a patent which Motorola has declared essential to the GSM/GPRS standard and which Motorola has committed to ETSI to license on FRAND terms and conditions.
- (55) As one of the three European Standardisation Organisations ("ESO"), ETSI is officially responsible for producing standards and specifications supporting policies of the European Union and EFTA policies and enabling an internal market in telecommunications<sup>38</sup>. The rules followed by ETSI are set out in the ETSI Directives, which comprise, among others, the ETSI Statutes, to which the ETSI Intellectual Property Rights policy ("ETSI IPR Policy") is annexed, and the ETSI Guide on

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<sup>37</sup> See Annex I of Regulation (EU) No 1025/2012, OJ L 316, 14.11.2012, p. 12.

<sup>38</sup> See <http://www.etsi.org/WebSite/AboutETSI/RoleinEurope/Publicpolicy.aspx>, printed on 26 February 2013 [Doc ID 447].

Intellectual Property Rights ("ETSI IPR Guide"), which provides guidance on the application of the ETSI IPR Policy<sup>39</sup>.

#### 4.3.1. *The ETSI IPR Policy*

- (56) ETSI members are required to comply with the ETSI IPR Policy. The ETSI IPR Policy was first developed and incorporated in the ETSI Rules of Procedures in 1994<sup>40</sup>. In addition, ETSI adopted the ETSI IPR Guide to provide assistance to ETSI members in applying the ETSI IPR Policy.
- (57) The ETSI IPR Policy seeks to prevent patent "hold-up" and to provide a balance between the public benefits of standardisation in the field of telecommunications and the rights of SEP holders. In its own words, it *"seeks to reduce the risk to ETSI, members, and others applying ETSI standards and technical specifications, that investments in the preparation, adoption and application of standards could be wasted as a result of an essential intellectual property right for a standard or technical specification being unavailable"*<sup>41</sup>. Therefore, the *"knowledge of the existence of Essential intellectual property rights is required as early as possible within the standards making process"*<sup>42</sup>.
- (58) Although the ETSI IPR Policy has been revised on 11 occasions (in 1997, 2000, 2001, 2004, 2005, 2006, 2007, 2008, 2009, 2011 and 2013), the main obligations of the members of ETSI have remained the same. Members have the obligation to inform ETSI of any essential intellectual property right ("IPR") in a timely fashion and are requested to make their IPRs available by giving a FRAND commitment to ETSI.
- (59) More specifically, under the ETSI IPR Policy, the latest version of which was adopted on 20 March 2013<sup>43</sup>, ETSI members have an obligation to inform ETSI about all IPRs they may hold in a future standard<sup>44</sup>.

#### 4.3.2. *ETSI and standard essential patents*

- (60) The ETSI IPR Policy defines SEPs as follows: *"essential' as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardisation, to make, sell, lease, otherwise dispose of, repair, use or operate equipment or methods which comply with a standard without infringing that IP right"*<sup>45</sup>.

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<sup>39</sup> The ETSI Directives are contained in a single file available at [http://portal.etsi.org/directives/32\\_directives\\_oct\\_2013r.pdf](http://portal.etsi.org/directives/32_directives_oct_2013r.pdf), printed on 10 February 2014 [Doc ID 818].

<sup>40</sup> In 1993, the first ETSI IPR Policy was adopted by the ETSI General Assembly, but this version was never instituted. See R. Bekkers, *Mobile Telecommunications Standards. GSM, UMTS, TETRA, and ERMES* Norwood: Artech House 2001, pp. 238 and 239.

<sup>41</sup> Section 3.1, ETSI Intellectual Property Rights Policy - 20 March 2013 [Doc ID 820].

<sup>42</sup> Section C.5.1, ETSI Guidelines for antitrust compliance – 27 January 2011, available at: <http://www.etsi.org/WebSite/document/Legal/ETSI%20Guidelines%20for%20Antitrust%20Compliance%20January%202011.pdf>, printed on 22 February 2013 [Doc ID 445].

<sup>43</sup> ETSI Intellectual Property Rights Policy, Annex 6 to ETSI Rules of Procedure, 20 March 2013 [Doc ID 820], available at: <http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>, printed on 10 February 2014.

<sup>44</sup> Section 4.1 of the ETSI IPR Policy [Doc ID 820].

<sup>45</sup> ETSI IPR Policy [Doc ID 820].

(61) It is not within ETSI's mandate to check the validity of declared SEPs or their relevance to an ETSI standard<sup>46</sup>. Only a court can decide on the validity and the issue of whether a standard-compliant product infringes a patent that has been declared essential to a standard and therefore whether the patent is essential as declared. Thus, until such time as a court decides otherwise, a SEP, like any other patent, is presumed valid<sup>47</sup> and essential to the standard as declared by its owner to the SSO.

#### 4.3.3. *Commitment to license on FRAND terms and conditions under ETSI rules*

(62) Under the current ETSI IPR Policy, ETSI members have an obligation to inform ETSI about all IPRs they may hold in a future standard<sup>48</sup>.

(63) Importantly, owners of essential patents in a proposed standard are requested to make their SEPs available to all interested third parties on FRAND terms and conditions. To this end, pursuant to clause 6.1 of the ETSI IPR Policy:

*"[T]he Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions under such IPR to at least the following extent:*

- *manufacture, including the right to make or have made customized components and sub-systems to the licensee's own design for use in manufacture;*
- *sell, lease, or otherwise dispose of equipment so manufactured;*
- *repair, use or operate equipment; and*
- *use methods.*

*The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate"*<sup>49</sup>.

(64) In the event that the requested FRAND commitment is not provided, "[...] *the Committee Chairmen should, if appropriate, in consultation with the ETSI Secretariat use their judgment as to whether or not the Committee should suspend work on the relevant parts of the standard [...] until the matter has been resolved and/or submit for approval any relevant standard*"<sup>50</sup>.

(65) If, prior to the publication of the standard, the matter cannot be resolved and there is a viable alternative technology, "[...] *the General Assembly shall review the requirement for that standard [...] and satisfy itself that a viable alternative technology is available*"<sup>51</sup>. If there is no alternative technology, work on the standard will cease and the owner of the essential patent is requested to reconsider and explain its position<sup>52</sup>.

(66) If, however, the General Assembly is of the opinion that there is no viable alternative technology, the Director-General of ETSI shall follow one of two procedures, depending on whether the owner of the essential patent is a member of ETSI.

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<sup>46</sup> ETSI's reply to Question 1 of the request for information ("RFI") of 30 April 2012 [Doc ID 303].

<sup>47</sup> Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 362.

<sup>48</sup> Section 4.1 of the ETSI IPR Policy [Doc ID 820].

<sup>49</sup> Section 6.1 of the ETSI IPR Policy [Doc ID 820].

<sup>50</sup> Section 6.3 of the ETSI IPR Policy [Doc ID 820].

<sup>51</sup> Section 8.1.1 of the ETSI IPR Policy [Doc ID 820].

<sup>52</sup> Section 8.1.2 of the ETSI IPR Policy [Doc ID 820].

- (67) If the owner of the essential patent is a member of ETSI<sup>53</sup>, the Director-General of ETSI shall request that member to reconsider its position. If that member, however, decides not to withdraw its refusal to license the patent on FRAND terms and conditions, it shall inform the Director-General of ETSI of its decision and provide a written explanation of its reasons for refusing to license that patent on FRAND terms and conditions, within three months of its receipt of the Director-General's request. The Director-General of ETSI shall then send the member's explanation together with relevant extracts from the minutes of the General Assembly to the ETSI Counsellors<sup>54</sup> for their consideration.
- (68) If the owner of the essential patent is not a member of ETSI<sup>55</sup>, the Director-General of ETSI shall, wherever appropriate, request full supporting details from any ETSI member who has complained that licences are not available in accordance with clause 6.1 of the ETSI Intellectual Property Rights Policy and/or request appropriate ETSI members to use their good offices to find a solution to the problem. Where this does not lead to a solution, the Director-General of ETSI shall write to the owner of the essential patent concerned for an explanation and request ultimately that licences be granted according to Clause 6.1 of the ETSI IPR Policy. Where that owner of the essential IPR refuses the Director-General's request and decides not to withdraw its refusal to license the patent on FRAND terms and conditions or does not answer the letter within three months after the receipt of the Director-General's request, the Director-General shall then send the explanation of the owner of the essential patent, if any, together with relevant extracts from the minutes of the General Assembly to the ETSI Counsellors for their consideration.
- (69) Prior to any decision by the General Assembly, the relevant ETSI committee should in consultation with the ETSI Secretariat use its judgment as to whether the committee should pursue development of the concerned parts of a standard based on the non-available technology and should look for alternative solutions<sup>56</sup>. The General Assembly will then decide, in light of the on-going refusal to license on FRAND terms and conditions of an owner of a patent essential to the standard, whether to adopt the standard.
- (70) The ETSI Directives do not provide for ETSI's involvement with respect to SEP licensing terms and related commercial issues. Pursuant to its IPR Guide, ETSI does not participate in SEP licensing negotiations. It also does not serve as a forum for the resolution of FRAND disputes.
- (71) According to the ETSI IPR Guide: *"Specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI. Technical Bodies are not the appropriate place to discuss IPR Issues. Technical Bodies do not have the competence to deal with commercial issues. Members attending ETSI Technical Bodies are often technical experts who do not have legal or business responsibilities with regard to licensing issues. Discussion on licensing*

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<sup>53</sup> Section 8.1.2 a) of the ETSI IPR Policy [Doc ID 820].

<sup>54</sup> Pursuant to Article 11.3 of the ETSI Statutes, ETSI Counsellors are "[r]epresentatives of the European Commission (EC) as well as representatives of the Secretariat of the European Free Trade Association (EFTA)".

<sup>55</sup> Section 8.1.2 b) of the ETSI IPR Policy [Doc ID 820].

<sup>56</sup> Section 8.1.3 of the ETSI IPR Policy [Doc ID 820].

*issues among competitors in a standards making process can significantly complicate, delay or derail this process*"<sup>57</sup>.

(72) In addition, the ETSI IPR Guide states that: *"ETSI Members should attempt to resolve any dispute related to the application of the IPR Policy bilaterally in a friendly manner"*<sup>58</sup>.

(73) Furthermore, ETSI expects its members to *"engage in an impartial and honest essential IPR licensing negotiation process for FRAND terms and conditions"*<sup>59</sup>.

#### **4.4. Standardisation and Union competition law**

(74) Standardisation is generally achieved by means of an agreement between undertakings, often competing on the same market.

(75) Standardisation agreements usually produce significant positive economic effects<sup>60</sup>. Subject to certain conditions, standardisation agreements therefore normally do not restrict competition within the meaning of Article 101(1) TFEU<sup>61</sup>.

(76) Once, however, a standard is implemented, holders of SEPs included in that standard may behave in anti-competitive ways: *"[b]y virtue of its IPR, a participant holding IPR essential for implementing the standard, could, in the specific context of standard-setting, also acquire control over the use of a standard. When the standard constitutes a barrier to entry, the company could thereby control the product or service market to which the standard relates. This in turn could allow companies to behave in anti-competitive ways, for example by 'holding-up' users after the adoption of the standard either by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard"*<sup>62</sup>.

(77) Commitments to license on FRAND terms and conditions can prevent such competition concerns from arising<sup>63</sup>. FRAND commitments are also designed to strike a fair balance between the interests of technology owners to be appropriately remunerated for the use of their essential IPRs and the interests of technology implementers to have access to such essential IPRs.

(78) The Horizontal Guidelines state, in particular, that *"[i]n order to ensure effective access to the standard, the IPR policy [of the standard setting organisation] would need to require participants wishing to have their IPR included in the standard to*

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<sup>57</sup> The IPR Guide is intended to help ETSI Members and any other party involved in ETSI's standardisation activities to understand and implement the ETSI IPR Policy; it provides explanatory information on how to handle IPR matters in ETSI. See "Foreword" to the ETSI Guide on Intellectual Property Rights (IPR Guide) of 19 September 2013, available at: <http://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf>, printed on 10 February 2014 [Doc ID 819].

<sup>58</sup> ETSI IPR Guide, paragraph 4.3 [Doc ID 819].

<sup>59</sup> ETSI IPR Guide, paragraph 4.4 [Doc ID 819].

<sup>60</sup> Horizontal Guidelines, paragraph 263.

<sup>61</sup> *Ibid*, paragraph 280.

<sup>62</sup> *Ibid*, paragraph 269.

<sup>63</sup> *Ibid*, paragraphs 284 and 287. See also, the Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: "A strategic vision for European standards: Moving forward to enhance and accelerate the sustainable growth of the European economy by 2020", COM(2011) 311 final, which provides that when standards include proprietary technologies, especially in innovative domains *"the IPR policies of the ESOs should contain a fair balance between the interests of technology owners and those of technology users, to avoid restrictive effects on competition"*.

*provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms ("FRAND commitment")*<sup>64</sup>. The Horizontal Guidelines further state that: *"FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions. In particular, FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees"*<sup>65</sup>.

- (79) The Horizontal Guidelines further state that compliance with Article 101 TFEU by a SSO does not require the SSO to verify whether licensing terms of participants fulfil the FRAND commitment<sup>66</sup>. Participants will have to assess for themselves whether the licensing terms and conditions, in particular the fees they charge fulfil the FRAND commitment. In particular, *"[...] when deciding whether to commit to FRAND for a particular IPR, participants will need to anticipate the implications of the FRAND commitment, notably on their ability to freely set the level of their fees"*<sup>67</sup>.

#### **4.5. The "Orange Book" judgment of the Bundesgerichtshof and its application in the SEP context by the lower German courts**

- (80) The Orange Book judgment was issued by the Bundesgerichtshof (the German Federal Supreme Court) on 6 May 2009 (Case No KZR 39/06). It concerned a patent infringement and injunction claim based on a non-SEP against an implementer of patented technology reading on the "Orange Book" specifications developed by Philips and Sony for recordable and rewritable CD-Rs and CD-RWs.
- (81) In its judgment, the Bundesgerichtshof ruled on the conditions under which a defendant in a patent infringement case can rely on a competition law defence under German and Union law against an injunction claim.
- (82) According to the Bundesgerichtshof: *"(a) A defendant sued on the basis of a patent is able to defend himself against the claim for injunctive relief asserted by the patent holder filing the action by pleading that the latter abuses a dominant position on the market if he refuses to conclude a patent licence agreement with the defendant on non-discriminatory and non-restrictive terms and conditions. (b) Yet the patent proprietor is only culpable of abusive behaviour if the defendant has made him an unconditional offer to conclude a licence agreement which the patent proprietor cannot reject without violating the prohibition of discrimination or anti-competitive behaviour, and if the defendant, for the time that he is already using the subject matter of the patent, complies with the obligations that the licence agreement yet to be concluded imposes in return for the use of the licensed subject matter. (c) If the defendant considers the patent proprietor's licence demands to be excessive or if the patent proprietor refuses to quantify the royalties, an offer to conclude a licence agreement in which the licensor determines the amount of royalties according to its*

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<sup>64</sup> Horizontal Guidelines, paragraph 285.

<sup>65</sup> Horizontal Guidelines, paragraph 287.

<sup>66</sup> *Ibid*, paragraph 288.

<sup>67</sup> *Ibid*, paragraph 288.

*own reasonable discretion meets the requirement of such an unconditional offer."*  
(translation from German)<sup>68</sup>

- (83) The Orange Book judgment related to specifications that had become a *de facto* standard and not to specifications agreed under the auspices of a standard-setting organisation. Moreover, the holders of the patent rights over the *de facto* standard had not made any commitment to license their patent rights under FRAND terms and conditions.
- (84) Notwithstanding these differences, the Orange Book judgment was developed and applied to SEPs by the Mannheim District Court and the Karlsruhe Appellate Court in proceedings between Motorola and Apple (see section 4.5).

## 5. FACTS

### 5.1. The evolution of 2G technologies<sup>69</sup>

- (85) GSM was developed as a replacement for first generation (1G) analogue cellular networks, and originally described a digital, circuit switched network optimised for voice telephony. It was originally designed for operation in the 900 MHz band, but was soon adapted for 1800 MHz as well.
- (86) Throughout the 1990s, the digital second generation (2G) GSM standard was rapidly adopted across Europe. By 1999, 89% of total mobile telephony subscribers in Europe used GSM<sup>70</sup>. GSM has also become a global success, serving over two billion users in more than 200 countries worldwide<sup>71</sup>.
- (87) In parallel with the growing adoption of the GSM standard across Europe, GPRS was developed. GPRS is a technology used for wireless data transmission which provides a packet oriented mobile data service. It is an integrated part of GSM (GPRS is

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<sup>68</sup> See the official summary of the judgment, which, in the authentic German version, reads as follows: "*a) Der aus einem Patent in Anspruch genommene Beklagte kann gegenüber dem Unterlassungsbegehren des klagenden Patentinhabers einwenden, dieser missbrauche eine marktbeherrschende Stellung, wenn er sich weigere, mit dem Beklagten einen Patentlizenzvertrag zu nicht diskriminierenden und nicht behindernden Bedingungen abzuschließen.*  
*b) Missbräuchlich handelt der Patentinhaber jedoch nur, wenn der Beklagte ihm ein unbedingtes Angebot auf Abschluss eines Lizenzvertrages gemacht hat, an das er sich gebunden hält und das der Patentinhaber nicht ablehnen darf, ohne gegen das Diskriminierungs- oder das Behinderungsverbot zu verstoßen, und wenn der Beklagte, solange er den Gegenstand des Patents bereits benutzt, diejenigen Verpflichtungen einhält, die der abzuschließende Lizenzvertrag an die Benutzung des lizenzierten Gegenstandes knüpft.*  
*c) Hält der Beklagte die Lizenzforderung des Patentinhabers für missbräuchlich überhöht oder weigert sich der Patentinhaber, die Lizenzgebühr zu beziffern, genügt dem Erfordernis eines unbedingten Angebots ein Angebot auf Abschluss eines Lizenzvertrages, bei dem der Lizenzgeber die Höhe der Lizenzgebühr nach billigem Ermessen bestimmt."*

<sup>69</sup> Where not indicated otherwise, information in this section is based on Motorola's and Apple's response to the RFIs of 3 May 2012 [Doc ID 254] and [Doc ID 477] and on the following webpages: [http://www.radioelectronics.com/info/cellularcomms/gprs/gprs\\_tutorial.php](http://www.radioelectronics.com/info/cellularcomms/gprs/gprs_tutorial.php) [Doc ID 466]; <http://www.etsi.org/Website/technologies/gprs.aspx> [Doc ID 444]; and <http://www.3gpp.org> [Doc ID 474 and 435]; all printed on 9 February 2013.

<sup>70</sup> International Telecommunication Union, *World Telecommunication Development Report: Mobile Cellular*, 1999, page 7, available at: [http://www.itu.int/ITU-D/ict/publications/wtdr\\_99/material/wtdr99s.pdf](http://www.itu.int/ITU-D/ict/publications/wtdr_99/material/wtdr99s.pdf), printed on 22 February 2013 [Doc ID 462].

<sup>71</sup> See on ETSI's website: <http://www.etsi.org/about/our-role-in-europe>, printed on 22 February 2013 [Doc ID 446].

essentially based on "regular" GSM) and allows, by adding packet-switched functionality to GSM, the transmission of internet protocol data through the wireless network to external networks such as the Internet. It provides Internet connectivity on mobile devices and support for other important mobile telephony functions such as billing, SMS messaging, multimedia messaging (MMS) and others. 2G cellular technology combined with GPRS is sometimes described as "2.5G", that is, a technology between the second (2G) and third (3G) generations of digital mobile telephony.

- (88) GPRS was introduced into the GSM standard specifications in GSM Release 97 (available in March 1998). Starting in 1999, cellular networks in the EEA began incorporating GPRS technology into their infrastructure. The service became available in 2001.
- (89) Unlike GSM, which uses circuit switched techniques, GPRS technology uses packet switching for Internet use. When using circuit switched techniques, charges are based on the time a circuit is used, i.e. the duration of the call/connection. For packet-switched technology, charges are for the amount of data carried as this is what uses the service provider's capacity. As a result, GPRS technology entails several benefits. First, it is more cost-efficient, as phone users only pay for bursts of data rather than a steady stream. Second, it does not place an excessive drain on the battery while web surfing or sending text messages. Third, the packet-switched technology including the "always on" connectivity combined with the higher data rates opens up many more possibilities for new applications with GPRS.
- (90) Improvements with a view to increasing the intrinsic bit rate of the GSM technology via novel modulation techniques have also been explored. This has resulted in "Enhanced Data rates for Global Evolution" (EDGE), sometimes also referred to as 2.75G<sup>72</sup>. EDGE is based on GSM radio access, providing both circuit and packet switched data transfers. It offers faster data transfer speeds than GPRS, at up to 384 kbit/s. EDGE can be seen as a further intermediary technology between the GPRS and 3G standards. EDGE was standardised by the 3G Patent Platform Partnership ("3G3P") and the first release was issued in 2000. It is the last step in the evolution of the GSM (2G) set of standards.

## **5.2. Motorola's participation in the standardisation of GPRS<sup>73</sup>**

- (91) ETSI members established the technical scope and requirements for the GPRS standard in 1993. The requirements were developed by the Special Mobile Group 1 (SMG1) and Special Mobile Group 4 (SMG4) working groups. Motorola attended a large number of meetings of these working groups and participated in the establishment of the requirements. It contributed, in particular, to the architecture, to layer 2 and 3 communications protocols, and to the interfaces of the Serving Support Node (SGSN) and Gateway GPRS Support Node (GGSN) used in data transfer<sup>74</sup>. Motorola has provided the Commission with a large number of meeting reports for the different SMG working group meetings where Motorola submissions were discussed<sup>75</sup>.

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<sup>72</sup> See point 4.7.4 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>73</sup> Where not indicated otherwise, information in this section is based on point 4.1 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>74</sup> See points 4.1.5 to 4.1.11 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>75</sup> See Annexes 4.2 (i, ii) of Motorola's response to the RFI of 3 May 2012 [Doc ID 269].



- (92) The members of the ETSI technical committees considered the contributions in respect of each technical problem with a view to selecting the technologies that would lead to the most appropriate standardised technology.
- (93) Overall, there are [40 - 50] patent families that Motorola has declared essential to the GSM/GPRS standard and which contain at least one patent issued in at least one EEA country<sup>76</sup>. Motorola has made commitments to ETSI to license all these patents on FRAND terms and conditions<sup>77</sup>.
- (94) One patent pool, originally called 3G3P,<sup>78</sup> exists for the licensing of GPRS and UMTS SEPs. Between 2004 and 2010, 3G Licensing Limited was the licence administrator for the 3G3P pool's patent licensing programme. The pool is now administered by Sipro Lab Telecom<sup>79</sup>. Motorola does not participate in this pool<sup>80</sup>.

### 5.3. Motorola's Cudak GPRS patent

- (95) On 8 April 2003, Motorola declared patent EP 1010336 (the "Cudak GPRS SEP" or "Cudak patent") essential to the ETSI TS 144 060 part of the GPRS standard, entitled "Digital Cellular Telecommunications System (Phase 2+); General Packet Radio Service (GPRS); Mobile Station (MS) – Base Station System (BBS) interface; Radio Link Control; Medium Access Control (RLC/MAC) protocol"<sup>81</sup>.
- (96) With the same declaration, Motorola also committed to license that patent on FRAND terms and conditions: *"The SIGNATORY [Motorola] and/or its AFFILIATES hereby declare that they are prepared to grant irrevocable licenses under the IPRs on terms and conditions which are in accordance with clause 6.1 of the ETSI IPR Policy, in respect of the STANDARD, to the extent that the IPRs remain ESSENTIAL"*<sup>82</sup>.
- (97) The Cudak patent concerns the transmission of data packets in a wireless communication system, more specifically, the transmission of information to the recipient of those data packets as to the remaining volume of data to be transmitted. This technology is important given that transmission resources are limited in wireless communication systems. It is necessary to assign transmission capacities only for as long as they are required and to reassign them quickly after the conclusion of data transmission. Information as to how much of the transmission process remains is important to achieving this efficient allocation of transmission capacity<sup>83</sup>.
- (98) The priority date for the Cudak patent is 2 September 1997, and the patent application date is 1 September 1998 for all countries where the Cudak technology has been patented (28 August 1998 for the United States). The European patent EP1010336 was granted on 19 March 2003.

<sup>76</sup> See point 4.2 of Motorola's submission of 5 October 2012 [Doc ID 305].

<sup>77</sup> See Annex 4.3(i) of Motorola's response to the RFI of 3 May 2012 [Doc ID 269].

<sup>78</sup> See Commission's negative clearance administrative letter ("comfort letter") on the pool [http://europa.eu/rapid/press-release\\_IP-02-1651\\_en.htm](http://europa.eu/rapid/press-release_IP-02-1651_en.htm) [DOC ID 454].

<sup>79</sup> See point 4.4.1 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>80</sup> See point 4.4.2 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>81</sup> In its response to the RFI of 3 May 2012, Apple submitted the "Supplemental Expert Report of Leonard J Cimini which identifies two alternative technologies to the Cudak method available at the time of the adoption of the standard: the "Ericsson Method" and the "Nortel Method". See page 3 and Annex 4.1.4 of Apple's submission [Doc ID 477].

<sup>82</sup> Essentiality declaration and FRAND commitment by Motorola to ETSI on 8 April 2003, submitted to the Commission as part of Annex 4.3(i) of Motorola's response to the RFI of 3 May 2012 [Doc ID 269].

<sup>83</sup> See point 5.1.7 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

- (99) The following table provides a list of the counterparts to the Cudak patent in different jurisdictions:

Table 3: Cudak – foreign counterparts<sup>84</sup>

Country	Application Number	Application Date	Patent Number	Grant Date	Publication number	Publication date
AU	726551	01/09/1998	726551	22/02/2001		
CA	2302495	01/09/1998	2302495	22/06/2004		
CN	98808761.8	01/09/1998	ZL98808761.8	23/06/2004	CN1269105A	04/10/2000
FI	98942338.9	01/09/1998	EP1010336	19/03/2003	1010336	21/06/2000
FR	98942338.9	01/09/1998	EP1010336	19/03/2003	1010336	21/06/2000
UK	98942338.9	01/09/1998	EP1010336	19/03/2003	EP1010336	21/06/2000
DE	98942338.9	01/09/1998	69812383.2	19/03/2003	1010336	21/06/2000
IT	98942338.9	01/09/1998	EP1010336	19/03/2003	1010336	21/06/2000
JP	2000-509230	01/09/1998	3725420	30/09/2005	2001-516157	25/09/2001
NO	20001056	01/09/1998	324826	10/12/2007		
SE	98942338.9	01/09/1998	EP1010336	19/03/2003	1010336	21/06/2000
US	09/141835	28/08/1998	6359898	19/03/2002		

#### 5.4. Motorola's licensing practices in relation to its telecommunication SEPs

- (100) Motorola has licensing and cross-licensing agreements relating to its telecommunication SEPs with a significant number of major telecommunication equipment manufacturers active in Europe and in the US. Prior to the adoption of the GPRS standard, it already engaged in negotiations with the major telecommunication equipment manufacturers across the world in relation to the licensing of its GSM SEPs. Licensing agreements entered into by Motorola before the adoption of the GPRS standard include agreements with [...].
- (101) With regard to licensing fees for its SEPs, Motorola submits that, in the early 1990s, its practice was to charge a royalty rate of 5% of the price of the relevant end product. It reduced this rate for its SEPs during the 1990s to 2.25%<sup>85</sup>.

<sup>84</sup> See Table 5.1 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254]. Motorola has not provided any information about pending invalidity proceedings as regards these patents.

<sup>85</sup> See point 4.6, in particular footnote 47, of Motorola's response to the RFI of 3 May 2012 [Doc ID 273]. In 2008, prior to the adoption of the 4G LTE standard, Motorola announced in a press release that it would seek a 2.25% rate for the licensing of its LTE SEPs. See point 4.8 (ii) of Motorola's response to the Complaint [Doc ID 101]. See also Case COMP/M.6381 – Google/Motorola Mobility, Commission decision of 13 February 2012, recital 117.

## 5.5. Motorola's licensing agreements with chipset manufacturers relating to its telecommunication SEPs

(102) Motorola entered into licensing and cross-licensing agreements covering some of its telecommunication SEPs, including the Cudak GPRS SEP, with a number of chipset<sup>86</sup> manufacturers, including Chi Mei Communication Systems ("Chi Mei") and Qualcomm.

### 5.5.1. The licensing agreement between Motorola and Chi Mei

(103) In [...], Motorola entered into a cross-licensing agreement with Chi Mei Communication Systems ("the Chi Mei Agreement"). The agreement covered [...]

(104) In September 2006, Chi Mei and Apple entered into a supply agreement whereby Chi Mei supplied the chipsets for Apple's first (2G) iPhone. Under the agreement, [...]<sup>87</sup>.

(105) Chi Mei executed two Apple purchase orders in June 2007. There were no purchase orders before June 2007. On 4 August 2007, however, Motorola terminated the Chi Mei Agreement [...]. On 6 August 2007, Motorola sent a letter to Apple inviting Apple to engage in licensing negotiations with regard to certain of Motorola's 2G SEPs and enclosing a list of patents (SEPs and certain non-SEPs) that it considered Apple implemented in its devices and which corresponded to the list of patents covered by the Chi Mei Agreement<sup>88</sup>.

### 5.5.2. The licensing agreement between Motorola and Qualcomm

(106) Motorola entered into a licensing agreement with Qualcomm in 1990 (the "Qualcomm Agreement"). In 2007, Motorola and Qualcomm amended the agreement to include Motorola's patents (including SEPs) relevant to 2G and 3G telecommunication standards, including the Cudak GPRS SEP.

(107) In December 2009, Apple and Qualcomm entered into a supply agreement for baseband chips for use in Apple iPhones. When Apple announced on 11 January 2011 its intention to sell the iPhone 4 (the first Apple product containing Qualcomm baseband chips), Motorola provided notice to Qualcomm on the same day that it was terminating the Qualcomm Agreement with respect to Apple<sup>89</sup>.

(108) [Under t]he Qualcomm Agreement, as confirmed by Motorola in its submissions to the Commission, [Motorola is not entitled to assert GSM and GPRS SEPs]<sup>90</sup>.

(109) While Apple has been questioning the legality of the termination of the Qualcomm Agreement<sup>91</sup>, Motorola submits that it was entitled to terminate the agreement by

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<sup>86</sup> All mobile devices run on so-called embedded chipsets (i.e. a set of electronic components in a small integrated circuit) that are designed to perform one or a few dedicated functions. Smart phones are equipped with more advanced embedded chipsets that can perform many different tasks depending on their programming.

<sup>87</sup> See section 7 of the "Statement of Works" agreement between Chi Mei and Apple (Annex 5.1.1 to Apple's response to the RFI of 3 May 2012 [Doc ID 477]).

<sup>88</sup> See points 5.1 and 5.2 of Apple's response to the RFI of 3 May 2012 [Doc ID 477] and point 6.1 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>89</sup> See point 4.33 of Motorola's response to the Complaint [Doc ID 101] and point 7.1 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>90</sup> See point 4.34 (i) of Motorola's response to the Complaint [Doc ID 101]. The same is confirmed by Motorola in Annex 1 to its reply to the SO [Doc ID 589]. In this regard see also Motorola's submission of 30 August 2013 [Doc ID 689] and Apple's submission of 19 January 2012 to the Karlsruhe Appellate Court, submitted to the Commission by Motorola as Appendices 115 and 116 of Annex 1 to its response to the Complaint [Doc ID 190].

virtue of a suspension clause. [...] Motorola initiated patent infringement litigation against Apple on 6 October 2010 with the United States International Trade Commission ("ITC"), and with district courts in the Northern District of Illinois and in the Southern District of Florida, on the basis of a total of 18 patents (16 non-SEPs and 2 SEPs). On 29 October 2010, Apple asserted 6 patents (all non-SEPs) against Motorola in the Western District of Wisconsin, 3 of which it also asserted in the ITC. When, on 11 January 2011, Apple announced its intention to sell the iPhone 4, these patent infringement claims were considered by Motorola [...], giving rise to the right for Motorola to terminate the agreement in respect of Apple<sup>92</sup>.

## 5.6. The patent litigation between Motorola and Apple in Germany

- (110) The following section provides a brief account of the SEP-based litigation between Motorola and Apple in the United States since October 2010. It also sets out in greater detail their SEP-based litigation in Germany between April 2011 and May 2012.
- (111) Motorola and Apple have been engaged in licensing discussions, on and off, since 2007, following the termination of the Chi Mei Agreement by Motorola. These discussions are not, however, addressed in this section as they do not affect the Commission's assessment of the abusive nature of Motorola's conduct as established by this Decision (in this regard, see section 8.2).
- (112) The account of events provided in this section is based on the following documents: submissions by Motorola and Apple in the present proceedings, including Motorola's response to the Complaint and Annex 1 thereof<sup>93</sup>; the responses of Motorola and Apple to the Commission's RFIs<sup>94</sup>; Motorola's reply to the SO<sup>95</sup>; Motorola's and Apple's submissions regarding the rate-setting proceedings<sup>96</sup>; Motorola's and Apple's filings with the German courts in the course of the injunction proceedings<sup>97</sup>; and the relevant decisions of the German courts.

### 5.6.1. October 2010 – March 2011

- (113) Patent litigation between Apple and Motorola started in the United States in October 2010 (see recital (109)).

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<sup>91</sup> See point 2.1.1 of Apple's Complaint of 14 February 2012 [Doc ID 51].

<sup>92</sup> For Motorola's explanations in support of its interpretation of the Qualcomm Agreement, see point 7.1 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254], point 4.33 of Motorola's response to the Complaint [Doc ID 101], and Annex 1 to Motorola's reply of 2 July 2013 to the SO [Doc ID 589].

<sup>93</sup> See Annex 1 of Motorola's response to the Complaint [Doc ID 96].

<sup>94</sup> See in particular Motorola's response to the RFI of 3 May 2012 [Doc ID 254], Apple's response to the RFI of 3 May 2012 [Doc ID 477].

<sup>95</sup> [Doc ID 591].

<sup>96</sup> See in particular Motorola's submission of 9 October 2012 to the Mannheim District Court [Doc ID 388]; Motorola's submission of 11 October 2012 to the Mannheim District Court [Doc ID 387]; Apple's claim of 6 June 2013 for interlocutory declaratory judgment, submitted on 13 September 2013 [Doc ID 719]; Apple's submission of 2 September 2013 to the Mannheim District Court [Doc ID 805]; Motorola's submission of 30 August 2013 to the Mannheim District Court [Doc ID 689]; Apple's submission of 13 November 2013 [Doc ID 795]; the Mannheim District Court's order of 8 November 2013 [Doc ID 807] and its letter of 15 November 2013 to the Commission [Doc ID 806].

<sup>97</sup> See in particular Annex 1 of Motorola's response to the Complaint [Doc ID 96] and the Appendices thereof [Doc ID 190]; Motorola's letter of 18 May 2012 to Apple [Doc ID 401]; Apple's letter of 29 May 2012 to Motorola [Doc ID 393]; the correspondence between Motorola and Apple, submitted by Apple on 20 February 2013 [Doc ID 391 to 396 and 402].

(114) [...] <sup>98</sup>.

#### 5.6.2. April 2011 – August 2011

(115) On 1 April 2011, Motorola sought an injunction against Apple Sales International in the Mannheim District Court on the basis that Apple was infringing three of its patents. Two of those patents are SEPs: one SEP (the "Whinnett" patent EP 1053613) has been declared essential to the UMTS mobile communications standard, while the other, the Cudak patent, has been declared essential to the GPRS standard.

(116) On 12 April 2011, Motorola sought an injunction against Apple Inc. and Apple Retail Germany in the Düsseldorf District Court ("Landgericht Düsseldorf") on the basis of the same three patents. Two weeks later, Motorola withdrew its action in the Düsseldorf District Court against Apple Inc. and filed an identical action to that of 1 April 2011 against Apple Inc. in the Mannheim District Court <sup>99</sup>. In its filings to the Mannheim District Court, Motorola sought injunctive relief with a view to ordering Apple, *inter alia*, to cease and desist from selling in Germany any Apple products that implement the asserted patents <sup>100</sup>.

(117) During May and June 2011, Apple asserted three patents (non-SEPs) against Motorola in the Düsseldorf District Court and a further three patents (non-SEPs) in the Munich District Court. On 1 July 2011, Apple asserted a further patent (non-SEP) against Motorola in the Mannheim District Court <sup>101</sup>.

(118) During July and August 2011, Motorola and Apple attended two US court-ordered mediation sessions, which were designed to settle all worldwide patent-related disputes between Motorola and Apple. [...] <sup>102,103,104</sup>.

(119) On 14 August 2011, Motorola signed the merger agreement with Google. [The mediation ended] <sup>105,106</sup>.

#### 5.6.3. The German injunction proceedings and Apple's six Orange Book offers

(120) In the course of the German injunction proceedings initiated by Motorola, Apple made a total of six licensing offers which covered all Apple entities sued before before the Mannheim and Düsseldorf District Courts. These offers were made by

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<sup>98</sup> See a detailed description of those [...] in Annex 1 of Motorola's response to the Complaint [Doc ID 96].

<sup>99</sup> See Annex 1 of Motorola's response to the Complaint [Doc ID 96]. Motorola maintained its action against Apple Retail Germany in the Düsseldorf District Court and declared it moot on 29 May 2012. See point 6 of Motorola's submission of 15 October 2012 [Doc ID 309].

<sup>100</sup> Motorola's cease and desist claims are based on §139, in combination with §§9 and 10 of the German Patent Act ("Patentgesetz"). See Motorola's filing of 1 April 2011 with the Mannheim District Court, submitted as Appendix 51 by Motorola in its response to the Complaint [Doc ID 190].

<sup>101</sup> See Annex 1 of Motorola's response to the Complaint [Doc ID 96].

<sup>102</sup> See Apple's response to question 8.1 of the RFI of 3 May 2012 [Doc ID 477] and point 10 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>103</sup> See Apple's response to question 8.1 of the RFI of 3 May 2012 [Doc ID 477].

<sup>104</sup> See Motorola's comments in Annex 1 to its response to the Complaint and point 10 of its response to the RFI of 3 May 2012 [Doc ID 96 and 254].

<sup>105</sup> See Annex 8 of the Complaint [Doc ID 15] and Annex 1 to Motorola's response to the Complaint [Doc ID 96].

<sup>106</sup> See Motorola's response to question 10 of the RFI of 3 May, in particular point 10.1.8 thereof [Doc ID 254], Apple's response to question 8.1 of the RFI of 3 May 2012 [Doc ID 477], as well as Annex 1 to Motorola's reply of 2 July 2013 to the SO [Doc ID 589].

Apple with a view to availing itself of the competition law defence established by the Bundesgerichtshof in its Orange Book judgment (see section 4.5).

(121) This Decision refers to the offers made by Apple to Motorola within the German proceedings as "Orange Book Offers" in order to differentiate them from other licensing offers made by Apple outside those proceedings. They are also referred to by Motorola and Apple in their submissions to the Commission under this name.

(122) An overview of the key terms of the Orange Book Offers is set out in sections 5.6.3.1 to 5.6.3.6.

#### 5.6.3.1. First Orange Book Offer of 20 July 2011<sup>107</sup>

(123) In its First Orange Book Offer, Apple proposed:

- (a) to enter into a licence agreement with Motorola covering the territory of Germany for the two (Cudak and Whinnett<sup>108</sup>) SEPs at issue;
- (b) a per patent royalty of [...]. This amount was to be adjusted [...], to be determined by the Licensor [Motorola] "in its fair, reasonable and non-discriminatory discretion" to account for a potentially exceptionally high value of a patent. Whether the final amount of the royalties was FRAND was to be "*subject to examination and be changed with retroactive effect by a court to be invoked by the LICENSEE [Apple]*", such judicial review being, however, limited to a revision within the maximum rate limit and calculation method as defined by Apple in its proposal;
- (c) the same royalty rate (with the same judicial review mechanism) based on revenues from past sales of products implementing the two patents, payable within 20 working days of the execution of the licensing agreement, in a one-time payment;
- (d) to put into an escrow account [...] of past sales of relevant end products, amounting to a total of [...]; and
- (e) to withdraw all pending nullity actions<sup>109</sup> against the two SEPs in suit.

(124) Motorola rejected Apple's offer and continued the injunction proceedings essentially for the following reasons<sup>110</sup>:

- (a) Apple's offer was limited only to the two SEPs in suit, instead of covering all Motorola telecommunication SEPs relevant to Apple's devices;
- (b) The proposed royalties and escrow amounts were far below Motorola's expectations;
- (c) The judicial review of the royalties was limited by Apple's proposed definition of the rate and calculation method; and
- (d) Apple's offer did not provide for a reciprocal licence to Apple's SEPs.

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<sup>107</sup> See Appendix 64 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>108</sup> As regards the Whinnet patent, the Mannheim District Court subsequently ruled on 10 February 2012 that Motorola's infringement claim was not sufficiently evidenced.

<sup>109</sup> Apple's invalidity actions against Motorola's patents are referred to in this Decision as "invalidity" or "nullity" actions. The Settlement Agreement refers to them as "nullity" complaints.

<sup>110</sup> See Motorola's reply of 31 August 2011, submitted to the Mannheim District Court, Appendix 75 and 76 to Annex 1 of 2 March 2012 to the Complaint [Doc ID 190] and Annex 1 to Motorola's response to the Complaint [Doc ID 96].

### 5.6.3.2. Second Orange Book Offer of 4 October 2011<sup>111</sup>

(125) In its Second Orange Book Offer, Apple proposed:

- (a) to include in the scope of the licensing agreement, covering the territory of Germany, all of Motorola's German telecommunication SEPs or German counterparts of European SEPs reading on the GSM, GPRS, EDGE, UMTS, Wi-Fi and WLAN standards<sup>112</sup>;
- (b) the following royalty setting process (§4 of the Offer, entitled "Royalties"):
  - "(1) The LICENSEE shall pay the LICENSOR a running royalty for the manufacture, offer, distribution to the market, use and the importation and possession of the Licensed Products for the above-mentioned purposes in the Territory.
  - (2) In addition, within one month of the execution of this Agreement, LICENSEE shall pay the LICENSOR a one-time royalty payment and interests in accordance with the BGB for the manufacture, offer, distribution to the market, use and the importation and possession of the Old Products for the above mentioned purposes in the Territory. LICENSOR reserves the right to assert higher damages for these acts in addition to this one-time royalty payment.
  - (3) The royalties according to (1) and (2) shall be set by the LICENSOR according to its equitable discretion ("billiges Ermessen") and according to the FRAND standard in the industry within twenty working days from execution of this Agreement. Whether the Royalties according to (1) and (2) above fulfil the FRAND standard in the industry shall be subject to examination and be changed with retroactive effect by a court to be invoked by the LICENSEE (according to §315 BGB)."
- (c) a definition of the "Licensed Products" as follows (§1 Definitions):
  - "(2) "Licensed Products" shall mean physical products compatible with GSM, GPRS, EDGE and/or UMTS standards sold by the Licensee subsequent to the signing of this Agreement that are not otherwise protected by any license or patent exhaustion regarding the Licensed Patents."
- (d) a definition of the "Old Products" as follows (§1 Definitions):
  - "(3) "Old Products" shall mean physical products that make use of the GSM, GPRS, EDGE and/or UMTS standards and that have been sold by the LICENSEE prior to the signing of this Agreement, including but not being limited to iPhone, iPhone 3G, iPhone 3Gs, iPhone 4, iPad 3G, iPad2 3G.
- (e) to put into an escrow account [...] of past sales of the relevant Apple end products in Germany, amounting to [...];
- (f) the right for Motorola to assert higher damages for past infringement than the amount that would be put into an escrow account;

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<sup>111</sup> See Appendix 81 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>112</sup> Wi-Fi is the brand name for products using the IEEE 802.11 set of standards for wireless local area networks (WLAN). WLAN is an ethernet access network, connecting devices within a limited area to core networks.

- (g) to withdraw all pending nullity complaints, oppositions or utility model cancellation requests against all of the licensed SEPs, except in case Motorola were to claim damages for past infringement extending beyond the payment of the FRAND royalties; and
  - (h) the rendering of accounts, including data on past sales.
- (126) The Second Orange Book Offer gave Motorola the right to set the royalties according to its equitable discretion and according to FRAND principles, without any limitations (other than FRAND and Article 102 TFEU) as regards the royalty rates and the method of calculation of the final amount of royalties. The offer also allowed for a full judicial review of the amount of FRAND royalties, whereby Motorola and Apple could submit their own evaluations, calculations and reasoning for consideration to the court.
- (127) Motorola did not accept the Second Orange Book Offer and pursued the injunction proceedings against Apple. On 17 October 2011, Motorola filed a brief with the Mannheim District Court explaining why Apple's offer did not meet the requirements of the Orange Book judgment, essentially for the following reasons:
- (a) Apple's commitment to suspend all nullity actions, oppositions and utility model cancellation requests against Motorola's SEPs was not unconditional because it did not apply in case Motorola were to claim damages for past infringements extending beyond FRAND royalties;
  - (b) Apple did not accept unconditional liability for past damages: Apple simply allowed Motorola to claim above-FRAND damages, but did not include an explicit acknowledgement of Motorola's claims for damages in its offer, i.e. Apple was unwilling to accept to pay for past damages to the extent they went beyond FRAND royalties;
  - (c) Apple made its Second Orange Book Offer too late in the proceedings, after several years of infringement;
  - (d) the offer did not provide for a reciprocal licence to Apple's SEPs;
  - (e) the provisions on the rendering of accounts were insufficient for the calculation of full damages for past sales; and
  - (f) the offer was not worldwide in scope but covered only Germany.

#### 5.6.3.3. Third Orange Book Offer of 10 November 2011<sup>113</sup>

- (128) Apple's Third Orange Book Offer added a clause to the Second Orange Book Offer concerning Apple's pending nullity complaints, oppositions or utility model cancellation requests against any Motorola patent or utility model that would be covered by a licensing agreement. This new clause stated that if such nullity actions/cancellation requests led to the full or partial invalidation of a licensed patent, Apple would be obliged to pay the royalties due under the agreement, including for the past (§8(1) of the Third Orange Book Offer).
- (129) The Third Orange Book Offer was deemed insufficient by Motorola which filed a new motion to the Mannheim District Court on 18 November 2011<sup>114</sup> arguing that Apple's Offer was insufficient to meet the requirements of the Orange Book

<sup>113</sup> See Appendix 91 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>114</sup> [...]



judgment. In its motion, Motorola justified its rejection of the Third Orange Book Offer essentially for the following reasons:

- (a) the offer did not restrict Apple's ability to challenge the validity of the SEPs at issue;
- (b) Apple did not accept unconditional liability for past damages beyond FRAND royalties; and
- (c) the offer did not provide for a reciprocal licence to Apple's SEPs;
- (d) the offer came too late.

5.6.3.4. The Mannheim District Court judgment of 9 December 2011 and the first application to stay the enforcement of the injunction<sup>115</sup>

(130) On 9 December 2011, the Mannheim District Court handed down a judgment in which it found Apple's Third Orange Book Offer to be insufficient to meet the requirements of the Orange Book judgment. The Mannheim District Court considered this to be the case, in particular because Apple did not accept unconditional liability for past damages beyond FRAND royalties and reserved the right to challenge the validity of the SEPs at issue to the extent they would be used to claim beyond FRAND damages for past infringements. The Mannheim District Court thus granted an injunction against Apple, with respect to the Cudak GPRS SEP, which the Mannheim District Court considered had been infringed by Apple.

(131) On 14 December 2011, Apple applied for a stay of the enforcement of the injunction granted by the Mannheim District Court. It also filed an appeal against the judgment of the Mannheim District Court with the Karlsruhe Appellate Court.

5.6.3.5. Fourth Orange Book Offer of 14 December 2011<sup>116</sup>, Fifth Orange Book Offer of 5 January 2012<sup>117</sup>, and Apple's first application to stay the enforcement of the injunction

(132) In its Fourth Orange Book Offer, Apple further acknowledged unlimited liability for damages for past infringement of Motorola's SEPs, including for damages exceeding the FRAND royalty rates, according to German law<sup>118</sup>.

(133) On 2 January 2012, Motorola sought clarification from Apple on several aspects of Apple's Fourth Orange Book Offer, including whether: (i) the offer was inclusive of royalties arising from the sales of iPhone 4S (as Motorola considered that the iPhone 4S, launched in October 2012, ought to be covered by the licensing agreement); and (ii) Motorola would have the right to terminate the agreement if, in the future, Apple sought to challenge the validity of the licensed SEPs<sup>119</sup>.

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<sup>115</sup> Annex 11 to the Complaint [Doc ID 19] and Appendices 105, 106 and 107 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>116</sup> See Appendix 104 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>117</sup> See Appendix 112 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>118</sup> See clause 4(4) of the Fourth Orange Book Offer, page 28 of Annex 1 and points 3.20 to 3.22 of Annex 2 to Motorola's response to the Complaint [Doc ID 190], and points 5.15 and 5.16 of Motorola's reply to the SO of 2 July 2013 [Doc ID 591]. Apple also committed to unconditionally withdraw its pending nullity actions against any licensed patent, including if Motorola claimed damages for past sales beyond FRAND royalties.

<sup>119</sup> See Annex 1 to Motorola's response of 2 March 2012 to the Complaint [Doc ID 190].

- (134) Apple responded by letter of 5 January 2012, to which it attached its Fifth Orange Book Offer.
- (135) Apple's response to Motorola and its Fifth Orange Book Offer did not confirm infringement of Motorola's SEPs by the iPhone 4S, but left the scope of the offer open in this regard. It also did not confirm Motorola's entitlement to terminate the licence if, in the future, Apple were to challenge the validity of the licensed SEPs<sup>120</sup>.
- (136) The correspondence indicates that Motorola and Apple disagreed about the scope of a possible licensing agreement. While Motorola considered that the iPhone 4S, launched in October 2012 (i.e. following Apple's Second Orange Book Offer), would need to be included in the licensing agreement, Apple disagreed, arguing that this product was already licensed under the Qualcomm Agreement (see recitals (106)-(109)) and that Motorola's patent rights with regard to the iPhone 4S were therefore exhausted.
- (137) With its Fifth Orange Book Offer, Apple proposed to amend the scope of the definition of "Old Products", i.e. Apple products which infringe the licensed SEPs and which have been sold prior to the signing of the offer, for which therefore damages were to be paid, explicitly stating that only products *"that are not otherwise protected by any license or patent exhaustion"* fell into that category. Such a clause would therefore have left open the question of the infringement by the iPhone 4S. Should the competent court establish past infringement, Apple would have had to pay past damages and future royalties; should, however, the competent court conclude that the iPhone 4S was not infringing Motorola's Cudak GPRS SEP, Apple would not have been liable to pay either past damages or future royalties for the iPhone 4S.
- (138) Motorola did not accept Apple's Fourth and Fifth Orange Book Offers because, in its view, those offers did not clearly cover the iPhone 4S and still did not provide Motorola with the right to terminate the agreement if, in the future, Apple sought to challenge the validity of the licensed SEPs<sup>121</sup>.
- (139) Motorola did not mention the absence of a reciprocal licence to Apple's SEPs as one of the alleged inadequacies of Apple's Fourth and Fifth Orange Book Offers.
- (140) In its submissions to the Karlsruhe Appellate Court, Motorola argued that such an "open" proposal could not be accepted and the injunction should not be stayed as long as Apple's licensing offers left open the question of the infringement by the iPhone 4S: *"Moreover, the way in which the 4S was included, as indicated by the Defendant, where the issue of whether it was to be paid for was left open, is consequently nothing other than subjecting the FRAND offer to the condition that the contested embodiments infringe the Patent in Suit. Under the case law of the Federal Supreme Court and of the present Civil Division this is just not feasible"*<sup>122</sup>. Motorola

<sup>120</sup> See point 3.20 to 3.22 of Annex 2 and page 28 of Annex 1 to Motorola's response of 2 March 2012 to the Complaint [Doc ID 190], and points 5.15 and 5.16 of its reply of 2 July 2013 to the SO [Doc ID 591].

<sup>121</sup> See points 3.20 to 3.25 of Annex 2 and pages 28 and 29 of Annex 1 to Motorola's response to the Complaint [Doc ID 190], Motorola's submission of 12 January 2012 to the Karlsruhe Appellate Court, submitted as Appendices 113 and 114 to its response to the Complaint [Doc ID 190], and points 5.15 and 5.16 of its reply of 2 July 2013 to the SO [Doc ID 591].

<sup>122</sup> See authentic German version which reads: *"Im Übrigen wäre der von der Beklagten angedeutete Modus der Einbeziehung des 4S, wobei offen bliebe, ob dafür zu zahlen sei, im Ergebnis nichts anderes, als das FRAND-Angebot unter die Bedingung zu stellen, dass die angegriffenen Ausführungsformen das*

thus argued that, in order to meet the requirements of the Orange Book judgment, Apple's Orange Book Offers should not be made conditional on the infringement of the Patent in Suit (the Cudak GPRS SEP), "*Otherwise the Claimant would ultimately have to go ahead with the proceedings*"<sup>123</sup>.

- (141) Regarding Apple's motion to stay the enforcement of the injunction, on 12 January 2012, Motorola submitted to the Karlsruhe Appellate Court its response to the motion. On 19 January 2012, Apple filed a reply to Motorola's response. On 23 January 2012, Motorola filed its rejoinder to Apple's brief<sup>124</sup>.
- (142) On 23 January 2012, the Karlsruhe Appellate Court handed down a decision in which it rejected Apple's request to stay the enforcement of the injunction, finding *inter alia* that: (i) Apple's Fifth Orange Book Offer was insufficient to meet the requirements of the Orange Book judgment, as it did not include an explicit right for Motorola to terminate the agreement if, in the future, Apple sought to challenge the validity of the licensed SEPs; and (ii) Apple's patent exhaustion arguments based on the Qualcomm Agreement were insufficiently evidenced as that agreement had not been submitted to the Karlsruhe Appellate Court (see in more details recitals (154)-(157)).
- (143) In its reply to the SO<sup>125</sup>, Motorola submits that the Karlsruhe Appellate Court in its decision of 23 January 2012 also found Apple's previous Orange Book offers to be deficient because: (i) Apple failed to acknowledge Motorola's implied right under German law to terminate the agreement if, in the future, Apple sought to challenge the validity of the licensed SEPs; and (ii) procedural errors on Apple's part regarding its failure to raise a defence based on the Qualcomm Agreement.
- (144) On 30 January 2012, Motorola gave notice to Apple that it had deposited the amounts required by the 9 December 2011 decision of the Mannheim District Court in order to obtain enforceability of that decision and that it would proceed to the enforcement of the injunction granted by the Mannheim District Court<sup>126</sup>. On the same day, Apple made its Sixth Orange Book Offer.

#### 5.6.3.6. Sixth Orange Book Offer of 30 January 2012<sup>127</sup>

- (145) In its Sixth Orange Book Offer, Apple:
- (a) deleted the reference to products "*otherwise protected by any license or patent exhaustion*" in the definition of both the "Licensed Products" and the "Old Products" and instead explicitly included in the scope of "Old Products" the iPhone 4S;

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*Streitpatent verletzen. Das ist nach der Rechtsprechung des BGH und des hiesigen Senats gerade nicht möglich.*" Point 4 (c) of Motorola's Rejoinder of 23 January 2012, Appendices 117, 118 of Annex 1 to Motorola's response of 2 March 2012 to the Complaint [Doc ID 190].

<sup>123</sup> See authentic German version which reads:

*"Letztlich müsste die Klägerin sonst das Verfahren dem Grunde nach weiterführen."* Point 4 (c) of Motorola's Rejoinder of 23 January 2012, Appendices 117, 118 of Annex 1 to Motorola's response of 2 March 2012 to the Complaint [Doc ID 190].

<sup>124</sup> Motorola's rejoinder of 23 January 2012 was, however, not taken into account by the Karlsruhe Appellate Court as it ruled on Apple's request to stay the enforcement of the injunction on the same day that Motorola submitted its rejoinder. See Annex 1 to Motorola's reply of 2 July 2013 to the SO [Doc ID 589] and the Karlsruhe Appellate Court's decision of 23 January 2012.

<sup>125</sup> See point 5.17 of and Annex 1 to Motorola's reply of 2 July 2013 to the SO [Doc ID 591 and 89].

<sup>126</sup> See Appendix 121 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>127</sup> See Appendix 119 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

- (b) explicitly added a termination clause, whereby "*If LICENSEE [Apple] or any affiliated entity or individual files a nullity complaint, opposition or utility model cancellation request against any of the Licensed Patents, LICENSOR [Motorola] has the right to terminate this Agreement.*"

5.6.3.7. The second application to stay the enforcement of the injunction

- (146) On 1 February 2012, on the basis of its Sixth Orange Book Offer, Apple filed with the Karlsruhe Appellate Court a second application to stay the enforcement of the injunction granted by the Mannheim District Court.
- (147) On 3 February 2012, the Karlsruhe Appellate Court temporarily stayed the enforcement of the injunction granted by the Mannheim District Court, pending a ruling on Apple's second motion to stay dated 1 February 2012, based on Apple's Sixth Orange Book Offer.
- (148) On 16 February 2012, Motorola filed a response to Apple's second motion to stay the injunction granted by the Mannheim District Court. In its response, Motorola addressed what it considered to be the inadequacies of Apple's Sixth Orange Book Offer<sup>128</sup>. It argued, in particular, that it was Motorola's understanding on the basis of declarations made by Apple *inter alia* in court that, although Apple would give up its right to challenge the validity of the licensed SEPs and its right to invoke the exhaustion or pass-through of patent rights, it would retain its entitlement to invoke such defences in the context of subsequent rate-setting proceedings. As a result, Apple could, according to Motorola, aim at achieving lower royalties for SEPs whose validity appears weak or which may be covered by pass-through rights. In this context, Motorola expressed specific concerns with regard to the royalties for the iPhone 4S, where Apple may, according to Motorola, use its alleged pass-through rights under the Qualcomm Agreement in the royalty-setting procedure in order to significantly lower the actual royalties to be paid or even to achieve a level of zero royalties for that product.
- (149) Motorola did not mention the absence of a reciprocal licence to Apple's SEPs as one of the alleged inadequacies of Apple's Sixth Orange Book Offer.
- (150) On 20 February 2012, Apple filed a response to Motorola's submission of 16 February 2012, clarifying that its Sixth Orange Book Offer should be interpreted to include fully the iPhone 4S and that the royalties due for that product are not meant to be "*merely symbolic*"<sup>129</sup>.
- (151) On 27 February 2012, the Karlsruhe Appellate Court stayed the enforcement of injunction granted by the Mannheim District Court for the duration of the appeal proceedings. The Karlsruhe Appellate Court ruled that Apple's Sixth Orange Book Offer, as clarified by Apple in its response of 20 February 2012, was sufficient to meet the requirements of the Orange Book judgment. The Karlsruhe Appellate Court further clarified that Apple must honour its 20 February 2012 commitment to pay a royalty on the iPhone 4S which is more than merely symbolic, regardless of any exhaustion or pass-through defence based on the Qualcomm Agreement.

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<sup>128</sup> See Appendices 125 and 126 to Motorola's response to the Complaint [Doc ID 190].

<sup>129</sup> See Appendices 127 and 128 to Motorola's response to the Complaint [Doc ID 190].

#### 5.6.3.8. The alleged infringement of the Cudak GPRS SEP by the iPhone 4S

- (152) The alleged infringement of Motorola's Cudak GPRS SEP by the iPhone 4S became a live issue after Apple's Fourth Orange Book Offer.
- (153) Apple announced the launch of the iPhone 4S in October 2011, i.e. 6 months after Motorola first sought an injunction against Apple in Germany on 1 April 2011, and two months before the Mannheim District Court's judgment of 9 December 2011. While the iPhone 4S is backwards-compatible with GPRS and its chipset, supplied by Qualcomm, implements the Cudak GPRS SEP, it was not mentioned either by Motorola and Apple during the first instance procedure, or by the Mannheim District Court in its judgment of 9 December 2011.
- (154) As set out in recital (133), Motorola first sought clarification from Apple regarding the iPhone 4S on 2 January 2012, i.e. during the appeal procedure before the Karlsruhe Appellate Court, to which Apple replied in its letter of 5 January 2012 and its amended Fifth Orange Book Offer. The arguments of Apple and Motorola may be summarised as follows.
- (155) On the one hand, Apple argued<sup>130</sup> that the iPhone 4S did not infringe the Cudak GPRS SEP due to the existence in the Qualcomm Agreement of a [contractual clause], purportedly protecting Apple, as a Qualcomm customer, against any patent infringement claims regarding GSM/GPRS SEPs (including the Cudak GPRS SEP). In addition, Motorola's termination of the Qualcomm Agreement vis-à-vis Apple is unlawful, both on the basis of the ETSI IPR Policy, which defines FRAND commitments as "*irrevocable licenses on fair, reasonable and non-discriminatory terms and conditions*", and on the basis of the termination clause of the Qualcomm Agreement which [...] <sup>131</sup>. In Apple's view, [...] and Motorola had therefore no legal basis for invoking the termination clause <sup>132</sup>.
- (156) On the other hand, in its submissions to the Karlsruhe Appellate Court<sup>133</sup>, as well as in its submissions to the Commission<sup>134</sup>, Motorola argued that as a matter of German procedural law, it is sufficient for a claimant in a patent infringement procedure to identify the technical aspects of the infringing products, without an obligation to provide an exhaustive list of all infringing products. Any claim of non-infringement of the iPhone 4S should therefore have been introduced by Apple as a defence during the first instance proceedings before the Mannheim District Court. Apple was aware of all the elements of its exhaustion defence based on the Qualcomm Agreement and, in Motorola's view, made a procedural mistake by failing to raise that defence at first

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<sup>130</sup> See in particular Apple's 19 January 2012 submissions to the Karlsruhe Appellate Court, Appendices 115, 116 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>131</sup> See Apple's motion for the stay of the enforcement of the injunction (14 December 2011), Appendices 105-107, its Reply to Motorola's brief on the motion to stay the enforcement (19 January 2012), Appendices 115, 116 of Annex 1 to Motorola's response to the Complaint [Doc ID 190] and point B.2.1.1 of its Complaint [Doc ID 51].

<sup>132</sup> See for example Apple's 19 January 2012 submissions to the Karlsruhe Appellate Court, including a declaration by Qualcomm's Senior Director and Legal Counsel, Appendices 115, 116 of Annex 1 to Motorola's response to the Complaint [Doc ID 190], and Apple's submission of 2 September 2013 in the rate-setting proceedings [Doc ID 805].

<sup>133</sup> See in particular Motorola's submission of 12 January 2012 to the Karlsruhe Appellate Court, submitted to the Commission as Appendices 113, 114 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>134</sup> See in particular point 6.23 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

instance<sup>135</sup>. For that reason, on the basis of §§530 and 531 of the German Code of Civil Procedure ("Zivilprozessordnung"), Motorola considered Apple's arguments based on the Qualcomm Agreement constituted a new plea that should be precluded from consideration on appeal before the Karlsruhe Appellate Court<sup>136</sup>.

- (157) In its decision of 23 January 2012, the Karlsruhe Appellate Court ruled that it was unable to take into account Apple's arguments on non-infringement based on the Qualcomm Agreement, as Apple was "*not able to submit the agreement between the Plaintiff and Qualcomm*"<sup>137</sup>. Apple was not party to the Qualcomm Agreement [...]. Motorola, however, did not agree to the disclosure of the Qualcomm Agreement for examination by the Karlsruhe Appellate Court<sup>138</sup>. Due to that lack of evidence on Motorola's right to take legal action against Apple, as a Qualcomm customer, the Karlsruhe Appellate Court interpreted the Mannheim District Court's injunction order as covering the iPhone 4S and found no reason to stay its enforcement<sup>139</sup>.
- (158) Following the Karlsruhe Appellate Court's decision of 23 January 2012 rejecting Apple's request to stay the enforcement of the injunction and Motorola's notice on 30 January 2012 that it was proceeding to enforce the injunction<sup>140</sup>, Apple submitted its Sixth Orange Book Offer and, on the basis of that offer, filed a second motion to stay the enforcement of the injunction. Contrary to the Fifth Orange Book Offer, which had left open the question of infringement of the Cudak GPRS SEP by the iPhone 4S, subject to review of that question by the competent German courts in case of disagreement<sup>141</sup>, the Sixth Orange Book Offer explicitly included the iPhone 4S in the definition of the products infringing the Patents in Suit.
- (159) On 16 February 2012, Motorola rejected the Sixth Orange Book Offer and asked the Karlsruhe Appellate Court to dismiss Apple's second motion for suspension of the execution of the injunction. Motorola noted that, although the iPhone 4S would now be explicitly covered by the licensing agreement, Apple could still use the argument of likely non-infringement of the SEPs covered by the agreement by the iPhone 4S in the rate-setting procedure in order to significantly lower the level of the royalties (potentially down to zero) payable for that product<sup>142</sup>.
- (160) On 30 January 2012, Motorola sent a letter to Apple (also submitted to the Karlsruhe Appellate Court) asking Apple to confirm that it would "*owe full damages for the*

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<sup>135</sup> See point 6.23 and Annex 1 of Motorola's reply of 2 July 2013 to the SO [Doc ID 589 and 591], and Motorola's submission of 30 August 2013 to the Mannheim District Court [Doc ID 689].

<sup>136</sup> See in particular Motorola's submission of 12 January 2012 to the Karlsruhe Appellate Court, submitted to the Commission as Appendices 113, 114 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>137</sup> See section II.3 of the Karlsruhe Appellate Court's judgment of 23 January 2012.

<sup>138</sup> On Motorola's arguments regarding the various procedural options allegedly available to Apple to get hold of the Qualcomm Agreement, see Motorola's reply to the SO [Doc ID 591]. It is unnecessary for the Commission to take a position on these arguments by Motorola for the purposes of this Decision.

<sup>139</sup> On the Karlsruhe Appellate Court's reasoning concerning the iPhone 4S, see point II.3 of the judgment.

<sup>140</sup> Motorola had to deposit a total amount of [...] with the Mannheim District Court in order to be able to enforce the injunction granted by the Mannheim District Court, which it did on 30 January 2012. See Appendix 121 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>141</sup> See in this regard Apple's Fifth Orange Book Offer of 5 January 2012, submitted to the Commission by Motorola as Appendix 112 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>142</sup> See section I of Motorola's 16 February 2012 plea to the Karlsruhe Appellate Court Appendices 125, 126 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

*past and royalties going forward as for any other licensed product/old product (i.e. with no distinction as to the amount of royalties and/or damages).*"<sup>143</sup>

- (161) On 20 February 2012, Apple clarified in its submission to the Karlsruhe Appellate Court that *"there can be no dispute that there is no 'free license' to any right of Plaintiff's [sic] – Defendant agrees to pay a FRAND rate for products which are licensed [...]"*.<sup>144</sup>

#### 5.6.4. The Settlement Agreement

- (162) Following further exchanges on a number of issues<sup>145</sup>, Apple and Motorola signed a licensing agreement on [...] 2012, (the "Settlement Agreement"). The Settlement Agreement is based on Apple's Sixth Orange Book Offer, as clarified by Apple's submission to the Karlsruhe Appellate Court of 20 February 2012.

- (163) This Settlement Agreement contains the following main terms and conditions:

- (a) It covers all German patents and German parts of European patents held by Motorola and claimed by Motorola to be essential for the GSM, GPRS, EDGE, UMTS, WiFi and/or WLAN standards (section 1(1) of the Settlement Agreement);
- (b) The definition of Old Products covers explicitly the iPhone 4S (section 1(3) of the Settlement Agreement);
- (c) Its territorial scope is Germany (section 2(2) of the Settlement Agreement);
- (d) The royalties both for future and past use of the patents are to be set by Motorola *"according to its equitable discretion ("billiges Ermessen") and according to the FRAND standard in the industry"*. Whether the royalties are FRAND *"shall be subject to examination and be changed with retroactive effect by a court (according to §315 III BGB)"* (section 4(3) of the Settlement Agreement);
- (e) Apple acknowledges Motorola's claims for damages, according to German law (section 4(4) of the Settlement Agreement);
- (f) Apple shall unconditionally withdraw all pending nullity complaints, oppositions or utility model cancellation requests against the licensed patents. Should Apple file a new nullity complaint, opposition or utility model cancellation request against any of the licensed patents, Motorola has the right to terminate the Settlement Agreement (section 7(1) of the Settlement Agreement).

- (164) On 23 May 2012, following the execution of the Settlement Agreement, Motorola filed a declaration with the Karlsruhe Appellate Court that the injunction proceedings against Apple were moot<sup>146</sup>. On 29 May 2012, it filed similar declarations with the

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<sup>143</sup> Appendix 120 of Motorola's response to the Complaint [Doc ID 190].

<sup>144</sup> The authentic German version reads as follows: *"[...] aber es kann kein Streit darüber bestehen, ob es irgendeine 'kostenlose Lizenz' an irgendeinem Patent der Klägerin gibt. Die Beklagte verpflichtet sich, die FRAND Lizenzgebühr für die lizenzierten Produkte, [...], zu zahlen."* See Appendices 127 and 128 to Motorola's response to the Complaint [Doc ID 190].

<sup>145</sup> Including the provisional payment of royalties into escrow, in line with the requirements of the Orange Book judgment and the provisional setting of the FRAND rate by Motorola. See Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>146</sup> See Annex 1 to Motorola's reply of 2 July 2013 to the SO [Doc ID 589].

Mannheim and Düsseldorf District Courts. It, however, kept open the proceedings pending before the Karlsruhe Appellate Court with respect to damages for past infringement and accounting<sup>147</sup>.

(165) On 18 June 2012, Apple filed declarations with the same German courts confirming that it also considered the proceedings moot<sup>148</sup>.

(166) Subsequent to the Settlement Agreement, Apple has been paying royalties into escrow, in line with the requirements of the Orange Book judgment<sup>149</sup>.

### **5.7. The rate-setting proceedings and Motorola's further damages action before the Mannheim District Court**

(167) On 18 May 2012, Motorola exercised its right to specify the licence fees applicable under the Settlement Agreement<sup>150</sup>, and claimed a royalty of 2.25% of net sales revenues. By letter dated 29 May 2012, Apple contested Motorola's determination of the royalties<sup>151</sup>.

(168) On 9 October 2012, following further correspondence between Motorola and Apple regarding, *inter alia*, the FRAND rate, the escrow payments and Apple's accounting obligations<sup>152</sup>, Motorola instituted proceedings before the Mannheim District Court against Apple Retail Germany and Apple Sales International asking for the setting of the FRAND royalty rate by the court in accordance with the Settlement Agreement<sup>153</sup>. On 11 October 2012, Motorola instituted similar proceedings against Apple Inc.<sup>154</sup>. By order dated 15 April 2013, the Mannheim District Court combined those two proceedings<sup>155</sup>.

(169) In its briefs in the rate-setting proceedings, Motorola submitted a sample of [...] SEPs to substantiate its claim of 2.25% of net sales revenues of the products covered by the Settlement Agreement as the FRAND rate that should be set for the SEPs covered by the Settlement Agreement<sup>156</sup>. Motorola argued that the specification of the FRAND rate cannot depend on the validity of the SEPs as this would be inconsistent with the conclusion of the Settlement Agreement and with the presumption of validity of the SEPs<sup>157</sup>. Motorola further argued that objections regarding the lack of patent infringement, such as Apple's arguments based on the

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<sup>147</sup> See point 6 of Motorola's submission of 15 October 2012 [Doc ID 309].

<sup>148</sup> See point 6 of Motorola's submission of 15 October 2012 [Doc ID 309].

<sup>149</sup> In November 2013, the escrowed royalties amounted to [...]. See in this regard Apple's submission of 13 November 2013 [Doc ID 795].

<sup>150</sup> See Motorola's letter of 18 May 2012 to Apple [Doc ID 401].

<sup>151</sup> See Apple's letter of 29 May 2012 to Motorola [Doc ID 393].

<sup>152</sup> See the correspondence between Motorola and Apple, submitted by Apple on 20 February 2013 [Doc ID 391 to 396 and 402].

<sup>153</sup> See Motorola's submission of 9 October 2012 to the Mannheim District Court [Doc ID 388].

<sup>154</sup> See Motorola's submission of 11 October 2012 to the Mannheim District Court [Doc ID 387].

<sup>155</sup> See the Mannheim District Court's order as Coll ID 22 in Apple's submission of 13 September 2013 [Doc ID 719].

<sup>156</sup> See Motorola's submissions of 9 and 11 October 2012 to the Mannheim District Court [Doc ID 387 and 388].

<sup>157</sup> See in particular sections F. III and IV of Motorola's submissions of 9 and 11 October 2012 to the Mannheim District Court [Doc ID 387 and 388]. For more details about those arguments, see section 8.2.3.2.1.1. below.



Qualcomm Agreement, are also irrelevant in the context of a rate-setting procedure<sup>158</sup>.

- (170) On 6 June and 2 September 2013, by way of cross actions for interlocutory declaratory judgment, Apple requested the Mannheim District Court to declare: (i) the (partial) invalidity of several clauses of the Settlement Agreement; (ii) that it can continue to rely on the Qualcomm Agreement; and (iii) that Motorola's unilateral determination of the FRAND rate is not equitable and not binding<sup>159</sup>.
- (171) In its cross actions, Apple argued that certain clauses of the Settlement Agreement, which hinder its ability to challenge the infringement and validity of the SEPs covered by the Settlement Agreement, are void because they are contrary to Article 102 TFEU<sup>160</sup>. Consequently, Apple should be entitled to submit arguments regarding invalidity and non-infringement (based on, in particular, non-essentiality and the Qualcomm Agreement).
- (172) On 29 October 2013, Motorola sent a letter to Apple<sup>161</sup> (which it also submitted to the Commission and the Mannheim District Court), in which Motorola made the following declarations:
- It clarified its interpretation of the termination clause (section 7(1)) of the Settlement Agreement), stating that this clause would not apply to invalidity arguments raised by Apple within the rate-setting proceedings. As a result, Motorola confirmed that it does not have the right to exercise a right of termination of the Settlement Agreement with regard to any invalidity argument brought by Apple within the rate-setting proceedings.
  - Regarding validity challenges by Apple outside the rate-setting proceedings, Motorola declared it would not exercise its right to terminate under the termination clause of the Settlement Agreement, subject to the following cumulative conditions:
    - [- Motorola can exercise the termination right if the Commission rejects Apple's complaint with respect to the termination clause or the Union Courts annul the Commission decision declaring that clause in breach of competition law, and Apple still maintains the validity challenges; and
    - The validity challenge does not give rise to a stay or delay of the rate-setting proceedings.]<sup>162</sup>
- (173) In that same letter, Motorola also stated that it has never prevented, and will continue not to prevent, Apple from making non-infringement arguments in the rate-setting proceedings, including arguments relating to the Qualcomm Agreement. In particular, Motorola will not exercise any termination right (contractual or otherwise) on account of any arguments Apple would make in the rate-setting proceedings

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<sup>158</sup> See in particular sections F. III and IV of Motorola's submissions of 9 and 11 October 2012 to the Mannheim District Court [Doc ID 387 and 388]. For more details about those arguments, see section 8.2.3.2.1.2.

<sup>159</sup> See Apple's submission of 11 September 2013 [Doc ID 805].

<sup>160</sup> See Apple's claim of 6 June 2013 for interlocutory declaratory judgment, submitted on 13 September 2013 as Coll ID 38 [Doc ID 719] and Apple's post-trial brief of 2 September 2013 [Doc ID 805]. For more details about these arguments, see section 8.2.3.2.

<sup>161</sup> Motorola's letter of 29 October 2013 to Apple [Doc ID 766].

<sup>162</sup> [...]

regarding the Qualcomm Agreement. It confirmed, however, its view that arguments on non-infringement are irrelevant and immaterial to the rate-setting proceedings<sup>163</sup>.

- (174) On 8 November 2013, the Mannheim District Court stayed the rate-setting proceedings and asked the Commission, pursuant to Article 15(1) of Regulation (EC) No 1/2003, for its opinion on a number of questions concerning the application of the Union competition rules, relevant to the setting of the FRAND rate<sup>164</sup>. By those questions, the Mannheim District Court requested the Commission's opinion with regard to, in particular, the exact method it should employ to set the FRAND royalty rate in compliance with Article 102 TFEU.
- (175) As of the date of this Decision, the rate-setting proceedings before the Mannheim District Court are therefore stayed.
- (176) On 30 December 2013, Motorola filed a further action for damages and rendering of accounts against Apple with the Mannheim District Court<sup>165</sup>. With this action, Motorola claims damages, insofar as they exceed the amount of the FRAND royalties, [...] <sup>166</sup>.

### **5.8. The US Federal Trade Commission (FTC) Consent Order of 24 July 2013**

- (177) On 24 July 2013, the FTC adopted a Consent Order<sup>167</sup> setting out the procedure that Motorola and Google must follow before a SEP-based injunction against a potential licensee can be sought. The Consent Order establishes a framework that protects licensees not unwilling to enter into a FRAND licence on terms set by a US court or arbitral tribunal<sup>168</sup> from SEP-based injunctions. According to the Consent Order, challenging the validity, value, infringement or essentiality of a SEP does not amount to unwillingness on the part of a licensee to enter into a licensing agreement on FRAND terms and conditions (Section II.E.2).
- (178) According to Section IV.E.2. of the FTC's Consent Order, Google/Motorola, however, is not prevented or restricted "from enforcing any License Agreement entered into prior to the effective date" of the Consent Order. The Consent Order also does not apply in the case of potential licensees outside the jurisdiction of the United States District Courts.

## **6. RELEVANT MARKET**

### **6.1. Principles**

- (179) For the purposes of investigating an alleged dominant position of an undertaking on a given product market, the possibilities of competition must be judged in the context of the market comprising the totality of the products or services which, with respect

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<sup>163</sup> See Motorola's letter of 29 October 2013 to Apple and its submission of the same day to the Mannheim District Court [Doc ID 766 and 768].

<sup>164</sup> See the Mannheim District Court's order of 8 November 2013 [Doc ID 807] and its letter of 15 November 2013 to the Commission [Doc ID 806].

<sup>165</sup> See Motorola's brief of 30 December 2013 [Doc ID 813 and 814].

<sup>166</sup> See point B.I.2 of Motorola's brief of 30 December 2013 [Doc ID 813 and 814].

<sup>167</sup> <http://ftc.gov/os/caselist/1210120/130724googlemotorolado.pdf> [Doc ID 174].

<sup>168</sup> The AAA, JAMS or WIPO. See point I.T of the Consent Order, available at: <http://ftc.gov/os/caselist/1210120/130724googlemotorolado.pdf> [Doc ID 174].

to their characteristics, are particularly suitable for satisfying constant needs and are only to a limited extent interchangeable with other products or services<sup>169</sup>.

- (180) Since the determination of the relevant market is useful in assessing whether the undertaking concerned is in a position to prevent effective competition from being maintained and to behave to an appreciable extent independently of its competitors and its customers, an examination to that end cannot be limited solely to the objective characteristics of the relevant products and services, but the competitive conditions and the structure of supply and demand on the market must also be taken into consideration<sup>170</sup>.

## 6.2. Product market

### 6.2.1. Principles

- (181) A relevant product market comprises all the products or services which are regarded as substitutable by consumers, by reason of their characteristics, their prices and their intended use<sup>171</sup>. The Commission Notice on market definition outlines that "[...] demand substitution constitutes the most immediate and effective disciplinary force on the suppliers of a given product"<sup>172</sup>.

- (182) The Horizontal Guidelines further note that "[...] when rights to intellectual property are marketed separately from the products to which they relate [...]" a relevant technology market has to be defined<sup>173</sup>.

- (183) In its Guidelines on the application of Article 81(3) of the EC Treaty to technology transfer agreements<sup>174</sup> ("2004 Technology Transfer Guidelines"), the Commission differentiates between: (a) an input market, which is the market for the technology in question; and (b) an output market, which is the market for the products incorporating that technology.

### 6.2.2. The relevant input and output markets

- (184) For the purposes of this Decision, the relevant input market is the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, and the relevant output market comprises the downstream products on which GPRS standard-compliant products, such as chipsets and mobile devices, are sold.

- (185) As described in section 5.4, Motorola has entered into licensing and cross-licensing agreements covering its GPRS SEPs with a number of companies. The turnover

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<sup>169</sup> Case T-229/94 *Deutsche Bahn v Commission* [1997] ECR II-1689, paragraph 54; Case T-219/99 *British Airways v Commission* [2003] ECR II-5917, paragraph 91; and Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 31, confirmed on appeal in Case C-457/10 P, *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported.

<sup>170</sup> Case 322/81 *Nederlandsche Banden Industrie Michelin v Commission* [1983] ECR 3461, paragraph 37. See also the Commission's Notice on the definition of relevant market for the purposes of Community competition law ("Commission Notice on market definition"), OJ C 372, 9.12.1997, p. 5.

<sup>171</sup> Commission Notice on market definition, paragraph 7.

<sup>172</sup> *Ibid.* See also Case T-177/04 *EasyJet v Commission* [2006] ECR II-1931, paragraph 99.

<sup>173</sup> See Horizontal Guidelines, paragraph 116.

<sup>174</sup> Commission Notice, Guidelines on the application of Article 81(3) of the EC Treaty to technology transfer agreements (OJ C 101, 27.4.2004, p. 2-42), paragraphs 20 et seq. See also Commission Notice — Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (OJ C 89, 28.3.2014, p. 3-50 ("2014 Technology Transfer Guidelines")), paragraphs 20 et seq.

achieved with the licensing of the GPRS SEPs is different from the turnover achieved with GPRS standard-compliant products in the output market.

- (186) Therefore, this Decision focusses on the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.

#### 6.2.3. *The relevant SEP*

- (187) As set out in recital (115) and following, on 1 April 2011, Motorola asserted the Cudak GPRS SEP against Apple in Germany.

- (188) As outlined in section 5.6.3, Apple's Orange Book Offers were made in the context of patent litigation before the Mannheim District Court and the Karlsruhe Appellate Court.

- (189) The Settlement Agreement, covering the licensing of all German patents and German parts of European patents that Motorola claims to be essential to the GSM, GPRS, EDGE, UMTS, WiFi and WLAN telecommunication standards, was concluded in the context of the German litigation with respect to one patent, the Cudak patent. This portfolio-wide effect of patent litigation is described by Motorola as a general strategy in the telecoms industry: "*As a result, patent owners typically litigate just a few key patents but with the expectation of ultimately reaching a portfolio-wide, mutually beneficial settlement*"<sup>175</sup>.

#### 6.2.4. *The relevant technology market*

- (190) The definition of technology markets follows the same methodology as that for general product market definition<sup>176</sup>. Technology markets consist of the technology and the IP protecting that technology and its close substitutes, i.e. other technologies and related IP rights which customers could use as alternatives<sup>177</sup>.

- (191) The relevant technology market in this case encompasses the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, and other technologies to which customers could switch in response to a small but permanent increase in relative prices of Motorola's technology<sup>178</sup>.

- (192) If licensees of Motorola's Cudak GPRS SEP could easily switch to alternative technology in a timely manner in response to a small but permanent increase in the price of Motorola's license for this patent, then these alternative technologies would form part of the relevant technology product market.

#### 6.2.5. *Demand-side substitutability*

- (193) For the purposes of this Decision, the Commission has reached the conclusion that for manufacturers of mobile devices in the EEA, there are no substitutes to Motorola's technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads. This conclusion is based on the following three elements: (i) GPRS, part of the GSM mobile telecommunication technology (2G/2.5G technology), cannot be substituted by mobile standards of other

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<sup>175</sup> Point 5.1.5 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>176</sup> See 2004 and 2014 Technology Transfer Guidelines, paragraphs 19 et seq.

<sup>177</sup> Horizontal Guidelines, paragraph 116.

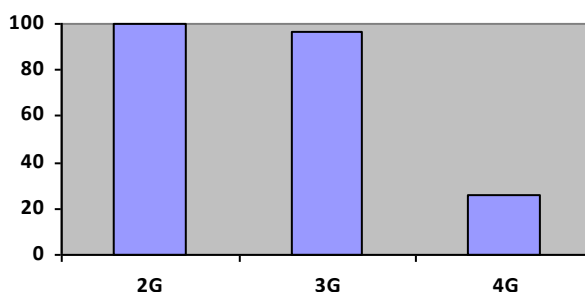
<sup>178</sup> Horizontal Guidelines, paragraph 117.

generations, such as UMTS (3G technology) or LTE (4G technology); (ii) GPRS cannot be substituted by any other 2G standard; and (iii) GPRS cannot be lawfully implemented without having access to the Cudak patent.

#### 6.2.5.1. No substitutability by 3G or 4G standards

- (194) As explained in section 5.1, GPRS is the most basic technology currently in use in mobile networks to provide services such as e-mail and web browsing. Whilst services such as e-mail and web browsing can also be provided through the more advanced 3G and 4G technologies, there are a number of reasons why it remains essential to ensure backwards compatibility of mobile devices with GPRS<sup>179</sup>.
- (195) First, in terms of geographic coverage, 3G and 4G coverage in the EEA is still lower than 2G coverage<sup>180</sup>. In terms of population coverage, 2G coverage in 2012 was around 100%, while 3G coverage in 2012 was around 96.3 % and 4G coverage in June 2013 was around 26.2 % according to the Commission's Digital Agenda Scoreboard 2013<sup>181</sup> and a 2013 Study by the GSM Association (GSMA)<sup>182</sup>.

Figure 1: Mobile Network Population Coverage in the EU, December 2012<sup>183</sup>



- (196) Second, even in areas of 3G and, *a fortiori*, 4G coverage, mobile devices will frequently make use of GPRS as the 3G signal is often insufficient. This is the case in buildings where 3G coverage is weaker than outdoors. Accordingly, mobile devices need to be configured so that they can automatically make use of 2G technologies in the event that 3G and 4G coverage is insufficient. There may also be

<sup>179</sup> From a technical perspective, 3G and 4G compatible devices do not need to implement GPRS in order to operate. Backwards compatibility rather means that these devices also implement GPRS specifications alongside 3G and 4G. See in this regard points 3 and 5 of ETSI's response to the RFI of 30 April 2012 [Doc ID 303].

<sup>180</sup> See Motorola's response to question 4.3 of the RFI of 27 July 2012 [Doc ID 291].

<sup>181</sup> Commission Staff Working Document: Digital Agenda Scoreboard 2013, 12.06.2013, SWD (2013) 217 final, pages 72-73, available at:

<http://ec.europa.eu/digital-agenda/sites/digital-agenda/files/DAE%20SCOREBOARD%202013%20-%20SWD%202013%20217%20FINAL.pdf>, printed on 30 January 2014 [Doc ID 815].

<sup>182</sup> Study by the GSM Association (GSMA): Mobile Economy Europe 2013, available at: [http://gsmamobileeconomyeurope.com/GSMA\\_Mobile%20Economy%20Europe\\_v9\\_WEB.pdf](http://gsmamobileeconomyeurope.com/GSMA_Mobile%20Economy%20Europe_v9_WEB.pdf), printed on 30 January 2014 [Doc ID 816].

<sup>183</sup> Based on Commission Staff Working Document: Digital Agenda Scoreboard 2013, 12.06.2013, SWD (2013) 217 final, pages 72-73, available at: <http://ec.europa.eu/digital-agenda/sites/digital-agenda/files/DAE%20SCOREBOARD%202013%20-%20SWD%202013%20217%20FINAL.pdf>, printed on 30 January 2014 [Doc ID 815], and the Study by the GSMA: Mobile Economy Europe 2013, available at:

[http://gsmamobileeconomyeurope.com/GSMA\\_Mobile%20Economy%20Europe\\_v9\\_WEB.pdf](http://gsmamobileeconomyeurope.com/GSMA_Mobile%20Economy%20Europe_v9_WEB.pdf), printed on 30 January 2014 [Doc ID 816].

instances when the range of an operator's cell site<sup>184</sup> is negatively impacted such that only a 2G service is available. Automatic transfer to a 2G service is also essential in that event<sup>185</sup>.

- (197) Third, large parts of the world have only 2G coverage. According to a 2011 ITU publication: *"The percentage of the population covered by a 2G mobile-cellular network is twice as high as the population covered by a 3G network. 3G population coverage reached 45% in 2011"*<sup>186</sup>. Therefore, 2G backwards compatibility is essential when travelling with a mobile device outside the EEA<sup>187</sup>.
- (198) Fourth, while today's high-end mobile devices use 3G and 4G technologies for higher data rate services, they still use the 2G and 2.5G legacy technologies to support respectively voice-centric and low data rate applications. This permits more efficient use of the capacity of the 3G and 4G networks<sup>188</sup>.
- (199) The necessity for all manufacturers of mobile phones selling in the EEA to comply with the GPRS standard has been confirmed by both Motorola and Apple in their submissions<sup>189</sup>. In addition, Motorola has indicated that *"[...] only a small proportion of mobile phones sold in the EEA will not comply with the GPRS standard"*<sup>190</sup>, referring to data collected by the market research firm GfK for the UK, Germany, France, Italy and Spain, in the period between January and June 2012, according to which [...] of mobile phones sold in those countries are not compatible with the GPRS standard<sup>191</sup>.
- (200) Both Motorola and Apple have also confirmed that the need for backwards 2G/2.5G compatibility of mobile phones is not likely to decrease in the near future<sup>192</sup>. In particular, Motorola *"[...] considers it unlikely that network operators in the EEA will be able to replace entirely the use of 2G and 2.5G technologies in their networks over the next five years, and therefore the need for backwards compatibility is unlikely to decrease significantly over the next five years"*<sup>193</sup>.

#### 6.2.5.2. No substitutability by any other 2G standard

- (201) In the EEA, GPRS cannot be substituted by any other 2G standard providing similar data transfer capabilities to the GPRS standard, such as the Enhanced Data rates for

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<sup>184</sup> A cell site is the site where an operator's antennas and electronic communications equipment are placed in order to create a cell in its cellular network.

<sup>185</sup> See Motorola's response to question 4.3 of the RFI of 27 July 2012 [Doc ID 291].

<sup>186</sup> ITU study available at: <http://www.itu.int/ITU-D/ict/facts/2011/material/ICTFactsFigures2011.pdf>, printed on 12 February 2013 [Doc ID 460].

<sup>187</sup> There are other standards providing similar data transfer capabilities to GPRS, based on packet-switched methods: the 1xRTT, principally used in the United States, Japan, China, India, South America and Russia; and the Personal Digital Cellular ("PDC") used exclusively in Japan. These are, however, not used in the EEA. See point 4.7.4. of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>188</sup> See Motorola's response to question 4.3.1 (iii) of the RFI of 27 July 2012 [Doc ID 291].

<sup>189</sup> See point 4.8 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254] and point 4.6 of Apple's response to the RFI of 3 May 2012 [Doc ID 477].

<sup>190</sup> See point 4.1.1 of Motorola's response to the RFI of 27 July 2012 [Doc ID 291].

<sup>191</sup> Motorola's response to the RFI of 27 July 2012, point 4.1.2 [Doc ID 291].

<sup>192</sup> See responses to question 4.4 of the RFI of 27 July 2012 [Doc ID 477, 291].

<sup>193</sup> Point 4.4.1 of Motorola's response to the RFI of 27 July 2012 [Doc ID 291].

GSM Evolution ("EDGE") standard, the 1xRTT standard or the Personal Digital Cellular standard<sup>194</sup>.

(202) Regarding EDGE, in its response to the Commission's RFI of 3 May 2012, Motorola refers to that standard as a potential alternative to GPRS<sup>195</sup>. EDGE, often referred to as 2.75G, is also based on GSM radio access and was introduced after the GPRS standard (see recital (90)).

(203) A number of elements outlined by Motorola support, however, the argument that EDGE is not suitable to replace GPRS:

*"(i) More infrastructure in Europe supports GPRS than supports EDGE, with the result that data services can be supported over a wider geographic area using GPRS. Backwards compatibility with GPRS allows network operators gradually to upgrade infrastructure as take-up of phones incorporating newer technologies increases.*

*(ii) A handset which is able to connect to more than one type of network allows greater network flexibility when the handset is taken abroad. If MML's handsets were not GPRS backwards compatible, but were instead only backwards compatible with EDGE, end users might have difficulties using data services such as email and web browsing whilst roaming on certain foreign networks which have not yet upgraded to EDGE (or 3G or 4G technologies).*

*(iii) While EDGE (and 3G and 4G) networks are generally able to transfer data at faster rates than GPRS networks, there may be times when the range of an operator's cell site is negatively impacted, such that only a GPRS service is available. A GPRS backwards compatible mobile phone therefore allows an end-user to make the most efficient use of the available network coverage in these circumstances"<sup>196</sup>.*

(204) As for the 1xRTT standard and the Personal Digital Cellular standard, neither of these is used in the EEA.

(205) The 1xRTT standard was the first core wireless radio access-interface standard in the CDMA2000 family. While it is sometimes referred to retrospectively as a 2.5G technology, it is now specified as a 3G technology under the IMT-2000 requirements<sup>197</sup>. 1xRTT uses multiplexing techniques including CDMA and TDMA and has a maximum of 144K data upload and download with typical speeds of 50K - 80K<sup>198</sup>. 1xRTT is principally used in the United States through the Sprint and Verizon networks, and also in Japan, China, India and South America<sup>199</sup>.

(206) Personal Digital Cellular ("PDC") is a 2G mobile telecommunications standard developed and used exclusively in Japan.

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<sup>194</sup> See point 4.7.4 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>195</sup> *Ibid.*

<sup>196</sup> See point 6.2 of Motorola's response to the RFI of 15 January 2013 [Doc ID 379].

<sup>197</sup> See <http://www.mobileburn.com/definition.jsp?term=1xRTT>, printed on 26 February 2013 [Doc ID 464].

<sup>198</sup> See [http://3gstore.com/page/78\\_what\\_is\\_evdo\\_mobile\\_broadband.html](http://3gstore.com/page/78_what_is_evdo_mobile_broadband.html), printed on 26 February 2013 [Doc ID 469].

<sup>199</sup> See [http://reviews.cnet.com/4520-3504\\_7-5664933-5.html](http://reviews.cnet.com/4520-3504_7-5664933-5.html), printed on 15 February 2013 [Doc ID 442].

6.2.5.3. The GPRS standard cannot be lawfully implemented in the EEA in devices without access to Motorola's Cudak GPRS SEP

(207) Motorola has declared that the technology covered by the Cudak patent is essential and must be implemented in order to comply with the technical specifications of the GPRS standard (and indeed sought and obtained an injunction on this basis). The Cudak GPRS SEP cannot thus be designed around when manufacturing a GPRS-standard-compliant product. This means that there is no alternative or substitute for the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads<sup>200</sup>. Motorola's technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, is an essential input for manufacturers of GPRS standard-compliant products.

(208) In order to manufacture and sell lawfully a GPRS-compliant product, an implementer must therefore obtain a licence to the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.

#### 6.2.6. *Supply-side substitutability*

(209) Supply-side substitutability may also be taken into account when defining markets in those situations in which its effects are equivalent to those of demand-side substitution. However, the competitive constraints arising from supply-side substitutability are in general less immediate than those arising from demand-side substitution<sup>201</sup>.

(210) In the present case, there is a lack of supply-side substitutability due to the fact that the technology on which the Cudak GPRS SEP reads is part of the GPRS standard. It is impossible for any other holder of SEPs (relating to GPRS or any other standard) to provide customers with alternatives to the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads. The holders of other technologies, whether patented or not, cannot supply technologies fulfilling the same function within GPRS due to the nature of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.

(211) There is therefore no supply-side substitutability for the technologies, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.

#### 6.2.7. *Conclusion on the relevant product market definition*

(212) As outlined above, there are no viable substitutes to the GPRS standard in the EEA. In order to manufacture and sell lawfully a GPRS-compliant product, an implementer of the GPRS standard must therefore obtain a licence to the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.

(213) The licensing of the technologies, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, therefore constitutes a separate relevant product market.

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<sup>200</sup> See in this regard Case COMP/M.6381 – Google/Motorola Mobility, Commission decision of 13 February 2012, recital 54.

<sup>201</sup> Commission Notice on market definition, paragraphs 14 and 20–23.



### 6.3. Geographic market

- (214) The relevant geographic market comprises the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogenous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas<sup>202</sup>.
- (215) For the purposes of this Decision, the Commission has reached the conclusion that, the relevant product market, i.e. the licensing market for the technologies, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, is EEA-wide in scope for the following reasons.
- (216) First, the technology on which Motorola's Cudak patent reads is protected by a European patent<sup>203</sup> that Motorola has declared to ETSI as being essential to the GPRS standard. As set out in section 5.1, GPRS is an overlay technology added to the existing GSM standard, and as such, a component part of the GSM standard. As set out in recital (199), all manufacturers of mobile phones currently comply with the GPRS standard and the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, is essential to any mobile telecommunications operator and manufacturer of mobile devices in the EEA and beyond.
- (217) Second, the existence of a harmonised regulatory regime in the EEA and of a number of mobile operators that operate in several EEA countries (including Vodafone, Orange, Telefónica, T-Mobile) support the argument that there is a mobile devices market that is EEA-wide. Manufacturers essentially distribute the same handsets to all their customers in the EEA regardless of their geographic location, prices are similar for the same products offered across the EEA, and products are manufactured globally and shipped to customers throughout the EEA.
- (218) [...] <sup>204,205,206</sup>
- (219) This conclusion is also in line with the Commission's decision in *Google/Motorola Mobility*, where the Commission found with respect to SEPs for the UMTS standard that the relevant markets for the licensing of technologies as specified in the UMTS standard technical specifications, on which UMTS SEPs read, were at least EEA-wide in scope<sup>207</sup>.
- (220) Even if, however, the geographical scope of the relevant markets were narrower and covered only the Member States where the Cudak GPRS SEP is enforceable, or only Germany where it was actually enforced, this would not lead to a different conclusion regarding Motorola's position on those markets (see recital (270) below).

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<sup>202</sup> Commission Notice on market definition, paragraph 8.

<sup>203</sup> The Cudak GPRS SEP is enforceable in six Member States: Germany, Finland, France, Italy, Sweden and the United Kingdom. See Motorola's response to Question 7.1 to the RFI of 27 July 2012 [Doc ID 291].

<sup>204</sup> See for example Motorola's various licensing agreements at Annexes 4.6(i) and 6.1(i) to Motorola's response to the RFI of 3 May 2012 [Doc ID 273].

<sup>205</sup> See the [...] set out in Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>206</sup> See, for example, section A.IV. "Infringement of foreign patents" of Motorola's surrejoinder of 17 October 2011, submitted to the Mannheim District Court. See Appendices 84 and 85 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>207</sup> Case COMP/M.6381 – Google/Motorola Mobility, recital 61.

## 7. DOMINANCE

### 7.1. Principles

- (221) Dominance is "*a position of economic strength enjoyed by an undertaking, which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, its customers and ultimately of its consumers*"<sup>208</sup>.
- (222) The existence of a dominant position derives in general from a combination of several factors which, taken separately, are not necessarily determinative<sup>209</sup>.
- (223) An important factor is very large market shares, which are in themselves, save in exceptional circumstances, evidence of the existence of a dominant position<sup>210</sup>. The mere ownership of a SEP does not, however, in itself equate to dominance<sup>211</sup>.
- (224) Another important factor is the existence of barriers, preventing either potential competitors from having access to the market or actual ones from expanding their activities on the market<sup>212</sup>.

### 7.2. Motorola's market share

- (225) Motorola holds a 100% share of the market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.
- (226) Motorola's mere holding or exercise of its rights under the Cudak GPRS SEP does not, however, confer dominance on its own. This must be assessed on the basis of all relevant factors. Two factors are of particular importance for this assessment: first, the indispensability of the GPRS standard on which Motorola's Cudak GPRS SEP reads for manufacturers of standard-compliant products, and, second, the industry lock-in to that standard.

### 7.3. It is indispensable for manufacturers of mobile devices to comply with the GPRS standard

- (227) Due to the widespread adoption of the GPRS standard, it is indispensable for manufacturers of mobile devices to comply with that standard.
- (228) The widespread adoption of GPRS is mainly due to its inclusion into the GSM standards specifications in GSM Release 97 (and subsequent versions) and the wide implementation of that standard by networks operators in their 2G networks (see recitals (87)-(88)).
- (229) Mobile network coverage of the GSM/GPRS standard in the EEA has reached around 100% (see recital (195)). For the reasons set out in sections 6.2.5.1 and 6.2.5.2, neither other 2G standards, nor 3G or 4G standards, represent viable alternatives to GPRS in the EEA.

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<sup>208</sup> See most recently Case C-52/09 *TeliaSonera* [2011] ECR I-527, paragraph 23 and C-549/10 P *Tomra v Commission*, judgment of 19 April 2012, not yet reported, paragraph 38.

<sup>209</sup> Case 27/76 *United Brands and United Brands Continental v Commission* [1978] ECR 207, paragraph 66.

<sup>210</sup> Case 85/76 *Hoffmann-La Roche v Commission* [1979] ECR 461, paragraph 41; and Case T-342/07 *Ryanair v Commission* [2010] ECR II-3457, paragraph 41.

<sup>211</sup> Horizontal Guidelines, paragraph 269.

<sup>212</sup> Case 27/76 *United Brands and United Brands Continental v Commission* [1978] ECR 207, paragraph 122; and Case 85/76 *Hoffmann-La Roche v Commission* [1979] ECR 461, paragraph 48.

- (230) As confirmed by Motorola and Apple in their submissions, notwithstanding the existence of more recent standards (like EDGE, UMTS and LTE), all manufacturers of mobile devices still implement GPRS<sup>213</sup>, and only a small proportion of mobile phones sold in the EEA does not comply with the GPRS standard<sup>214</sup>.

#### **7.4. Lock-in to GPRS**

- (231) Due to the wide adoption of GPRS in the EEA and the need of operators and device manufacturers to base their services and products on the same air interface technology, so that devices can communicate with the network, industry players are locked-in to the GPRS technology.
- (232) The emergence of an alternative GPRS technology in the EEA, which could be relied upon by manufacturers of mobile devices, is unlikely in the short and medium term. One important factor preventing the emergence of such an alternative is the prevalence of GPRS-compliant products (see recital (199)). Another factor is the large investments that have already been made in GSM/GPRS networks in the EEA.
- (233) In addition, as set out in section 5.1 above, standard-setting in the wireless telecommunications industry is a time-consuming process. The discussions leading to the establishment of the GPRS standard took several years. Given the growth of the mobile telecommunications industry, the increase in the number of industry players and the increase in the number of patents covering wireless telecommunications, there is no reason to believe that a new standard could be adopted in less time. The adoption of an alternative competing standard on which Motorola's Cudak GPRS SEP would not read within a reasonable time frame is therefore unrealistic.
- (234) Subsequent mobile generations and technologies have also not replaced GPRS, and access to GPRS remains indispensable for manufacturers of mobile devices at least in the short to medium term<sup>215</sup>.
- (235) As recognised by Motorola and Apple, the need for backwards compatibility is unlikely to decrease significantly over the next five years<sup>216</sup>. In terms of the costs of infrastructure for mobile networks, an OECD study shows that the infrastructure cost (excluding radio spectrum licenses) of a 3G (UMTS) mobile network covering 95% of a population in a country with 10 million subscribers is approximately EUR 24 billion<sup>217</sup>. Already by 2009, the sunk costs of UMTS investments by operators globally exceeded USD 500 billion<sup>218</sup>. European operators paid over EUR 100

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<sup>213</sup> See point 4.8 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254] and point 4.6 of Apple's response to the RFI of 3 May 2012 [Doc ID 477].

<sup>214</sup> See point 4.1.1 of Motorola's response to the RFI of 27 July 2012 [Doc ID 291] and point 4.6 of Apple's response to the RFI of 3 May 2012 [Doc ID 477].

<sup>215</sup> See sections 6.2.5.1 and 6.2.5.2.

<sup>216</sup> See the response to question 4.4 by Motorola [Doc ID 291] and Apple [Doc ID 477] to the RFI of 27 July 2012.

<sup>217</sup> OECD, Infrastructure to 2030, 2006, page 92, [Doc ID 465].

<sup>218</sup> UMTS Forum, A White Paper: Mobile Broadband: Evolution from HSPA to LTE, page 16, available at: [http://www.lteportal.com/Files/MarketSpace/Download/UMTS\\_Forum\\_MBB\\_LTE\\_White\\_Paper\\_February\\_2009\\_v2.pdf](http://www.lteportal.com/Files/MarketSpace/Download/UMTS_Forum_MBB_LTE_White_Paper_February_2009_v2.pdf), printed on 31 July 2012 [Doc ID 436].

billion alone for 3G radio spectrum licenses<sup>219</sup>. Given the existing differences in terms of geographical coverage between 2G, 3G and 4G<sup>220</sup>, a 3G or 4G coverage equivalent to 2G (GSM/GPRS) is unlikely to be achieved in the near future.

- (236) Even supposing an equivalent geographical coverage, there are a number of other reasons for the necessity for backwards compatibility with GPRS that strengthen the industry's lock-in to that standard. The often better indoor quality of the 2G signal, the sometimes technical unavailability of the 3G signal, the fact that 3G and 4G technologies still use the 2G legacy technologies to support voice-centric and low data rate applications, and the significantly higher 2G coverage in certain regions of the world where upgrading to newer technologies is much slower, confirm the indispensability for manufacturers of mobile devices to implement the GSM/GPRS standard (see sections 6.2.5.1 and 6.2.5.2).

## 7.5. The alleged countervailing bargaining power of Apple

### 7.5.1. Motorola's arguments

- (237) Motorola argues that for the purposes of this case, it does not enjoy a dominant position, at least vis-à-vis Apple, due to Apple's countervailing bargaining power<sup>221</sup>.
- (238) In support of this claim, Motorola refers, *inter alia*, to the following factors:
- (a) Apple is one of the world's largest companies and is estimated to account for 70% of all smartphone profits worldwide whereas Motorola has made substantial losses in the past few years<sup>222</sup>;
  - (b) Apple's large patent portfolio comprising both SEPs and non-SEPs makes it an indispensable trading partner as it is virtually impossible to avoid a patent portfolio of such a size<sup>223</sup>;
  - (c) [...] <sup>224</sup>;
  - (d) Apple has asserted a total of 31 non-SEPs against Motorola and these non-SEPs, some of which are commercially essential, are not FRAND-encumbered<sup>225</sup>;

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<sup>219</sup> See Harald Gruber, "Radio spectrum fees as sunk costs in the market for mobile telecommunications: The aftermath of European 3G licensing", page 2; available at: <ftp://ftp.zew.de/pub/zew-docs/div/IKT03/Gruber.pdf>, printed on 31 January 2014 [Doc ID 817].

<sup>220</sup> See Commission Staff Working Document: Digital Agenda Scoreboard 2013, 12.06.2013, SWD (2013) 217 final, pages 72-73, available at: <http://ec.europa.eu/digital-agenda/sites/digital-agenda/files/DAE%20SCOREBOARD%202013%20-%20SWD%202013%20217%20FINAL.pdf>, printed on 30 January 2014 [Doc ID 815], and the Study by the GSMA: Mobile Economy Europe 2013, available at: [http://gsmamobileeconomyeurope.com/GSMA\\_Mobile%20Economy%20Europe\\_v9\\_WEB.pdf](http://gsmamobileeconomyeurope.com/GSMA_Mobile%20Economy%20Europe_v9_WEB.pdf), printed on 30 January 2014 [Doc ID 816].

<sup>221</sup> See Motorola's response to the Complaint, points 3.1-3.4 [Doc ID 101]; Google's submission of 9 March 2012, points 79-84 [Doc ID 111]; Motorola's reply of 2 July 2013 to the SO, point 3.2 [Doc ID 591]; also stated by Motorola at the Oral Hearing of 30 September 2013.

<sup>222</sup> Motorola's reply of 2 July 2013 to the SO, point 3.2(i) [Doc ID 591]; also stated by Motorola at the Oral Hearing of 30 September 2013.

<sup>223</sup> Statement by Motorola at the Oral Hearing of 30 September 2013; Google's submission of 9 March 2012, point 83 [Doc ID 111].

<sup>224</sup> Motorola's response to the Complaint, point 3.3(ii) [Doc ID 101]; Motorola's reply of 2 July 2013 to the SO, point 3.2(vi)(b) [Doc ID 591].

<sup>225</sup> Motorola's response to the Complaint, point 3.3(iv) [Doc ID 101]; Motorola's reply of 2 July 2013 to the SO, point 3.2(vi)(a) [Doc ID 591]; Google's submission of 9 March 2012, point 83 [Doc ID 111].

- (e) Apple has recognised during the rate-setting proceedings that it has countervailing power *vis-à-vis* Motorola<sup>226</sup>;
- (f) Apple has been using Motorola's technology, including the GPRS SEP, "*free of charge since 2007*"<sup>227</sup>;
- (g) because "*[i]nvalid and non-infringed SEPs necessarily cannot confer dominance*", it is inconsistent for the Commission to claim, on the one hand, that certain clauses of the Settlement Agreement are disadvantageous to Apple because they hinder Apple's ability to challenge validity and infringement of the SEPs at stake and, on the other hand, that Motorola enjoys a dominant position on the basis of the Cudak GPRS SEP<sup>228</sup>;
- (h) as standard-setting is a "repeat game", if Motorola imposed disadvantageous terms on Apple, SSO members would avoid Motorola's technology when the next standard is set<sup>229</sup>.

#### 7.5.2. Assessment

- (239) As noted, the dominant position referred to in Article 102 TFEU relates to a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, its customers and ultimately of consumers.
- (240) Moreover, the General Court has previously held that in a situation where a supplier controls over 90% of a market, the presence of one or more large customers is not capable of affecting the dominant position of the supplier where the demand side is composed of a number of customers that are not equally strong and which cannot be aggregated<sup>230</sup>.
- (241) Therefore, the Commission's assessment of whether Motorola enjoys a dominant position is based on the economic strength Motorola enjoys as the holder of the Cudak GPRS SEP *vis-à-vis* the market as a whole, and not on the basis of its negotiating position *vis-à-vis* one or more customers such as Apple.
- (242) First, even if one or more potential licensees were to enjoy bargaining power as regards the licensing of their patents (SEPs or non-SEPs), this could not be considered a sufficiently effective constraint on the dominance that Motorola enjoys as the holder of the Cudak GPRS SEP. Even if Motorola needs to obtain access to SEPs or non-SEPs owned by one or more potential licensees, this does not alter the fact that a potential licensee, if it wishes to implement the GPRS standard, cannot switch to another supplier as there are no substitutes to Motorola's Cudak GPRS SEP. The fact that Motorola may accept lower royalty rates in exchange for obtaining access to other patents indicates only that Motorola prefers to be (partially) remunerated in kind instead of obtaining cash royalties. This does not, however,

<sup>226</sup> Motorola's reply of 2 July 2013 to the SO, point 3.2(iv) [Doc ID 591]; also stated by Motorola at the Oral Hearing of 30 September 2013.

<sup>227</sup> Motorola's reply of 2 July 2013 to the SO, point 3.2(i) [Doc ID 591]; also stated by Motorola at the Oral Hearing of 30 September 2013.

<sup>228</sup> Motorola's reply of 2 July 2013 to the SO, point 3.2(viii) [Doc ID 591].

<sup>229</sup> Statement by Motorola at the Oral Hearing of 30 September 2013.

<sup>230</sup> Case T-228/97 *Irish Sugar v Commission* [1999] ECR II-2969, paragraphs 97-98.

affect Motorola's ability to act to an appreciable extent independently of one or more potential licensees that hold patents to which Motorola requires access.

- (243) What Motorola describes in its submissions is general bargaining power which considerably differs from buyer power as referred to in the case-law<sup>231</sup>. One of the key elements of countervailing buyer power is the buyer's ability (or credible threat) to switch to competing suppliers. This is not the case as regards the Cudak GPRS SEP, as no potential licensee wishing to implement the GPRS standard can switch to other suppliers as there are no substitutes in the EEA to the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.
- (244) Second, even if one or more potential licensees implementing the GPRS standard were to enjoy bargaining power with regard to their own SEPs or non-SEPs, this would ensure that only a particular or limited segment of customers is shielded from the market power of Motorola.
- (245) Third, Motorola's interpretation of countervailing buyer power would lead to the existence of a dominant position being dependent on the bargaining position of each potential licensee relating to any patent Motorola may need access to.
- (246) Fourth, Motorola's interpretation of countervailing buyer power would mean that it would be impossible to establish the existence of a dominant position in cases where the conduct is directed against a purchaser that is economically strong on a market for a product the dominant undertaking needs access to for its own activities. It is, however, possible for both a seller and for a buyer to hold a dominant position within the meaning of Article 102 TFEU<sup>232</sup>.
- (247) With regard to Motorola's arguments set out in recital (238), they must be rejected for the following additional reasons.

#### 7.5.2.1. Apple's current profits and Motorola's current losses

- (248) According to Motorola, it cannot be dominant because Apple is one of the world's largest companies, accounting for 70%<sup>233</sup> of all smartphone profits worldwide, whereas Motorola has suffered significant losses.
- (249) First, the mere fact that there is a large undertaking in an industry does not exclude that a smaller undertaking can be found to be dominant in a particular upstream market. Otherwise, smaller undertakings could never be dominant in such a scenario.
- (250) Second, Apple's profits are irrelevant for the purposes of assessing the existence of Motorola's dominant position on the upstream market for the licensing of the technologies, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads. Even if Apple's profits were indicative of a position of economic strength on the downstream market for the sale of smartphones, nothing prevents a seller and a buyer from holding a dominant position within the meaning of Article 102 TFEU<sup>234</sup>.

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<sup>231</sup> *Ibid.*

<sup>232</sup> Case T-219/99 *British Airways v Commission* [2003] ECR II-5917, paragraph 102.

<sup>233</sup> At the Oral Hearing of 30 September 2013, Motorola claimed that Apple's profits account for more than 50% of the profits made by smartphone manufacturers.

<sup>234</sup> Case T-219/99 *British Airways v Commission* [2003] ECR II-5917, paragraph 102.

- (251) Third, temporary unprofitability or even losses by Motorola are not inconsistent with the existence of a dominant position<sup>235</sup>.
- 7.5.2.2. Apple's large patent portfolio comprising both SEPs and non-SEPs and the alleged IP imbalance between Motorola and Apple
- (252) [...] <sup>236</sup>.
- (253) As a result, and regardless of whether Apple agrees with such an assessment<sup>237</sup>, Apple's large patent portfolio comprising both SEPs and non-SEPs does not exercise a constraint on Motorola such as to countervail its dominance on the relevant market.
- 7.5.2.3. Apple's assertion of non-SEPs against Motorola
- (254) Apple's non-SEPs relate to technologies that are not technically essential for implementing standardised technology. In other words, in principle, it is possible for competitors to develop substitutes for the technologies covered by Apple's non-SEPs. This is also one of the reasons why non-SEPs are generally not encumbered by a commitment to license under FRAND terms.
- (255) As a result, the fact that Apple has asserted non-SEPs against Motorola cannot limit the degree of market power conferred on Motorola by the Cudak GPRS SEP. While Motorola claims that [...], it has not advanced any specific evidence that Apple's conduct with regard to its non-SEPs would amount to an abusive exercise of Apple's IP rights.
- 7.5.2.4. Apple's recognition during the rate-setting proceedings that it has countervailing power *vis-à-vis* Motorola
- (256) According to Motorola, Apple recognised that it had countervailing buyer power *vis-à-vis* Motorola when it argued in the rate-setting procedure that the royalty rates applicable between Motorola and its smaller licensees were irrelevant as comparators when determining the appropriate royalty rate for Apple as those royalty rates reflect the outcome of negotiations with companies that have less countervailing power than Apple<sup>238</sup>.
- (257) This allegation is based on a misunderstanding of the concept of countervailing buyer power (see recital (243)). Whether Apple has stronger "negotiating power" than certain other licensees of Motorola's SEPs is a question of general bargaining power and not countervailing buyer power.
- 7.5.2.5. Apple's alleged non-payment of royalties since 2007
- (258) Motorola's assertion that Apple has not paid any royalties for the use of Motorola's technology since 2007 shows countervailing power on the side of Apple must be rejected.
- (259) First, that assertion is factually incorrect. As explained in recital (166), following the Settlement Agreement, Apple has been paying a considerable amount of royalties into escrow in line with the requirements of the Orange Book judgment.

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<sup>235</sup> Case 322/81 *Nederlandsche Banden Industrie Michelin v Commission* [1983] ECR 3461, paragraph 59.

<sup>236</sup> See, for example, footnote 114 above,

<sup>237</sup> See in this regard Motorola's argument that [...], in point 3.2 (vi) (b) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>238</sup> See point 3.2 (iv) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

(260) Second, Apple will have to pay damages for past use pursuant the Settlement Agreement and in accordance with German law (see recital (163)). Motorola has also filed further damage claims for Apple's use of Motorola's technology (see recital (176)).

#### 7.5.2.6. Invalid and non-infringed SEPs cannot confer dominance

(261) Motorola's argument is inconsistent with the fact that it has declared the Cudak GPRS SEP to be essential to the relevant ETSI standard and its position before the German courts where it asserted and defended the validity of its Cudak GPRS SEP.

(262) Moreover, in the present case, the Cudak GPRS SEP at stake has not been declared invalid by the German courts and is therefore presumed to be valid<sup>239</sup>. It has also been found to be infringed by Apple's products<sup>240</sup>. As such, the Cudak GPRS SEP remains an indispensable input in order to implement the technology on which this SEP reads.

#### 7.5.2.7. Standard-setting as a "repeat game"

(263) Motorola has not provided any specific evidence about whether and how Motorola's behaviour vis-à-vis Apple has been constrained by considerations that standard-setting is a "repeat game".

(264) Moreover, any repercussions on Motorola will depend both on the market situation of Motorola and other participants in subsequent rounds of standard-setting, which, as recent examples in the mobile devices industry have shown<sup>241</sup>, can quickly change significantly.

#### 7.5.2.8. Apple's alleged countervailing power has in any case not appreciably constrained Motorola

(265) Even if Apple's alleged countervailing power were to be taken into account when assessing Motorola's dominant position, this would not alter the conclusion that for the purposes of this Decision, Motorola enjoys a dominant position.

(266) First, had Apple's countervailing power appreciably constrained Motorola, it ought to have mitigated Motorola's ability to lead Apple, through the seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP, to accept the disadvantageous licensing terms of the Settlement Agreement. Motorola's ability to act in a way that led Apple to accept such terms is thus an indication that Motorola was able to act independently of any alleged constraint by Apple<sup>242</sup>.

(267) The fact that Apple accepted Motorola's proposed licensing terms only with its Sixth Orange Book Offer does not alter this conclusion<sup>243</sup>. The evolution of Apple's Orange Book Offers and the content of the Settlement Agreement indicate that Apple ultimately agreed to the terms of the Settlement Agreement because of Motorola's seeking and enforcement of an injunction on the basis of the Cudak GPRS SEP.

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<sup>239</sup> Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 362.

<sup>240</sup> See the Mannheim District Court's judgment of 9 December 2011 [Doc ID 340]. Regarding the infringing products, see sections 5.6.3.8 and 8.2.3.2.1.2.

<sup>241</sup> See, for instance, Nokia's exit from the mobile devices market, following the sale of its mobile and smart device business (Case COMP/M.7047 – Microsoft/Nokia, Commission decision of 4 December 2013).

<sup>242</sup> Case 27/76 *United Brands* [1978] ECR 207, paragraph 68.

<sup>243</sup> See point 3.2 (vii) (b) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].



- (268) Second, Apple's general policy of not seeking injunctions on the basis of its SEPs also diminishes any potential countervailing power of Apple *vis-à-vis* Motorola. Apple acquired most of its SEPs by purchasing the patent portfolio of Novell in April 2011 and the patent portfolio of Nortel in June 2011 (through the Rockstar partnership, including, among others, RIM and Microsoft). Both transactions were under review by the US Department of Justice (DoJ) and were only finalised once the DoJ closed its investigations into the two transactions on 13 February 2012<sup>244</sup>. Before the two transactions [...], Apple's few SEPs were [...] and were never enforced by Apple against Motorola. More generally, in line with its letter to ETSI dated 11 November 2011<sup>245</sup>, Apple has not sought injunctions on the basis of any of its SEPs, either against Motorola or any other implementer.

## 7.6. Conclusion

- (269) The Commission concludes that for the purposes of this Decision, Motorola holds a dominant position on the EEA market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads.
- (270) Moreover, even if the geographical scope of the relevant markets were narrower and covered only the Member States where the Cudak GPRS SEP is enforceable, or only Germany where it was actually enforced, this would not lead to a different conclusion. Motorola would still enjoy a dominant position in a substantial part of the internal market due to its ownership of a technology covered by a patent enforceable in a given Member State which is essential for implementing the GPRS standard.

## 8. ABUSE

### 8.1. Principles

- (271) The concept of abuse is an objective concept relating to the behaviour of an undertaking in a dominant position which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse to methods different from those which condition normal competition, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition<sup>246</sup>.
- (272) A dominant undertaking has a special responsibility not to impair, by conduct falling outside the scope of competition on the merits, genuine undistorted competition in the internal market<sup>247</sup>. The scope of its special responsibility has to be considered in

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<sup>244</sup> See the Press Release of the DoJ of 13 February 2012: <http://www.justice.gov/opa/pr/2012/February/12-at-210.html>, printed on 26 February 2013 [Doc ID 468].

<sup>245</sup> In a letter to ETSI dated 11 November 2011, Apple made a commitment to license its cellular SEPs (including those reading on GPRS) on FRAND terms and conditions and not to seek injunctions in disputes involving SEPs [Doc ID 70].

<sup>246</sup> See most recently Case C-549/10 P *Tomra v Commission*, judgment of 19 April 2012, not yet reported, paragraph 17 and Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 74.

<sup>247</sup> Case 322/81 *Nederlandsche Banden Industrie Michelin v Commission* [1983] ECR 3461, paragraph 57; Case C-209/10 *Post Danmark A/S v Konkurrenserådet*, judgment of 27 March 2012, not yet reported,

light of the specific circumstances of the case<sup>248</sup> and at the time when the abusive conduct takes place<sup>249</sup>.

- (273) Article 102 TFEU and Article 54 of the EEA Agreement prohibit abusive practices which may cause damage to consumers directly, but also those which are detrimental to consumers through their impact on competition<sup>250</sup>.
- (274) It follows from the nature of the obligations imposed by Article 102 TFEU that, in specific circumstances, an undertaking in a dominant position may be deprived of the right to adopt a course of conduct or take measures which are not in themselves abuses and which would even be unobjectionable if adopted or taken by non-dominant undertakings<sup>251</sup>.
- (275) In addition, the illegality of abusive conduct under Article 102 TFEU is unrelated to its compliance or non-compliance with other legal rules and, in the majority of cases, abuses of a dominant position consist of behaviour which is otherwise lawful under branches of law other than competition law<sup>252</sup>.
- (276) The list of abusive practices provided by Article 102 TFEU is not exhaustive and the practices mentioned there are merely examples of abuse of a dominant position<sup>253</sup>.
- (277) Furthermore, the fact that a dominant undertaking's abusive conduct has adverse effects on a market distinct from the dominated one does not preclude the application of Article 102 TFEU and Article 54 of the EEA Agreement<sup>254</sup>.
- (278) Finally, a patent holder, including a holder of SEPs, is generally entitled to seek and enforce injunctions as part of the exercise of its IP rights. The seeking and enforcement of injunctions cannot therefore, in itself, constitute an abuse of a dominant position. The exercise of an exclusive right by its owner may, however, in exceptional circumstances and absent any objective justification involve abusive conduct<sup>255</sup>. The list of exceptional circumstances is not exhaustive<sup>256</sup>.

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paragraph 23; and Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 134.

<sup>248</sup> Joined Cases C-395/96 P and C-396/96 P *Compagnie Maritime Belge Transports and Others v Commission* [2000] ECR I-1365, paragraph 114; Case C-52/09 *TeliaSonera* [2011] ECR I-527, paragraph 84.

<sup>249</sup> Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 379, confirmed on appeal in Case C-457/10 P, *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported.

<sup>250</sup> Case C-52/09 *TeliaSonera* [2011] ECR I-527, paragraph 24.

<sup>251</sup> Case 322/81 *Nederlandsche Banden-Industrie Michelin v Commission* [1983] ECR 3461, paragraph 57 and Case T-111/96 *ITT Promedia v Commission* [1998] ECR II-2937, paragraph 139.

<sup>252</sup> Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 132.

<sup>253</sup> Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 860; Case C-280/08 P *Deutsche Telekom v Commission* [2010] ECR I-9555, paragraph 173; and Case C-52/09 *TeliaSonera* [2011] ECR I-527, paragraph 26.

<sup>254</sup> Case C-333/94 P *Tetra Pak v Commission* [1996] ECR I-5951, paragraph 25.

<sup>255</sup> Case 238/87 *Volvo v Veng* [1988] ECR 6211, paragraph 9; Joined Cases C-241/91 P and C-242/91 P *RTE and ITP v Commission ("Magill")* [1995] ECR I-743, paragraph 50; Case C-7/97 *Bronner* [1998] ECR I-7791, paragraph 39; Case C-418/01 *IMS Health* [2004] ECR I-5039, paragraph 35; Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 331.

<sup>256</sup> Case 238/87 *Volvo v Veng* [1988] ECR 6211, paragraph 9; Case C-7/97 *Bronner* [1998] ECR I-7791, paragraph 40; Case C-418/01 *IMS Health* [2004] ECR I-5039, paragraphs 36-38; Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 332.

## **8.2. Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP**

- (279) As Motorola holds a dominant position on the EEA market for the licensing of the technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads, Motorola has a special responsibility to ensure that its conduct in relation to the Cudak GPRS SEP does not impair genuine undistorted competition in the internal market.
- (280) In the exceptional circumstances of this case, set out in section 8.2.1 below, Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP amounts to an abuse of a dominant position under Article 102 TFEU as of Apple's Second Orange Book Offer of 4 October 2011, which constituted a clear indication that Apple was not unwilling to enter into a licence agreement on FRAND terms and conditions<sup>257</sup>. Motorola's conduct resulted in a temporary ban on the online sale of Apple's GPRS-compatible products in Germany (see section 8.2.3.1), and in the acceptance by Apple in the Settlement Agreement of a number of licensing terms capable of having anti-competitive effects (see section 8.2.3.2). In addition, Motorola's conduct is capable of having a negative impact on standard-setting (see section 8.2.3.3).

### *8.2.1. The exceptional circumstances*

- (281) The exceptional circumstances in the present case are the GPRS standard-setting context and the commitment given by Motorola to ETSI to license the Cudak GPRS SEP on FRAND terms and conditions.
- (282) As a general principle, a patent owner has the right both to refuse to license a patent and to obtain remuneration should it decide to license that patent.
- (283) In addition, where a competitor infringes a patent, the patent owner may suffer direct losses due to increased competition by the infringer and the resulting lower revenues from the sales of its patented products. In such a scenario, the seeking and enforcement of injunctions by a patent holder will typically be a legitimate exercise of an IP right in order to obtain the removal of infringing products from the market and protect the patent owner from further losses.
- (284) The situation is, however, different in the standard-setting context where the owner of the patent has voluntarily committed to license its essential patent on FRAND terms and conditions, and where the benefits of the standard-setting process in terms of increased compatibility, interoperability and competition, lower production and lower sales costs may be endangered by the seeking and enforcement of an injunction on the basis of a SEP by a dominant undertaking.

#### **8.2.1.1. The GPRS standard-setting context**

- (285) As set out in sections 5.1 and 5.2, the standardisation of GPRS was based on an iterative process involving the identification of a multitude of technical issues that were solved by the contributors in the course of the standardisation process. The members of the ETSI technical committees considered the technical contributions in

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<sup>257</sup> Apple's alleged unwillingness to enter into a licence agreement on FRAND terms and conditions is considered as a potential objective justification (see recitals (430)-(464)), the analysis of which forms an integral part of the assessment of the abusive conduct under Article 102 TFEU.

respect of each of those technical issues with a view to selecting the technologies that would lead to the most appropriate standardised technology.

- (286) As set out in section 5.1, the GPRS standard, like other standards, is ubiquitous in the telecommunication sector in order to ensure the compatibility and interoperability of telecom networks and devices. This is evidenced by the high ratio of GPRS standard-compliant products on the market (see in this regard section 6.2.5 on the relevant product market). The GPRS standard is also important for follow-on innovation as it paved the way for the development of complex communication networks and sophisticated mobile devices.
- (287) Motorola was an active participant in the standardisation of GPRS, submitting a significant number of technical contributions to the relevant ETSI committees (see section 5.2). It also declared the Cudak patent essential to GPRS on 8 April 2003<sup>258</sup>.
- (288) More generally, Motorola is one of the largest SEP holders in the telecommunication industry, with a worldwide total of [2,000 – 3,000] SEPs, including [500 – 1000] SEPs in the EEA<sup>259</sup>. Motorola is also an active player on the downstream market for the sale of mobile telephones implementing the relevant telecommunication standards, competing against other implementers of those standards (including GPRS), such as Apple.
- (289) Once GPRS, based on the agreement of patent holders to grant access to their SEPs on FRAND terms and conditions, was widely implemented and the industry became locked in, a SEP holder may be able to behave in anti-competitive ways, for example by "holding-up" implementers of the standard after its adoption<sup>260</sup>.
- 8.2.1.2. Motorola's commitment to ETSI to license the Cudak GPRS SEP on FRAND terms and conditions
- (290) In order to ensure effective access to the GPRS standard, SEP holders are required by ETSI to commit to license its SEPs on FRAND terms and conditions.
- (291) In principle, FRAND terms and conditions should be the outcome of commercial negotiations in which a SEP holder should not be able to exploit the market power it enjoys following the inclusion of its patented technology in the standard. A SEP holder should, however, be able to obtain FRAND royalties in return for making the standardised patented technology available to third parties.
- (292) The importance of FRAND commitments for the ETSI standard-setting process is evidenced by the fact that the ETSI IPR Policy does not allow the adoption of a standard that includes technology covered by a patent for which no irrevocable FRAND commitment has been given (see recital (64))<sup>261</sup>.
- (293) Motorola committed to license the Cudak patent on FRAND terms and conditions on 8 April 2003<sup>262</sup>. When contributing its technology to the GPRS standard, Motorola therefore agreed to: (i) license its Cudak patent and (ii) license it on FRAND terms and conditions.

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<sup>258</sup> See recital (95).

<sup>259</sup> See Table 2 (recital (10)).

<sup>260</sup> See Horizontal Guidelines, paragraph 269.

<sup>261</sup> Section 3.1, ETSI IPR Policy [Doc ID 244].

<sup>262</sup> See recital (96).

- (294) By committing to license on FRAND terms and conditions, Motorola recognised that, given the standardisation context, it has chosen to monetise its standard essential technology through licensing on fair, reasonable and non-discriminatory terms and not to use it to exclude implementers of the GPRS standard provided that it is appropriately remunerated for the use of its technology. On the basis of that commitment, manufacturers of GPRS-compliant products can reasonably expect that Motorola makes its SEPs available on FRAND terms and conditions to all implementers.
- (295) Motorola's understanding of the implications of its FRAND commitment can also be seen from its submissions to ETSI. For example, in a proposal submitted to ETSI in January 2006, Motorola suggested clarifying "[...] that the FRAND obligation means essential patent owners agree to grant licenses on terms that are objectively commercially reasonable [...]"<sup>263</sup>.
- (296) Via its FRAND commitment, Motorola thus agreed to provide interested parties with access to the Cudak GPRS SEP in return for fair, reasonable and non-discriminatory remuneration. Moreover, by giving a commitment to ETSI to license on FRAND terms and conditions, Motorola agreed also to be bound by an obligation to "[...] attempt to resolve any dispute related to the application of the IPR Policy bilaterally in a friendly manner", and to "[...] engage in an impartial and honest essential IPR licensing negotiation process for FRAND terms and conditions"<sup>264</sup>.
- (297) In its response to the Complaint, Motorola explicitly recognises that a SEP holder's commitment to license on FRAND terms and conditions should affect its right to seek injunctions<sup>265</sup>:
- "(i) The starting point must be that a patentee is entitled to seek relief (in whatever form offered by the relevant legal system) for infringement of its IP;*
- (ii) This starting point is modified by FRAND undertakings in respect of SEPs.*
- These undertakings require the patentee to license where the counterparty is willing to take a licence on FRAND terms. Accordingly, where a counterparty is willing to license on FRAND terms, there is no basis for the patentee to seek an injunction; and*
- (iii) Conversely, where the counterparty is not willing to license on FRAND terms but is instead disputing its need for a licence, then this dispute should be subject to judicial determination and enforcement."*
- (298) At the Oral Hearing of 30 September 2013, Motorola further confirmed that SEP-based injunctions should not be sought against potential licensees that are willing to enter into a licensing agreement on FRAND terms and conditions (on the question of willingness, see section 9.1).
- (299) Therefore, in the case at hand, Motorola has committed to make available and monetise the Cudak GPRS SEP on FRAND terms and conditions, rather than to make use of the Cudak GPRS SEP in a manner which excludes others from using it.

<sup>263</sup> See Annex 4.5 to Motorola's response to the RFI of 3 May 2012 [Doc ID 269]. Motorola proposed, inter alia, to include in the ETSI IPR Policy the principles of "Aggregate Reasonable Terms" and "Proportionality" concerning FRAND royalties.

<sup>264</sup> ETSI IPR Guide, paragraphs 4.3-4.4 [Doc ID 819].

<sup>265</sup> See point 5.10 of Motorola's response to the Complaint [Doc ID 101].

### 8.2.1.3. Conclusion

(300) The GPRS standardisation context and Motorola's commitment to license the Cudak GPRS SEP on FRAND terms and conditions constitute exceptional circumstances that distinguish this case from those where a patent holder seeks to enforce its exclusive right on the basis of a patent that does not read on standardised technology and that is not encumbered by a commitment to license under FRAND terms and conditions.

### 8.2.2. *The relevance of Apple's Second Orange Book Offer*

(301) As set out in section 5.5.1, licensing negotiations between Motorola and Apple took place following the termination of the Chi Mei Agreement by Motorola on 4 August 2007. Motorola and Apple both confirm in their submissions<sup>266</sup> that their offers were far apart, in particular as regards the level of FRAND royalties.

(302) In its First Orange Book Offer, Apple proposed judicial review of the FRAND royalties by the competent court. However, as outlined in section 5.6.3.1, the proposed mechanism would have allowed only for a limited review by the competent court of the proposed FRAND royalties. For example, the competent court would not have been able to consider [...]. It would also have been unable to change or review the method established between Motorola and Apple for the calculation of the royalties.

(303) In contrast, Apple's Second Orange Book Offer of 4 October 2011 allowed Motorola to set the royalties according to its equitable discretion and according to the "FRAND standard in the industry", without any limitations (other than FRAND and Article 102 TFEU) as regards the royalty rates and the method of calculation of the final amount of royalties. Moreover, this proposal allowed for a full judicial review of the amount of FRAND royalties, whereby both Motorola and Apple could submit their own evaluations, calculations and reasoning for consideration to the competent court.

(304) Furthermore, Apple's Second Orange Book Offer defined the scope of Licensed Products as follows: "*[...] physical products compatible with the GSM, GPRS, EDGE and/or UMTS standards sold by the Licensee subsequent to the signing of this Agreement that are not otherwise protected by any license or patent exhaustion regarding the Licensed Patents.*" That offer also covered the licensing of "*Old Products*", i.e. "*physical products that make use of the GSM, GPRS, EDGE and/or UMTS standards and that have been sold by the LICENSEE prior to the signing of this Agreement, including but not being limited to iPhone, iPhone 3G, iPhone 3Gs, iPhone 4, iPad 3G and iPad2 3G.*"

(305) These definitions covered all Apple products claimed by Motorola to be infringing its relevant SEPs, including the iPhone 4S (should it be infringing those SEPs and not be covered by the Qualcomm Agreement) which was launched worldwide on 14 October 2011<sup>267</sup>, i.e. ten days after the date of Apple's Second Orange Book Offer<sup>268</sup>.

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<sup>266</sup> See for example page 8 of Apple's Complaint [Doc ID 51] and Annex 1 to Motorola's response to the Complaint [Doc ID 96].

<sup>267</sup> The iPhone 4S was released on 14 October 2011 in the USA, Australia, Canada, France, Germany, Japan and the UK; it was released in 22 more countries on 28 October 2011 and in more than 70 countries by the end of 2011. See <http://www.apple.com/pr/library/2011/10/17iPhone-4S-First-Weekend-Sales-Top-Four-Million.html>; printed on 18 February 2013 [Doc ID 438].

(306) As a result, Apple's Second Orange Book Offer allowed for an independent determination of appropriate royalty rates for the use by Apple of the relevant Motorola SEPs in all of its "Old", i.e. already sold products implementing those SEPs, and in all of its new products to be sold subsequent to the signing of the Settlement Agreement ("Licensed Products"), should they infringe the relevant Motorola SEPs.

(307) For these reasons, further developed in section 9.1, the Commission considers that Apple's Second Orange Book Offer was a clear indication that Apple was not unwilling to enter into a licence agreement on FRAND terms and conditions with Motorola, as determined by the competent court.

### 8.2.3. *Anti-competitive effects*

(308) Article 102 TFEU prohibits behaviour that tends to restrict competition or is capable of having that effect<sup>269</sup>, regardless of its success<sup>270</sup>.

(309) The fact that an act by an autonomous judicial body (e.g the granting of an injunction by a court) is a precondition for the likely anti-competitive effects resulting from the conduct to materialise cannot affect the abusive nature of the conduct<sup>271</sup>.

(310) Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP was an autonomous act by Motorola, which was a prerequisite for the grant of the injunction by the Mannheim District Court and its subsequent enforcement by Motorola. In order to enforce the injunction, Motorola had to deposit a security bond with the Mannheim District Court to secure damages in case Apple's appeal on the substance of the case would be successful<sup>272</sup>. Motorola was neither required to start or maintain the proceedings seeking the injunction, nor to enforce the injunction once it was granted. When exercising that discretion, Motorola had to ensure that the conduct it elected to pursue was consistent with its obligations under Article 102 TFEU<sup>273</sup>.

(311) Motorola's choice to continue the injunction proceedings following Apple's Second Orange Book Offer and to enforce the injunction on the basis of the Cudak GPRS SEP against Apple in Germany was capable of having the following anti-competitive effects:

- a temporary ban on the online sale of Apple's GPRS-compatible products in Germany (see section 8.2.3.1);
- the inclusion in the Settlement Agreement of licensing terms disadvantageous to Apple (see section 8.2.3.2); and
- a negative impact on standard-setting (see section 8.2.3.3).

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<sup>268</sup> Apple's Second Orange Book Offer not only covered existing products but also future products launched following the offer should they infringe the licensed SEPs, such as the iPhone 5, iPhone 5S or iPhone 5C.

<sup>269</sup> Case C-549/10 P *Tomra v Commission*, judgment of 19 April 2012, not yet reported, paragraph 68.

<sup>270</sup> Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 347, confirmed on appeal in Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraphs 109 and 111.

<sup>271</sup> Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 377, confirmed on appeal in Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 106.

<sup>272</sup> See heading V. of the Mannheim District Court's judgment of 9 December 2011 [Doc ID 340].

<sup>273</sup> Case C-280/08 P *Deutsche Telekom v Commission* [2010] ECR I-9555, paragraphs 84-85.

- 8.2.3.1. The temporary ban on the online sale of Apple's GPRS-compatible products in Germany
- (312) By seeking and enforcing an injunction, a SEP holder may be able to exclude even the most innovative standard-compliant products from the market as, by definition, the patented technology cannot be worked around. In turn, the elimination of competing products from the market may limit consumer choice and partially eliminate downstream competition.
- (313) Following Motorola's enforcement on 30 January 2012 of the injunction granted by the Mannheim District Court on 9 December 2011, Apple had to cease and desist from offering the infringing products for online sales to consumers in Germany. Apple took the necessary measures in this regard which came into effect on 2 February 2012<sup>274</sup>.
- (314) On 3 February 2012, pending a ruling on Apple's second motion to stay of 1 February 2012, based on the Sixth Orange Book Offer of 30 January 2012, the Karlsruhe Appellate Court stayed temporarily the enforcement of the injunction.
- (315) On 27 February 2012, the Karlsruhe Appellate Court handed down a decision in which it ruled that Apple's Sixth Orange Book Offer, as clarified by Apple in its brief of 20 February 2012, met the requirements of the Orange Book judgment, and thus ordered that the 3 February 2012 stay of the enforcement of the injunction would remain in effect for the duration of the appeal.
- (316) Motorola's enforcement of the injunction order thus led to a temporary ban on Apple's online sales to consumers in Germany.
- (317) Motorola has claimed that the effects of Apple's temporary exclusion from online sales in Germany were trivial for the following reasons<sup>275</sup>:
- The injunction lasted for only a few hours, between the evening of 2 February and the morning of 3 February 2012;
  - The injunction affected only Apple's online sales and not Apple's sales via "bricks and mortar" stores, third party websites or other outlets;
  - The affected sales are likely to account for only a small proportion of Apple's total sales of relevant devices in Germany.
- (318) Motorola's arguments cannot be accepted.
- (319) First, Article 102 TFEU prohibits behaviour that tends to restrict competition or is capable of having that effect, regardless of its success. It is therefore irrelevant that the desired result, here the temporary exclusion of Apple's products, was achieved only for a short period of time.
- (320) Second, faced with the enforcement of the injunction, Apple had the choice of either having its products excluded from the market or accepting the disadvantageous licensing terms requested by Motorola as a condition for not enforcing the injunction. On the same day Motorola enforced the injunction, Apple chose, via its Sixth Orange Book Offer, to accept the disadvantageous licensing conditions. The short duration of the ban on Apple's products was therefore precisely because the enforcement of the injunction by Motorola led Apple to accept the disadvantageous licensing terms

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<sup>274</sup> See point 6 of Apple's response to the RFI of 21 December 2012 [Doc ID 477].

<sup>275</sup> See points 6.2 to 6.4 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].



requested by Motorola. Had Apple not accepted these terms, the injunction and the ban would have remained in force.

- (321) Third, while the enforced injunction concerned only Apple's online sales in Germany (because the procedure that led to the injunction and ultimately to the conclusion of the Settlement Agreement was a procedure initiated by Motorola against Apple Sales International, Apple's subsidiary handling online sales), injunction proceedings on the same legal and factual basis were also ongoing against Apple Retail Germany and Apple Inc. in the Mannheim and Düsseldorf District Courts. The enforcement of the injunction against Apple Sales International thus effectively put at risk all of Apple's German sales. Moreover, the enforcement of the injunction against Apple Sales International was sufficient to lead Apple to conclude the Settlement Agreement covering all Apple entities in suit in Germany<sup>276</sup>.

#### 8.2.3.2. Inclusion in the Settlement Agreement of licensing terms disadvantageous to Apple

- (322) The disadvantageous licensing terms that Apple accepted as a result of Motorola's seeking and enforcement of an injunction against it in Germany on the basis of its Cudak GPRS SEP are the following:

- Motorola's entitlement to terminate the licence if Apple challenges the validity of the SEPs covered by the Settlement Agreement ("the termination clause");
- The inclusion of the iPhone 4S in the list of infringing products ("Old Products") covered by the Settlement Agreement; and
- Apple's acknowledgment of Motorola's claims for past damages.

- (323) It is important to recall that SEPs-protected technologies can, by definition, not be designed around. SEP holders are therefore unavoidable trading partners for any manufacturer of standard-compliant products. As set out in section 7, with respect to its Cudak GPRS SEP, Motorola holds a dominant position on the market for the licensing of the Cudak technology, as specified in the GPRS standard technical specifications on which the patent reads.

- (324) Faced with the seeking and enforcement by a SEP holder of an injunction against its products, an implementer of a standard runs the risk that, should it not agree to the licensing terms or royalty rates proposed by the SEP holder, its products will be banned from the market. The latter may lead the implementer of the standardised technology to incur significant costs due to lost sales and damage to reputation. If a non-infringing redesign of a standard-compliant product is impossible, as in the case of GPRS-compliant products, the standard implementer risks being permanently blocked from access to the market and suffering the direct effects of the injunction described in section 4.1.2. The implementer would have to forego profits of products it can no longer manufacture and sell. In such a scenario, it is therefore not the underlying value of the patented technology which drives the negotiation process and the licensing conditions an implementer is ready to agree to, but rather the potential cost of lost sales and damage to reputation.

- (325) Apple sold over [...] iPhones and over [...] 2G/3G-enabled iPads in Germany in Fiscal Year 2011 (the year preceding the enforcement of the injunction). Its sales of

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<sup>276</sup> See section 5.6.4 of this Decision.

iPhones and 2G/3G-enabled iPads in Germany in Financial Year 2011 amounted to EUR [...] <sup>277</sup>.

- (326) Even the temporary exclusion of Apple's products from the German market could have resulted in significant profit losses of Apple due to the fast moving nature of the markets for mobile devices and short product cycles. Most major manufacturers of mobile devices, including Apple and Motorola, issue new product models approximately every 12 months and industry analysts estimate the average shelf life for mobile devices to be significantly shorter than a few years ago, generally not beyond 12 months <sup>278</sup>.
- (327) In order to avoid having its products removed from the market, Apple agreed to the inclusion in the Settlement Agreement of disadvantageous licensing terms which it would likely not have agreed to in licensing negotiations absent Motorola's seeking and enforcement of an injunction.
- (328) These disadvantageous licensing terms are also capable of producing more general anti-competitive effects.
- 8.2.3.2.1. Assessment of the likely anti-competitive effects of the disadvantageous licensing terms
- 8.2.3.2.1.1. Motorola's entitlement to terminate the licence if Apple challenges the validity of the SEPs covered by the Settlement Agreement
- (329) Section 7(1) of the Settlement Agreement provides that "[...] *if LICENSEE or any affiliated entity or individual files a nullity complaint, opposition or utility model cancellation request against any of the Licensed Patents, LICENSOR has the right to terminate this Agreement.*" Pursuant to Section 7(1) of the Settlement Agreement, Apple had to unconditionally withdraw all pending nullity complaints, oppositions or utility model cancellation requests against the patents licensed under the Settlement Agreement. Should Apple file a new nullity complaint, opposition or utility model cancellation request against any of the licensed patents, Motorola has the right to terminate the Settlement Agreement.
- (330) In its Second to Fourth Orange Book Offers, Apple insisted on preserving its right to maintain pending nullity actions against the SEPs for which Motorola could claim damages for past infringement extending beyond the payment of FRAND royalties.
- (331) In its brief of 14 December 2011, together with its Fourth Orange Book Offer, Apple defended its right to challenge validity in front of the Karlsruhe Appellate Court: "*They [Motorola] are not entitled to a right to termination on the grounds of cause. If they want to gain more than what they are entitled to on the basis of their inventive achievement, they will at least have to – in so far – confront the Defendant's defense.*" <sup>279</sup>
- (332) In a letter of 5 January 2012 to Motorola, Apple expressly confirmed that it did not want to rule out bringing further invalidity actions <sup>280</sup>. With a view to achieving the

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<sup>277</sup> See Apple's response to the RFI of 21 December 2012 [Doc ID 477].

<sup>278</sup> See: Android changes smartphone life cycle, available at: <http://www.theusdvista.com/business/android-os-changes-smartphone-life-cycle-1.2000033>, printed on 17 January 2013 [Doc ID 437].

<sup>279</sup> See point VI.5 of Apple's brief of 14 December 2011 to the Karlsruhe Appellate Court [Doc ID 337].

<sup>280</sup> See Apple's letter to Motorola of 5 January 2012, in particular Ad 8 [Doc ID 630], see also Motorola's response to the Commission RFI of 3 May 2012, point 11.1.5 [Doc ID 254].

signing of the Settlement Agreement, Apple, however, withdrew its invalidity action in Germany against the Cudak patent<sup>281</sup>.

- (333) Until its Sixth Orange Book Offer, Apple did not accept the possibility that Motorola could terminate the Settlement Agreement in the event that Apple filed future invalidity actions<sup>282</sup> against the licensed patents. Apple's position on this point is set out in its brief of 19 January 2012, following its Fifth Orange Book Offer: *"In accordance with Section 8(1) of the amended 'Orange Book' offer, the Defendant has committed itself to the unconditional withdrawal of the nullity action against the patent-in-suit (...). Now the plaintiff is of the opinion that it is not acceptable that the Defendant does not exclude, for the entire term of the license agreement and for all imaginable circumstances, the possibility of attacking the legal validity of the patent-in-suit anew. Furthermore, the Defendant only considered it to be obligatory to accept the amended 'Orange Book' offer if the patent proprietor's right of termination is expressly provided for in the event of a repeated attack against the legal validity of the patent-in-suit. This opinion cannot convince. The defendant has not committed itself not to file a new nullity action against the patent-in-suit, because such a commitment is in violation of antitrust law on its part."*<sup>283</sup>
- (334) Apple has explained the importance of its ability to challenge validity as follows: *"One of the major concessions by Apple has been the agreement to withdraw all pending nullity complaints relating to any of MMI's SEPs alongside granting MMI the right to terminate the licence should Apple, or affiliated entity, make any future nullity complaint. Taken together, these licence terms mean that Apple would be, once again, exposed to the risk of injunction should it challenge the validity of MMI's SEP. As Apple continues to consider that MMI has over-declared patents as SEPs and that patents within the MMI portfolio are likely, if tried, to be invalid, this is a substantial concession by Apple"*<sup>284</sup>.
- (335) Notwithstanding its position, in its Sixth Orange Book Offer Apple accepted that if it were to challenge any of the SEPs licensed under the Settlement Agreement, Motorola would be entitled to terminate the licence in relation to all SEPs and utility models covered by the Settlement Agreement<sup>285</sup>.
- (336) The termination clause is capable of having a number of anti-competitive effects. First, it may limit Apple's ability to influence the level of royalties it will have pay to Motorola for the use of the SEPs covered by the Settlement Agreement. Second, it may lead other potential licensees of the SEPs covered by the Settlement Agreement to pay for invalid IP.

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<sup>281</sup> See page 60 of Apple's brief of 2 September 2013 [Doc ID 805]. In its brief, Apple points to the fact that this withdrawal is all the more a concession with a view to signing the Settlement Agreement as in the parallel US infringement proceedings, an expert appointed by the court came to the conclusion that the US counterpart of the Cudak patent was probably invalid.

<sup>282</sup> Invalidity actions comprise nullity complaints, opposition and utility model cancellation requests, as defined by Section 7(1) of the Settlement Agreement.

<sup>283</sup> See point A.I. of Apple's brief of 19 January 2012 to the Karlsruhe Appellate Court, submitted to the Commission by Motorola as Appendices 115, 116 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>284</sup> See point 9 of Apple's response to the RFI of 3 May 2012 [Doc ID 477].

<sup>285</sup> The SEPs and utility models covered by the Settlement Agreement are limited to German patents, utility models or German parts thereof.

(i) *Limiting Apple's ability to influence the level of royalties it will have to pay to Motorola for the use of the SEPs covered by the Settlement Agreement*

- (337) In order to lawfully sell GPRS-compliant products, Apple needs a licence to Motorola's relevant SEPs. It is therefore not a viable option for Apple to bring an invalidity action against the Cudak GPRS SEP or any other of Motorola's SEPs, as this would allow Motorola to terminate the Settlement Agreement.
- (338) The termination clause *de facto* limits Apple's ability and incentive to initiate invalidity actions that may influence the level of royalties and the resulting level of damages it will have pay to Motorola for the use of the SEPs covered by the Settlement Agreement.
- (339) More concretely, the termination clause, which *de facto* hinders Apple's ability to challenge the validity of the SEPs subject to the Settlement Agreement, curtails the legal defences that Apple can make use of in order to influence the FRAND rate that will be set by the Mannheim District Court, as well as the resulting level of damages. It is therefore disadvantageous to Apple (on the question of the likely effect of the termination clause within and outside the rate-setting proceedings, see recitals (349)-(367)).
- (340) As recognised by Motorola, the aim of the inclusion of a termination clause in the Settlement Agreement is to discourage Apple from bringing invalidity actions: "*The inclusion of such a provision in these circumstances was driven by a desire to discourage Apple from ostensibly settling the litigation with MMI in Germany by taking a licence, only to continue litigating issues of validity in Germany in the future*"<sup>286</sup>.
- (341) Motorola has succeeded with its aim as the right to terminate the Settlement Agreement limits Apple's incentive to initiate invalidity actions. As the running royalties demanded by Motorola correspond to 2.25% of the net sales revenues of the licensed products, the possible gains of reduced royalties after successfully invalidating an individual patent licensed under the Settlement Agreement cannot amount to more than such royalties, i.e. 2.25% of net sales revenues. As the foregone profits from not being able to sell standard-compliant products in Germany are thus much larger than any possible gain from reduced royalties, the termination clause effectively leads Apple to refrain from validity challenges for patents under the Settlement Agreement, even in the case of patents where it considers the chances of invalidation to be high.
- (342) In addition, as a result of the termination clause, initiating invalidity actions would entitle Motorola to seek and enforce an injunction against Apple on the basis of any of the SEPs covered by the Settlement Agreement.
- (343) None of the arguments put forward by Motorola are capable of altering this conclusion.<sup>287</sup>
- (344) First, Motorola's argument that the inclusion of the termination clause in the Settlement Agreement is incapable of having anti-competitive effects because such a right to terminate in the event of a challenge by Apple is an implied right under German law<sup>288</sup> both contradicts the position Motorola espoused during the injunction

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<sup>286</sup> See Motorola's response to the RFI of 3 May 2012, para.11.1.7 [Doc ID 254].

<sup>287</sup> See point 6.11 to 6.19 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>288</sup> See points 5.10, 5.17 and 6.14 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

proceedings and is contrary to the decision of the Karlsruhe Appellate Court of 23 January 2012, which confirms that the parties cannot rely on the existence of such implied right to terminate under German law.

- (345) In this regard, it relies on the Mannheim District Court's judgment of 9 December 2011 stating "[...] *the licensor can terminate for good cause a licence with a licensee challenging the validity of the licensed patent*"<sup>289</sup>. It also refers to Apple's defence presented in January 2012 to the Karlsruhe Appellate Court and an Apple internal e-mail of 23 January 2012 (following the Karlsruhe Appellate Court's judgment rejecting Apple's request to stay the enforcement of the injunction) in which Apple recognised that it is "unnecessary" under German law to include an explicit termination clause in the Settlement Agreement<sup>290</sup>.
- (346) In its brief to the Karlsruhe Appellate Court of 23 January 2012, Motorola argued that "*Withdrawal of the nullity action is after all an essential element without which the Claimant should not be compelled to accept the offer under any circumstances. But then an appropriate express provision must be made to cover the future and to cover the term of the contract*"<sup>291</sup>. This therefore contradicts its position in the present proceedings that the termination clause is incapable of having any disadvantageous effect due to the existence of an implied termination right under German law.
- (347) Moreover, the Karlsruhe Appellate Court's decision of 23 January 2012 also contradicts Motorola's argument that the right to terminate the agreement in the event of a validity challenge is an implied right under German law: "*Plaintiff also has a justified interest that the licence agreement contains a clause which in the event of a future challenge to the validity of the licensed intellectual property rights provides a right to terminate the agreement. This is shown – at least on the basis of German law which is to be applicable to the agreement – by the fact that without an express provision a corresponding authorisation would not exist or at least would not be beyond doubt. In this respect case law (BGH GRURInt 1969, 31, 33 – Gewindeschneidapparat) and textbooks (Bartenbach, "Patentlizenz- und Know-how-Vertrag", 6<sup>th</sup> Edition, Marginal n° 2044; Groß, "Der Lizenzvertrag", 10<sup>th</sup> Edition, Marginal n° C 214) support the opinion that in the absence of an express contractual agreement the licensee is generally not under the obligation to refrain from challenging the legal validity of the property right. A non-challenge obligation resp. a right of the licensor to terminate the licence agreement because of a challenge of the legal validity of property right therefore only exists if this is expressly agreed on in the agreement*"<sup>292</sup>.

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<sup>289</sup> See point 5.10, 5.17 and 6.14 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>290</sup> See point 6.14 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>291</sup> See point II.1. of Motorola's brief of 23 January 2012 to the Karlsruhe Appellate Court, submitted to the Commission as Appendices 117, 118 of Annex 1 to Motorola's response to the Complaint [Doc ID 190]. The fact that the Karlsruhe Appellate Court did not take this brief into consideration because it was submitted too late does not change the fact that the position Motorola took during the German proceedings regarding the need for an explicit termination clause contradicts its position in the Commission's proceedings.

<sup>292</sup> See under section II of the Karlsruhe Appellate Court's decision of 23 January 2012. The authentic German version reads as follows: "*Die Klägerin hat auch ein berechtigtes Interesse daran, dass in den Lizenzvertrag eine Klausel aufgenommen wird, die ihr für den Fall eines künftigen Angriffs auf den Rechtsbestand der lizenzierten Schutzrechte ein Recht zur Kündigung des Vertrags gibt. Das ergibt sich - jedenfalls auf der Grundlage des deutschen Rechts, das auf den Vertrag anwendbar sein soll - daraus,*

- (348) Contrary to the position presented by Motorola in its reply to the SO<sup>293</sup>, the explicit inclusion of the termination clause in the Settlement Agreement modified the rights and obligations of Apple and Motorola and is thus capable of having anti-competitive effects.
- (349) Second, Motorola's claim that, even if the termination clause were to hinder Apple's ability to challenge the validity of the SEPs covered by the Settlement Agreement, this will not lead to a higher FRAND rate as the rate-setting court will, in any case, factor in the potential risk that some of the patents in Motorola's German SEP portfolio may be invalid<sup>294</sup>, cannot be accepted.
- (350) Motorola contends that, when setting the FRAND rate, the Mannheim District Court would in any case factor in the potential risk that some of the patents in Motorola's German SEP portfolio may be invalid. Motorola puts forward a number of arguments in support of a FRAND-determination method which would take the "probabilistic nature of patents" into account<sup>295</sup>. As a result of this approach, actual challenges of the validity of individual patents would, according to Motorola, have no, or only trivial, effect (either advantageous or disadvantageous) on the FRAND rate<sup>296</sup>.
- (351) In the first place, this is contradicted by Motorola's continued insistence on the inclusion of the termination clause in the Settlement Agreement, which in Motorola's view discourages Apple from litigating on validity issues (see recital (340)). This can be seen from Motorola's submission of 16 February 2012 to the Karlsruhe Appellate Court in which Motorola argued that Apple ought "[...] to abandon in the event of conclusion of agreement the defense of non-infringement and the lack of validity"<sup>297</sup>.
- (352) In the second place, it is contradicted by the fact that in the rate-setting proceedings (see section 5.7), Motorola has gone further and argued that any consideration of the validity or potential invalidity of the licensed patents should be excluded from the scope of the rate-setting proceedings<sup>298</sup>:

*"The objection of a lack of validity cannot be relied on by the Defendants."*

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*dass ohne eine ausdrückliche Regelung eine entsprechende Befugnis nicht bestünde oder zumindest nicht zweifelsfrei wäre. In Rechtsprechung (BGH GRURInt 1969, 31, 33 - Gewindeschneidapparat) und Literatur (Bartenbach, Patentreizenz- und Know-how-Vertrag, 6. Auflage, Rz. 2044; Groß, Der Lizenzvertrag, 10. Auflage, Rz. C 214) wird hierzu die Auffassung vertreten, bei Fehlen einer ausdrücklichen vertraglichen Vereinbarung sei der Lizenznehmer grundsätzlich nicht gehalten, einen Angriff auf den Rechtsbestand des Vertragsschutzrechts zu unterlassen. Eine Nichtangriffsverpflichtung bzw. ein Recht des Lizenzgebers zur Kündigung des Lizenzvertrags wegen des Angriffs auf den Rechtsbestand des Vertragsschutzrechts besteht danach also nur dann, wenn dies im Vertrag ausdrücklich vereinbart ist."*

<sup>293</sup> See point 5.17 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>294</sup> See points 6.16 to 6.19 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>295</sup> See points 6.16 to 6.19 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>296</sup> See point 6.18 of Motorola's reply of 2 July 2013 to the SO, where Motorola argues that the rate-setting procedure should not allow "[...] a full patent-by-patent trial of issues of infringement and validity" [Doc ID 591].

<sup>297</sup> Point I.6 of Motorola's 16 February 2012 plea to the Karlsruhe Appellate Court, Appendices 125, 126 of Annex 1 to Motorola's response of 2 March 2012 to the Complaint [Doc ID 190].

<sup>298</sup> See Motorola's filings of 9 and 11 October 2012 to the Mannheim District Court [Doc ID 388 and 387].

*"This would be obsolete if one were to examine infringement and validity in proceedings relating to the amount"*<sup>299</sup>.

- (353) Motorola essentially argues that once the infringement proceedings are over and a Settlement Agreement is signed between the parties, the procedure for judicial determination of the FRAND rate cannot review questions relating to the validity and infringement of the patents at stake.
- (354) In the same vein, it puts forward in the rate-setting proceedings that: *"[...] it cannot be the case that the Defendants should be allowed to transfer objections which would be relevant in the infringement or nullity proceedings to a litigation concerning the amount of the royalty"*<sup>300</sup>.
- (355) At the time of the conduct under assessment, it was, however unclear, what method the rate-setting court would use to set the FRAND rate, and to what extent it would take into consideration arguments of invalidity, non-essentiality and non-infringement when setting the FRAND rate. Motorola recognises this in its reply to the SO<sup>301</sup>. Indeed, the method that will be employed to set the FRAND rate is still uncertain today, as evidenced by the Mannheim District Court's decision of 8 November 2013 to stay the rate-setting proceedings and to ask for the Commission's opinion on the interpretation of Article 102 TFEU as regards this issue<sup>302</sup>.
- (356) The fact that at the time of the conduct under examination, the actual method the Mannheim District Court would employ in order to determine the FRAND rate was unknown does not alter the disadvantageous nature of the termination clause in the Settlement Agreement and its likely anti-competitive effect at the time of the abuse.
- (357) By leading Apple to include a termination clause in the Settlement Agreement, Motorola unduly sought to curtail the legal defences available to Apple in order to influence the royalty rate to its advantage.
- (358) Third, Motorola's argument that if invalidity arguments are taken into consideration by the rate-setting court, this could also be in Motorola's favour if the assessment of one or more of the licensed SEPs confirms the validity<sup>303</sup>, is irrelevant. At the time of Motorola's conduct, the impact of invalidity arguments on the FRAND rate was

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<sup>299</sup> Extracts from Section F.IV. of Motorola's filing of 9 and 11 October 2012 to the Mannheim District Court [Doc ID 387 and 388].

<sup>300</sup> Extracts from Section F.IV. of Motorola's filings of 9 and 11 October 2012 to the Mannheim District Court [Doc ID 387 and 388].

<sup>301</sup> See for example Motorola's argument in point 6.16 of its reply of 2 July 2013 to the SO [Doc ID 591] that *"it is for the Court to decide upon the appropriate method for doing so"* and its reference that such method is *"likely"* to factor in potential risk of invalidity.

<sup>302</sup> The relevant question of the Mannheim District Court reads as follows: *"Genügt es dem Maßstab des FRAND standard in the industry unter Berücksichtigung von Art. 102 AEUV, wenn dem Umstand, dass erfahrungsgemäß eine gewisse Anzahl an Patenten eines Portfolios nicht valide ist und eine gewisse Anzahl sich auf Überprüfung als nicht standardessenziell erweist, auf andere Weise als durch genaue gerichtliche Überprüfung jedes einzelnen Schutzrechts Rechnung getragen wird, etwa durch stichprobenartige Überprüfung und/oder einen pauschalen Abschlag auf die Lizenzgebühr oder dergleichen?"* Mannheim District Court, decision of 8 November 2013 [Doc ID 807]. A free translation of that question reads as follows: *"Is it sufficient to comply with the FRAND industry standard in view of Article 102 TFEU that the fact that usually a number of patents of a portfolio are not valid or upon review turn out to be non-essential is taken into account by other means than a judicial review of each and every patent, for instance through sampling and/or general reduction as regards the royalties or something similar?"*

<sup>303</sup> See point 6.19 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

uncertain (and still is today). The termination clause, however, limited (and continues to limit) the legal defences that Apple can make use of in order to influence the FRAND rate.

- (359) Fourth, the Commission must reject Motorola's claim that, in light of the letter Motorola sent to Apple on 29 October 2013<sup>304</sup> and the similar submission to the Mannheim District Court (see recitals (172)-(173)), the termination clause is not disadvantageous to Apple as it does not hinder Apple's ability to challenge the validity of the SEPs covered by the Settlement Agreement within the rate-setting proceedings.
- (360) The termination clause does not specify whether it was meant to apply only to challenges outside the rate-setting proceedings, as claimed by Motorola in its letter of 29 October 2013, or to challenges both within and outside the rate-setting proceedings.
- (361) Regardless of whether the termination clause applies to invalidity actions within the rate-setting proceedings, its applicability outside the rate-setting proceedings (which Motorola has not denied) is sufficient in itself to *de facto* hinder Apple's ability to influence the FRAND rate, for the following reasons.
- (362) In the first place, Apple's *de facto* inability to initiate invalidity actions with the Bundespatentgericht eliminates the possibility for Apple to obtain the invalidation of one or several SEPs covered by the Settlement Agreement and to use such a finding as a defence within the rate-setting procedure. As the Mannheim District Court would have to take into account findings on invalidity of those SEPs by the Bundespatentgericht, Apple's *de facto* inability to obtain such invalidations may influence Apple's future royalty payments.
- (363) In the second place, Apple's *de facto* inability to challenge validity outside the rate-setting also eliminates the possibility for Apple to request subsequently an adjustment of the royalty rate based on the invalidation of Motorola's patents. Indeed, as the Settlement Agreement has been concluded until all of the licensed patents have expired, it cannot be excluded that the Mannheim District Court may provide for (or that Motorola and Apple may mutually agree to) the possibility of a review of the rate in the future. Apple's *de facto* inability to obtain invalidations and, accordingly, its inability to request any adjustment of the royalty rate in the future, may therefore also lead to increased royalty payments.
- (364) Fifth, the Commission must also reject Motorola's claim that the termination clause does not hinder Apple's ability to challenge the validity of the SEPs covered by the Settlement Agreement outside the rate-setting proceedings since, in its letter and submission of 29 October 2013, Motorola declared that it unilaterally suspended the application of the termination clause for validity challenges by Apple outside the rate-setting proceedings, provided two conditions are met: (i) the rate-setting proceedings are not stayed while the nullity complaint or similar proceedings are under consideration by the Bundespatentgericht or other competent authorities; and (ii) the Commission does not reject Apple's complaint regarding the termination clause (for a more detailed description of the conditions, see recital (172)).

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<sup>304</sup> Motorola's letter of 29 October 2013 to Apple [Doc ID 766].



- (365) In the first place, the existence of likely anti-competitive effects must be assessed at the time of the conduct in question<sup>305</sup>. Motorola's letter and submission of 29 October 2013 cannot therefore affect the existence of likely anti-competitive effects at the time of its seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP.
- (366) In the second place, even if the termination clause were no longer to hinder Apple's ability to challenge the validity of the SEPs covered by the Settlement Agreement outside the rate-setting proceedings, it has in any case shielded Motorola from validity challenges of its SEPs at stake by Apple from the signing of the Settlement Agreement until Motorola's letter and submission of 29 October 2013 (and more than two years after Apple's Second Orange Book Offer), thereby prolonging the period for which Apple may need to pay royalties for the patents covered by the Settlement Agreement. Motorola's letter clarifies that, should Apple challenge the validity of the SEPs at stake, Motorola would in any case be entitled to royalties until final invalidation of the patents at stake<sup>306</sup>. Therefore, even if the suspension of the termination clause applied as a result of Motorola's letter of 29 October 2013<sup>307</sup>, Apple would still be bound to pay royalties until final invalidation, even if it managed to invalidate a patent.
- (367) Finally, Motorola's letter and submission of 29 October 2013 represent a unilateral limitation of its rights under the Settlement Agreement. It is unclear what impact Motorola's letter and submission would have, if any, in case Motorola (entirely or partially) withdrew these unilateral declarations. Motorola explicitly declared to Apple that it did not consider its actions as an offer to modify the termination clause but only as a unilateral declaration not to make use of its rights<sup>308</sup>.
- (368) Sixth, Motorola's claim that the termination clause is incapable of having anti-competitive effects as Apple has already "[...] lost on the issue of infringement and validity during the Cudak infringement proceedings (following consideration of those issues under the relevant German procedures)"<sup>309</sup> cannot be accepted.
- (369) Under the German "bifurcated" patent enforcement system, the assessment of the validity of patents is subject to a court procedure separate from that regarding infringement. Courts adjudicating on infringement are not competent to declare a patent invalid, but proceed only to a limited review of validity in order to decide whether to stay the infringement proceedings in case of "*a high degree of likelihood [...] that the patent in suit is not legally valid*"<sup>310</sup>. As a result, the Mannheim District Court ordering the injunction (as well as the Karlsruhe Appellate Court rejecting the stay of the injunction and, following Apple's Sixth Orange Book Offer, ultimately staying the injunction) were not competent to adjudicate definitively on the validity of the SEP in suit.

<sup>305</sup> Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 110.

<sup>306</sup> See Motorola's letter of 29 October 2013 to Apple [Doc ID 766] in which it refers to case-law of the Bundesgerichtshof to this effect (Case No X ZR 47/82 *Brückenlegepanzer*).

<sup>307</sup> Apple contests the applicability of the suspension of the termination clause in its response of 4 November 2013 to Motorola [Doc ID 785].

<sup>308</sup> See Motorola's letter of 29 October 2013 to Apple [Doc ID 766].

<sup>309</sup> See point 1.10 (ii) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>310</sup> Case No 7 O 100/10 (*IPCom v Nokia*), judgment of Mannheim District Court of 18 February 2011, docket reference from Apple's submission of 30 August 2012 [Doc ID 332]: "*Es ist daher eine hohe Wahrscheinlichkeit der fehlenden Rechtsbeständigkeit des Klagepatents zu verlangen*".

- (370) Moreover, although the injunction proceedings were based only on the Cudak GPRS SEP, the Settlement Agreement (and thus the termination clause) and the subsequent rate-setting proceedings cover Motorola's entire 2G, 3G and Wi-Fi/WLAN telecommunication SEP portfolio in Germany. The validity of many of the patents covered by the Settlement Agreement has thus not even been subject to a limited court review, as these patents were not covered by the injunction proceedings.
- (371) Seventh, the Commission must also reject Motorola's claim that the FTC Consent Order neutralises any likely negative effect of the termination clause because if Motorola were to invoke the termination clause and bring further injunction proceedings against Apple, Apple would have the opportunity to submit the question of whether Motorola's conduct was consistent with its FRAND commitment to binding arbitration or to determination by a US District Court<sup>311</sup>.
- (372) In the first place, the assessment of the existence of likely anti-competitive effects must be done at the time of the conduct at issue. The entry into force of the Consent Order 15 months after the signature of the Settlement Agreement (and nearly two years after Apple's Second Orange Book Offer), cannot therefore affect the existence of likely anti-competitive effects at the time of Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP.
- (373) In the second place, Section E.2 of the Consent Order states that it does not "[...] prevent or restrict [Motorola] from enforcing any License Agreement entered into prior to the effective date of this Order".
- (374) Finally, even if the Consent Order were applicable to the Settlement Agreement, on account of the specific nature of the legal interests protected at Union level<sup>312</sup>, the Commission's assessment of Motorola's conduct and the consequences to be drawn therefrom under Union law cannot depend on the availability of a potential remedy for this conduct under the competition law of a non-Member State.
- (ii) Other potential licensees of the SEPs covered by the Settlement Agreement may have to pay for invalid IP*
- (375) As set out in recitals (362)-(363), a termination clause in a licensing agreement concerning IP which is technically essential to implement a standard amounts to a *de facto* obligation not to challenge the validity of that IP right.
- (376) Similar to a clause prohibiting challenges of the validity of SEPs, such a contractual termination clause is likely to be contrary to the public interest in ensuring effective competition.
- (377) The termination clause, which *de facto* prevents Apple from challenging the validity of Motorola's SEPs subject to the Settlement Agreement, is in turn capable of leading to other potential licensees paying royalties for invalid IP, which may increase the production costs of products and may be passed on to consumers in the form of higher prices<sup>313</sup>.
- (378) Other manufacturers of mobile devices would benefit from a successful challenge of the validity of Motorola's SEPs by Apple as the elimination of royalties for

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<sup>311</sup> Points 1.10(i) and 6.12 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>312</sup> Case C-308/04 P *SGL Carbon v Commission* [2006] ECR I-5977, paragraph 31.

<sup>313</sup> 2004 Technology Transfer Guidelines, paragraph 80; see also the 2014 Technology Transfer Guidelines, paragraph 100.

Motorola's SEPs which should not have been granted in the first place may decrease production costs of GPRS standard-compliant products. The Cudak GPRS SEP, as well as the other patents covered by the Settlement Agreement are all SEPs that are, by definition, technically essential to manufacture and sell any standard-compliant product. Motorola is thus an unavoidable trading partner for every company that wishes to manufacture and sell a GPRS standard-compliant product in the EEA. The successful invalidation of the Cudak GPRS SEP would benefit the entire industry and, ultimately, consumers.

- (379) This position follows from the *Windsurfing International* case-law, where the Court of Justice held that it is in the public interest to eliminate any obstacle to economic activity which may arise when a patent is granted in error<sup>314</sup>.
- (380) It is also reflected in Article 5(1)(c) of Commission Regulation (EC) No 772/2004 (the "2004 TTBER")<sup>315</sup>, which excludes the following restriction from the scope of the exemption provided for by the 2004 TTBER:
- "any direct or indirect obligation on the licensee not to challenge the validity of intellectual property rights which the licensor holds in the common market"*.
- (381) In that same light, the 2004 Technology Transfer Guidelines<sup>316</sup>, state that "[...] in the interest of undistorted competition and in conformity with the principles underlying the protection of intellectual property, invalid intellectual property rights should be eliminated. Invalid intellectual property stifles innovation rather than promoting it".
- (382) Statistics confirm the importance for a licensee to be able to challenge the validity of patents. According to a 2011 Study on the Interplay between Standards and Intellectual Property Rights conducted on behalf of the Commission, on average more than 30% of European invalidity actions result in the explicit invalidation of the challenged patents, and approximately 50% of the patents in suit are found not to be infringed<sup>317</sup>.
- (383) In addition, patent invalidity litigation has consequences in terms of cost, time and commercial relationship with Motorola which not all companies in the industry are likely ready to face. The termination clause, whereby Motorola shields itself from validity challenges by Apple, one of its strong competitors, is likely to safeguard Motorola's SEP portfolio in Germany against invalidity actions, which is capable of generating an undue competitive advantage for Motorola and distorting competition on the merits.

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<sup>314</sup> Case 193/83 *Windsurfing International* [1986] ECR 611, paragraphs 92-93.

<sup>315</sup> Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123, 27.4.2004, p. 11. See also Article 5(1)(b) of Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements, OJ L 93, 28.3.2014, p. 17.

<sup>316</sup> 2004 Technology Transfer Guidelines, paragraph 112; see also the 2014 Technology Transfer Guidelines, paragraph 112.

<sup>317</sup> See Table AIII-2 at page 146 of the Study, available at: [http://ec.europa.eu/enterprise/policies/european-standards/files/standards\\_policy/ipr-workshop/ipr\\_study\\_final\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/european-standards/files/standards_policy/ipr-workshop/ipr_study_final_report_en.pdf), printed on 20 March 2013 [Doc ID 484].

8.2.3.2.1.2. The inclusion of the iPhone 4S in the list of infringing products covered by the Settlement Agreement

- (384) Section 1.3 of the Settlement Agreement provides that "*Old Products*" shall mean *physical products that make use of the GSM, GPRS, EDGE and/or UMTS standards and that have been sold by the LICENSEE prior to the signing of this Agreement, including but not being limited to iPhone, iPhone 3G, iPhone 3Gs, iPhone 4, iPhone 4S, iPad 3G, iPad2 3G.*" As a result of this clause, the iPhone 4S is covered by the Settlement Agreement as one of the Apple products that infringe the licensed SEPs, notwithstanding Apple's argument that as a result of the [...] Qualcomm Agreement, Motorola cannot require the payment of royalties from Apple for the use of SEPs covered by the Qualcomm Agreement by the iPhone 4S.
- (385) The explicit inclusion of the iPhone 4S in the list of products that infringe the licensed SEPs is capable of having anti-competitive effects as it hinders Apple's ability to contest its obligation to pay royalties and damages for that product on appeal and in the rate-setting proceedings.
- (386) In the *Der Grüne Punkt – Duales System Deutschland GmbH* ("DSD") case<sup>318</sup>, the Union Courts held that it was abusive for a dominant undertaking to require a royalty payment for the use of a trade mark when the licensee was not actually using the service denoted by the trade mark. In the same vein, in this case, Motorola's seeking of royalty payments for the use by the iPhone 4S of SEPs that Apple may not be infringing, amounts to Motorola requesting the payment of potentially undue royalties, without Apple being able to challenge such infringement.
- (387) In addition, the inclusion of the iPhone 4S within the scope of the Settlement Agreement without any possibility for Apple to contest Motorola's right to request the payment of royalties and damages for that product may increase Apple's per unit costs of the iPhone 4S<sup>319</sup>. Such royalties may therefore lead to higher unit prices of the iPhone 4S.
- (388) None of the arguments put forward by Motorola are capable of altering this conclusion.
- (389) First, while this Decision does not take a position on the substance of Apple's arguments on the non-infringement by the iPhone 4S based on the Qualcomm Agreement, it does find, however, that at the time of Motorola's conduct, the admissibility of those arguments in the proceedings on appeal of the substance of the injunction order, as well as in the rate-setting proceedings, has not yet been decided by the competent German courts<sup>320</sup>.
- (390) In its decision of 23 January 2012, the Karlsruhe Appellate Court expressly left open the question of whether, on the basis of the German Code of Civil Procedure, Apple's arguments regarding the Qualcomm Agreement (and thus the question of infringement by the iPhone 4S) would be admissible in the appeal proceedings regarding the substance of the injunction order: "*Whether the Defendant's [Apple's] legal position applies to the subject matter of the dispute and whether its submission*

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<sup>318</sup> Case T-151/01 *Der Grüne Punkt - Duales System Deutschland v Commission* [2007] ECR II-1607, paragraphs 119-164, confirmed on appeal in Case C-385/07 P [2009] ECR I-6155, paragraphs 141-147.

<sup>319</sup> 2004 Technology Transfer Guidelines, paragraph 80; see also the 2014 Technology Transfer Guidelines, paragraph 100.

<sup>320</sup> See in particular points 6.23 to 6.26 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

*is to be admitted to the appeal proceeding currently requires no further consideration.*"<sup>321</sup>

- (391) On the substance of the arguments of Motorola and Apple regarding the Qualcomm Agreement, the Karlsruhe Appellate Court concluded that: "*Whether the legal position supported by Motorola, submitted by way of copy of brief, or the counter position supported by Qualcomm also submitted by way of brief dated April 25, 2011 is applicable, is completely unclear in the current factual and legal situation.*"<sup>322</sup>
- (392) In its decision of 27 February 2012 staying the enforcement of the injunction granted by the Mannheim District Court, the Karlsruhe Appellate Court also left open the question whether Apple can present arguments based on the Qualcomm Agreement in the rate-setting proceedings ("*Which of the possible objections are admissible in later litigation about the amount of the royalty has not been decided at this time.*"). The Karlsruhe Appellate Court ruled that on the basis of Apple's Sixth Orange Book Offer and explanatory submissions to the Karlsruhe Appellate Court (see recital (314)), Apple could make arguments only regarding the level of the FRAND rate, but not the fact, acknowledged by the Sixth Orange Book Offer, that the iPhone 4S is an infringing product for which (non-symbolic) royalties are due<sup>323</sup>.
- (393) By contrast, Motorola's enforcement of the injunction, led Apple to accept the inclusion of the iPhone 4S in its Sixth Orange Book Offer and to accept to pay non-symbolic royalties for the iPhone 4S<sup>324</sup> without having the opportunity to make arguments during the appeal proceedings regarding the substance of the injunction order regarding the Qualcomm Agreement.
- (394) By explicitly including the iPhone 4S in the list of "Old Products" of its Sixth Licensing Offer, Apple also accepted to waive its right to plead during the rate-setting proceedings that Motorola is not entitled to any payment for the use, by the iPhone 4S, of patents that are also covered by the Qualcomm Agreement. In addition, the injunction proceedings were based only on the Cudak GPRS SEP, whereas the Settlement Agreement and the subsequent rate-setting proceedings cover Motorola's entire 2G, 3G and Wi-Fi/WLAN telecommunication SEP portfolio in Germany. As a result, even if, pursuant to German procedural law, Apple were precluded from raising arguments based on the Qualcomm Agreement with respect to the Cudak GPRS SEP on appeal or during the rate-setting proceedings, it may not have been precluded from doing so in the rate-setting proceedings with regard to other patents covered by the Settlement Agreement.

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<sup>321</sup> Point II.3. of the Karlsruhe Appellate Court's decision of 23 January 2012. See authentic German version which reads: "*Ob der Rechtsstandpunkt der Beklagten zum Streitgegenstand zutrifft und ob ihr Vortrag im Berufungsverfahren zuzulassen ist, bedarf derzeit keiner weiteren Erörterung.*"

<sup>322</sup> Point II.3. of the Karlsruhe Appellate Court's decision of 23 January 2012. See authentic German version which reads: "*Ob die in diesem, mit der Anlage BK 13 in Kopie vorgelegten Schreiben vertretene Rechtsposition von Motorola oder die mit ebenfalls vorliegenden Schreiben von Qualcomm vom 25.04.2011 vertretene Gegenposition zutreffend ist, ist im derzeitigen Sach- und Streitstand gänzlich ungeklärt.*"

<sup>323</sup> See point II.4. of the Karlsruhe Appellate Court's judgment of 27 February 2012, submitted to the Commission by Motorola as Appendix 136 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>324</sup> See Apple's submission of 20 February 2012 to the Karlsruhe Appellate Court, submitted to the Commission by Motorola as Appendices 127 and 128 to Motorola's response to the Complaint [Doc ID 190].

- (395) Second, for the reasons set out in recitals (360)-(363), the Commission cannot accept Motorola's argument that its letter and submission of 29 October 2013 neutralise any likely anti-competitive effect of the inclusion of the iPhone 4S in the Settlement Agreement. Motorola's conduct, which led to the inclusion of the iPhone 4S, together with Apple's declaration confirming its obligation to pay non-symbolic royalties for this product, aimed at shielding Motorola from a full consideration by the German courts of Apple's arguments based on the Qualcomm Agreement.
- (396) As the iPhone 4S is explicitly listed in the Settlement Agreement as an infringing product for which royalties are due, the rate-setting court is under German law bound by that Agreement and the Karlsruhe Appellate Court's interpretation thereof, and cannot take potential non-infringement fully into account and reduce the rate to zero<sup>325</sup> (both for royalties and for damages).
- 8.2.3.2.1.3. Apple's acknowledgment of Motorola's claims for past infringement of the SEPs covered by the Settlement Agreement
- (397) Section 4.4 of the Settlement Agreement provides that: [Licensee acknowledges Licensor's claims for past damages and accounting, according to German law]. As a result, Apple has contractually acknowledged both its past infringement of all the SEPs covered by the Settlement Agreement and Motorola's claims for damages under German law.
- (398) This acknowledgment by Apple is capable of having anti-competitive effects.
- (399) Under the terms of Apple's Second Orange Book Offer, Apple would have made a one-time royalty payment to Motorola for past infringement within one month of the execution of the Settlement Agreement. The royalties for past infringement would have been calculated following the same principles as the FRAND royalties for future use, i.e. set by Motorola according to its equitable discretion and according to FRAND principles, but subject to judicial review. The Second Orange Book Offer added that "*LICENSOR reserves the right to assert higher damages for these acts in addition to this one-time royalty payment*". Section 8(1) of the Second Orange Book Offer added that Apple would not need to withdraw its pending nullity actions against the licensed SEPs in case Motorola claimed above-FRAND damages.
- (400) In its submissions to the Mannheim District Court following Apple's Second and Third Orange Book Offers (the Third Orange Book Offer used the same wording as the Second Orange Book Offer), Motorola argued that Apple's offers were insufficient to meet the requirements of the Orange Book judgment because Apple did not explicitly acknowledge liability for above-FRAND rate damages: "*[t]he offer's insufficiency already follows from the fact that Respondent [Apple] does not want to acknowledge its duty to pay damages and, instead is merely willing to pay license fees for the past as well*"<sup>326</sup>.
- (401) Motorola ceased to pursue this argument after Apple, following the grant of the injunction by the Mannheim District Court on 9 December 2011, explicitly

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<sup>325</sup> Non-infringement arguments on the basis of the Qualcomm Agreement can obviously not affect the royalties that would be due for the infringement of patents not covered by the Qualcomm Agreement. See point 5.7 (iv) and 5.20 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>326</sup> See Motorola's submission to the Mannheim District Court, 18 November 2011, Appendices 98-101, repeating the arguments submitted in its surrejoinder of 17 October 2011. See Appendices 84, 85 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

acknowledged Motorola's claims for such damages according to German law, and agreed to withdraw pending invalidity actions.

- (402) Based on the same considerations as those set out in recitals (389)-(396), Apple's acknowledgment of past infringement of all the SEPs covered by the Settlement Agreement where such infringement is contested with regard to the iPhone 4S and has not yet been fully assessed by the competent courts, amounts to Apple agreeing to disadvantageous licensing terms which, absent Motorola's seeking and enforcement of an injunction, it is unlikely to have agreed to. This is particularly the case as the injunction proceedings were based only on the Cudak GPRS SEP and not all the other German 2G, 3G and Wi-Fi/WLAN telecommunication SEPs covered by the Settlement Agreement, which have not been subject to any court review.
- (403) With regard to the amount of the damages for past infringement, this does not need to be settled in the context of an injunction procedure. According to Article 13(1) of the Enforcement Directive, damages can be awarded against an infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity. The infringer must pay the right holder damages appropriate to the actual prejudice suffered as a result of the infringement. When the judicial authorities set the damages, they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement.
- (404) The Second Orange Book Offer provided for a one-time royalty payment with interests for past use and reserved Motorola the right to assert damages beyond that amount. This offer therefore provided sufficient safeguards for Motorola to file damage claims under German law in the relevant damages proceedings. The continuation of the injunction proceedings thus served as an undue leverage to lead Apple to "acknowledge" Motorola's entitlement to damages, which it did as soon as the injunction was granted.
- (405) Motorola remains, however, fully entitled under German law to seek damages for past infringement. In this regard, Motorola confirmed that, following the execution of the Settlement Agreement, it withdrew its infringement claims in German courts, but kept open the proceedings pending before the German courts with respect to damages for past infringement and accounting<sup>327</sup>. Motorola's right to assert damages was explicitly recognised by Apple's Second Orange Book Offer.
- (406) Because of Motorola's seeking and enforcement of an injunction on the basis of the Cudak GPRS SEP, Apple acknowledged past infringement for patents for which such infringement has not been recognised by the competent courts.
- 8.2.3.2.2 Motorola's argument that the licensing terms agreed to by Apple in the Settlement Agreement were the result of "normal" commercial negotiations
- (407) Motorola claims that Apple's initial reluctance to accept certain licensing terms in the Settlement Agreement corresponds to normal principles of bargaining: [...]<sup>328</sup>

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<sup>327</sup> See Motorola's submission of 15 October 2012, point 6 [Doc ID 309].

<sup>328</sup> See footnote 113 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

- (408) Contrary to Motorola's assertion, the Commission considers that contemporaneous evidence confirms that it was the result of the seeking and enforcing of an injunction by Motorola that Apple agreed to licensing terms limiting this ability.
- (409) First, on 3 October 2011, one day before Apple's Second Orange Book Offer, [...] wrote to [...]:[...]<sup>329</sup>
- (410) Second, on 4 October 2011, just before the Second Orange Book Offer was made, [...] again asked for confirmation of Apple's ability to challenge validity in case the offer was accepted: [...]<sup>330</sup>
- (411) Third, on 23 January 2012, a few hours after the Karlsruhe Appellate Court handed down its decision denying Apple's request for a suspension of the injunction order, [...] wrote the following internal e-mail: [...]<sup>331</sup> The timing and content of this e-mail also demonstrates that Apple's internal decision to accept the clauses limiting its ability to challenge validity and infringement were not the result of normal bargaining between Motorola and Apple but directly driven by the immediate risk of exclusion from the market.
- (412) These documents, Apple's submissions to the German courts (see in this regard recitals (128)-(151)) as well as the dates, content and evolution of the licensing offers confirm that Apple's acceptance of the licensing terms requested by Motorola, in particular those referred to in section 8.2.3.2, were not driven by normal bargaining considerations in undistorted negotiations but by Motorola's seeking and enforcement of an injunction on the basis of the Cudak GPRS SEP<sup>332</sup>.
- (413) This conclusion is not affected by the internal Apple e-mail dated 2 February 2012 in which Apple allegedly confirms that it considered its Second to Fifth Orange Book Offers as "*largely the same*"<sup>333</sup>. According to Motorola, this demonstrates that Apple was reluctant to progress with negotiations and enter into a licensing agreement on FRAND terms and conditions.
- (414) Apple's Second to Fifth Orange Book Offers were indeed all "*largely the same*" regarding important clauses such as those regarding the FRAND rate, Apple's ability to challenge validity and its ability to challenge infringement by the iPhone 4S. This, however, does not demonstrate Apple's reluctance to enter into a licensing agreement on FRAND terms and conditions, but rather Apple's reluctance to accept the disadvantageous licensing terms sought by Motorola against the backdrop of its seeking and enforcement of an injunction on the basis of the Cudak GPRS SEP. Indeed, Apple did not amend its licensing offers to include the provisions requested by Motorola regarding infringement by the iPhone 4S and validity, until its Sixth Orange Book Offer, following the enforcement of the injunction by Motorola granted by the Mannheim District Court.

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<sup>329</sup> See Apple's internal contemporaneous email correspondence relating to the German proceedings [Doc ID 521].

<sup>330</sup> See Apple's internal contemporaneous email correspondence relating to the German proceedings [Doc ID 521].

<sup>331</sup> See Apple's internal contemporaneous email correspondence relating to the German proceedings [Doc ID 521].

<sup>332</sup> In this regard, see also recitals (485) and (486).

<sup>333</sup> See point 6.8 and Annex 1 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591 and 589].



### 8.2.3.3. Undermining confidence in the standard-setting process

- (415) Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of its Cudak GPRS SEP may in addition undermine confidence in the standard-setting process and deprive consumers of its benefits.
- (416) In high-tech industries such as the mobile communication industry and other network industries where interoperability between technically complex products is key, standards have become a precondition to technical development. All modern telecommunication systems rely on standards to enable the various operating systems and devices to interconnect.
- (417) In view of the standardisation process that led to the adoption of the GPRS standard and Motorola's voluntary commitment to license the Cudak SEP on FRAND terms and conditions, implementers of the GPRS standard have a legitimate expectation that Motorola will grant them a licence over that SEP, provided they are not unwilling to enter into a licence on FRAND terms and conditions.
- (418) This Decision promotes the proper functioning of standard-setting by ensuring the accessibility of the technology included in the GPRS standard and by preventing hold-up. It strikes a fair balance between, on the one hand, the interests of Motorola to obtain appropriate remuneration for its Cudak GPRS SEP and, on the other hand, the interests of implementers of the GPRS standard to be able to manufacture and sell lawfully standard-compliant products.
- (419) Contrary to Motorola's assertion<sup>334</sup>, the Commission's action in this case is not liable to create a negative effect on standard-setting by creating a risk of so-called "reverse hold-up". "Reverse hold-up" could occur if a potential licensee were able to impose upon Motorola terms and conditions that would prevent Motorola from obtaining appropriate remuneration for its patented technology.
- (420) This risk of reverse hold-up by Apple, however, does not arise in this case. As of its Second Orange Book Offer, Apple explicitly agreed to enter into and be bound by a licence agreement at a FRAND royalty rate set by the competent German court<sup>335</sup> which ensures that Motorola will be appropriately remunerated for the use of its SEPs.

## 9. OBJECTIVE JUSTIFICATION

- (421) It is open to a dominant undertaking to provide a justification for conduct that is liable to be caught by the prohibition under Article 102 TFEU. It may demonstrate, for that purpose, either that its conduct is objectively necessary, or that the exclusionary effect produced may be counterbalanced, outweighed even, by advantages in terms of efficiency that also benefit consumers<sup>336</sup>.
- (422) Although the burden of proof for the existence of circumstances that constitute an infringement of Article 102 TFEU is borne by the Commission, it is for the dominant undertaking to raise any plea of objective justification and to support it with arguments and evidence. It then falls to the Commission, where it proposes to make a

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<sup>334</sup> See point 6.29 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>335</sup> As mentioned at recital (166), Apple has been paying royalties into escrow in line with the requirements of the Orange Book judgment. This further reduces the risk of reverse hold-up in this case.

<sup>336</sup> Case C-209/10 *Post Danmark A/S v Konkurrencerådet*, judgment of 27 March 2012, not yet reported, paragraphs 40-41.

finding of an abuse of a dominant position, to show that the arguments and evidence relied on by the undertaking cannot prevail and, accordingly, that the justification put forward cannot be accepted<sup>337</sup>.

- (423) The mere holding of IP rights cannot constitute an objective justification for the seeking and enforcement of an injunction by a SEP holder against a potential licensee that is not unwilling to enter into a licence on FRAND terms and conditions<sup>338</sup>. Any other conclusion would be inconsistent with the purpose and rationale underlying the exception with regard to the exercise of IP rights which the case-law recognises in favour of free competition. If the mere fact of holding IP rights could constitute an objective justification for the seeking and enforcement of an injunction by a SEP holder against a potential licensee that is not unwilling to enter into a licence on FRAND terms and conditions, the exception established by the case-law could never apply.
- (424) Motorola has advanced the following justifications for the conduct assessed by this Decision<sup>339</sup>: (i) the protection of its commercial interests; (ii) it has acted in line with the applicable German case-law; and (iii) the ETSI IPR Policy does not prescribe a waiver of the right to seek injunctions.
- (425) In addition, Motorola has claimed that: (iv) the termination clause was in line with the 2004 TTBER; and (v) the Settlement Agreement gave rise to advantages in terms of efficiencies that benefit consumers.

### **9.1. The protection of Motorola's commercial interests**

- (426) An undertaking in a dominant position is allowed to take such reasonable steps as it deems appropriate to protect its commercial interests<sup>340</sup>. It must, however, refrain from behaviour the specific purpose of which is to strengthen its dominant position and abuse it<sup>341</sup>.
- (427) A SEP holder which has given a commitment to license on FRAND terms and conditions is entitled to take reasonable steps to protect its interests by seeking and enforcing an injunction against a potential licensee in, for example, the following scenarios:
- (a) the potential licensee is in financial distress and unable to pay its debts;
  - (b) the potential licensee's assets are located in jurisdictions that do not provide for adequate means of enforcement of damages; or
  - (c) the potential licensee is unwilling to enter into a licence agreement on FRAND terms and conditions, with the result that the SEP holder will not be appropriately remunerated for the use of its SEPs. The corollary of a patent holder committing, in the standardisation context, to license its SEPs on FRAND terms and conditions is that a potential licensee should not be unwilling to enter into a licensing agreement on FRAND terms and conditions for the SEPs in question.

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<sup>337</sup> Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 688.

<sup>338</sup> Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 690.

<sup>339</sup> See point 7 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>340</sup> Case 27/76 *United Brands* [1978] ECR 207, paragraph 189.

<sup>341</sup> Joined Cases C-468/06 to C-478/06 *Lelos* [2008] ECR I-7139, paragraph 50; Case C-52/07 *Kanal 5 and TV 4* [2008] ECR I-9275, paragraph 26; Case C-202/07 P *France Télécom v Commission* [2009] ECR I-2369, paragraph 46.

- (428) The assessment of whether the potential licensee is in financial distress and unable to pay its debts, its assets are located in jurisdictions that do not provide for adequate means of enforcement of damages or is unwilling to enter into a licensing agreement on FRAND terms and conditions must be made on the basis of the objective facts of the case.
- (429) Regarding the first two scenarios, Apple is a US based, financially strong company (see section 2.2), with a net profit of EUR 18.6 billion in 2011. It also has substantial assets in the EEA. The first two scenarios will therefore not be given further consideration in this Decision.
- (430) Regarding the third scenario, Motorola claims that at the time of the conduct assessed by this Decision, Apple was (and still is today) unwilling to enter into a licensing agreement on FRAND terms and conditions for the use of Motorola's SEPs: *"The only reason Apple has faced the threat of an injunction is because it has until very recently – 20 February 2012 – been an unwilling licensee that has refused to make a FRAND license offer for use of MMI's technologically significant SEPs"*<sup>342</sup>.
- (431) More generally, Motorola argues as follows<sup>343</sup>:
- "(i) The starting point must be that a patentee is entitled to seek relief (in whatever form offered by the relevant legal system) for infringement of its IP;*
- (ii) This starting point is modified by FRAND undertakings in respect of SEPs.*
- These undertakings require the patentee to license where the counterparty is willing to take a licence on FRAND terms. Accordingly, where a counterparty is willing to license on FRAND terms, there is no basis for the patentee to seek an injunction; and*
- (iii) Conversely, where the counterparty is not willing to license on FRAND terms but is instead disputing its need for a licence, then this dispute should be subject to judicial determination and enforcement."*
- (432) At the Oral Hearing of 30 September 2013, Motorola confirmed its position that SEP-based injunctions should not be sought against potential licensees that are willing to enter into a licensing agreement on FRAND terms and conditions. It, however, claimed<sup>344</sup> that Apple is a persistent unwilling licensee against which the seeking and enforcement of injunction in Germany was justified.
- (433) For the reasons set out in this section, this Decision concludes, however, that as of Apple's Second Orange Book Offer, Apple was not unwilling to enter into a licence agreement on FRAND terms and conditions for the use of Motorola's telecommunication SEPs in Germany.

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<sup>342</sup> See point 1.4 of Motorola's response to the Complaint [Doc ID 101].

<sup>343</sup> See point 5.10 of Motorola's response to the Complaint [Doc ID 101].

<sup>344</sup> In point 2.1 (vi) of its reply of 2 July 2013 to the SO [Doc ID 591], Motorola claims that Apple's unwillingness has been confirmed by the judgment of 5 November 2012 of the Western District Court of Wisconsin. In that case, the US District Judge dismissed an action by Apple seeking to find Motorola in breach of its FRAND obligations, after Apple had formally declared to the court that it would accept a court-ordered royalty rate only if the per-unit royalty did not exceed USD 1 (see Apple, Inc. v. Motorola Mobility, Inc., Not Reported in F.Supp.2d, 2011 WL 7324582 W.D.Wis., 2011). Since Apple has not made a similar declaration regarding the determination of the FRAND rate to be set by the Mannheim District Court, Apple's conduct before the Western District Court of Wisconsin cannot change the Commission's assessment with respect to Motorola's conduct in Germany assessed in this Decision.

- (434) As a preliminary point, this Decision has assessed Apple's willingness to enter into a licensing agreement on FRAND terms and conditions under objective justification and not as part of the assessment of whether Motorola's conduct is liable to be caught by the prohibition under Article 102 TFEU<sup>345</sup>. The notion of abuse is an objective concept, referring to the behaviour of the undertaking in a dominant position<sup>346</sup>, and the general principle of legal certainty requires that the dominant undertaking should be able to assess the lawfulness of its own conduct on the basis of factors known to it and under its control<sup>347</sup>.
- (435) At the same time, even if Apple's willingness to enter into a licensing agreement on FRAND terms and conditions were to be assessed under the heading of whether Motorola's conduct is liable to be caught by the prohibition under Article 102 TFEU, this would not lead to a different conclusion as the same legal arguments would in any event be applicable and the Decision has met the required burden and standard of proof<sup>348</sup>.
- (436) Regarding Motorola's counter-arguments, the Commission's position is as follows.
- (437) First, Motorola has not advanced credible arguments as to why, in view of Apple's Second Orange Book Offer, Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP was objectively necessary to protect its commercial interests, in particular its right to obtain appropriate remuneration for Apple's use of its telecommunication SEPs in Germany. With its Second Orange Book Offer, Apple proposed to enter into a licensing agreement with full judicial review and determination of the proposed FRAND royalties with retroactive effect by a court. As regards the scope of the Second Orange Book Offer, as outlined in recitals (125)-(126), it covered all Apple products infringing the licensed SEPs in Germany. Hence, this offer was a clear indication of Apple's willingness to enter into a licensing agreement on FRAND terms and conditions<sup>349</sup>.
- (438) As of Apple's Second Orange Offer, Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP was therefore unnecessary in order to protect its right to be appropriately remunerated for Apple's use of its telecommunication SEPs in Germany. That right is safeguarded by the judicial determination of the FRAND royalties by the rate-setting court and the possibility to obtain damages for unauthorised use by Apple through actions before the German courts. Indeed, Motorola has sought damages for the unauthorised use of the Cudak GPRS SEP in the context of the proceedings initiated by Motorola against Apple in Germany, which it has kept open following the withdrawal of the injunction claim on the basis of the Cudak GPRS SEP<sup>350</sup>.

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<sup>345</sup> See point 5.4 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>346</sup> See for example Case C-280/08 P *Deutsche Telekom* [2010] ECR I-9555.

<sup>347</sup> Case C-280/08 P *Deutsche Telekom*, [2010] ECR I-9555, paragraphs 198-202.

<sup>348</sup> See point 5.4 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>349</sup> Motorola's allegation that internal Apple e-mail correspondence suggests that, when making its Orange Book Offers, Apple may also have been hoping to delay the litigation, cannot alter the fact that, as of its Second Orange Book Offer, Apple was willing to enter into a licensing agreement with full judicial review and determination of the proposed FRAND royalties with retroactive effect by a court. See point 5.13 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>350</sup> See Motorola's submission of 15 October 2012 [Doc ID 309].

- (439) Second, Apple's initial refusal, after its Second Orange Book Offer, to agree to licensing terms that would *de facto* prevent it from challenging the validity and infringement of Motorola's telecommunication SEPs in Germany is not a sign of unwillingness to enter into a licence agreement for those SEPs on FRAND terms and conditions<sup>351</sup>.
- (440) With its Second Orange Book Offer, Apple clearly indicated its willingness to enter into licence agreement on FRAND terms and conditions for Motorola's valid and infringed telecommunication SEPs in Germany. Apple's reluctance to agree to licensing terms that would *de facto* hinder its ability to challenge the validity of those SEPs and their infringement by the iPhone 4S (both for the future and, due to the acknowledgment of past damages, for the past), do not call into question its willingness to enter into a licence on FRAND terms and conditions.
- (441) Third, Apple's alleged unwillingness<sup>352</sup> between 2007 and 2010 is irrelevant for the purposes of this Decision as this cannot justify Motorola's continued seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP after 4 October 2011, the date of the Second Orange Book Offer.
- (442) Fourth, Apple's conduct during the rate-setting proceedings before the Mannheim District Court is not a sign of its unwillingness to enter into a licence agreement for Motorola's SEPs on FRAND terms and conditions<sup>353</sup>.
- (443) In the first place, the abusive conduct assessed by this Decision and for which Motorola's objective justifications must be considered is Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP, and not Apple's subsequent conduct in the rate-setting proceedings. That abusive conduct ended on 29 May 2012 when Motorola declared moot the injunction proceedings before the Mannheim and Düsseldorf District Courts (see recital (545)). As a result, Apple's arguments put forward in the rate-setting proceedings postdate Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP, and cannot therefore be relied upon by Motorola to justify its conduct.
- (444) In the second place, the injunction proceedings were based on only two SEPs, the Cudak GPRS SEP and the Whinnett SEP<sup>354</sup>, whereas the Settlement Agreement and the rate-setting proceedings cover Motorola's entire German 2G, 3G and Wi-Fi/WLAN SEP portfolio. Putting forward arguments, in the rate-setting proceedings, relating to the invalidity or non-infringement of the SEPs covered by the Settlement Agreement where validity and infringement of those SEPs has not yet been subject to judicial review does not amount to unwillingness on Apple's part to enter into a licensing agreement on FRAND terms and conditions.
- (445) Fifth, Apple's insistence in its Second Orange Book Offer on being able to argue non-infringement on the basis of an existing licence agreement or patent exhaustion, such as on the basis of the Qualcomm Agreement, is not a sign of its unwillingness to

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<sup>351</sup> See point 5.10 of Motorola's response to the Complaint [Doc ID 101].

<sup>352</sup> See point 2.1 (i) to (iii) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>353</sup> See points 5.20 and 5.24 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>354</sup> See footnote 108 above.

enter into a licence agreement for Motorola's SEPs on FRAND terms and conditions<sup>355</sup>.

- (446) In the first place, Motorola's request for royalty payments for the use of SEPs which Apple may not be infringing, whilst the Settlement Agreement prevents Apple from challenging such infringement, amounts to Motorola requesting the payment of potentially undue royalties<sup>356</sup>.
- (447) In the second place, Apple's Second Orange Book Offer was a forward-looking offer covering both current and future devices. Apple could not possibly have raised non-infringement defences in advance for all future devices (such as, the iPhone 4S and the iPhone 5, both launched following the Second Orange Book Offer) at the time of the Second Orange Book Offer. The Second Orange Book Offer thus allowed Apple to challenge infringement of Motorola's German SEPs covered by the Settlement Agreement by future devices at a later stage, contrary to the devices already marketed at the time of the Second Orange Book Offer ("*Old Products*"), the definition of which does not allow such future challenges. The Settlement Agreement *de facto* prevents such challenges.
- (448) In the third place, in response to Apple's Second Orange Book Offer<sup>357</sup>, Motorola did not take issue with Apple's ability to argue non-infringement on the basis of an existing licence agreement or patent exhaustion. This therefore casts doubt on the credibility of the objective justification now put forward by Motorola<sup>358</sup>.
- (449) Sixth, Apple's alleged failure to raise in due time non-infringement defences, in particular arguments based on the Qualcomm Agreement, and its intention to raise those arguments in the rate-setting proceedings, is not a sign of its unwillingness to enter into a licence agreement for Motorola's telecommunication SEPs in Germany on FRAND terms and conditions<sup>359</sup>.
- (450) In the first place, this Decision does not take a position on Apple's arguments regarding the Qualcomm Agreement. This Decision does find, however, that at the time of Motorola's conduct, the admissibility of Apple's arguments on non-infringement based on the Qualcomm Agreement has not yet been decided by any competent German court.
- (451) In the second place, Motorola's assertion<sup>360</sup> that, if Apple were allowed to raise arguments based on the Qualcomm Agreement in the rate-setting proceedings, the same legal issues would be dealt with twice, is incorrect. The scope of the injunction proceedings where Apple could have raised non-infringement defences only with respect to the Cudak GPRS SEP (following the finding of non-infringement by the Whinnett SEP<sup>361</sup>) and the scope of the rate-setting proceedings based on the Settlement Agreement which covers the entire German 2G, 3G and Wi-Fi/Wlan portfolio are materially different.

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<sup>355</sup> See point 5.7 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>356</sup> Cases T-151/01 *Duales System Deutschland v Commission* [2007] ECR II-1607, paragraphs 119-164 and on appeal C-385/07 P *Der Grüne Punkt - Duales System Deutschland v Commission* [2009] ECR I-6155, paragraphs 141-147.

<sup>357</sup> See Motorola's submission of 17 October 2011 to the Mannheim District Court. See Appendices 84 and 85 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>358</sup> See by analogy Case T-321/05 *AstraZeneca v Commission* [2010] ECR II-2805, paragraph 688.

<sup>359</sup> See point 5.7 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>360</sup> See points 5.7 (i) to (iii) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>361</sup> See footnote 108 above.

- (452) In the third place, once Motorola's intention to include the iPhone 4S in the scope of the injunction proceedings on the Cudak GPRS SEP and of the Settlement Agreement became clear, Apple filed a brief with the Karlsruhe Appellate Court setting out its defence on the basis of the Qualcomm Agreement<sup>362</sup>.
- (453) In the fourth place, Apple's Second Orange Book Offer, as its Third, Fourth and Fifth Offers, did not exclude the iPhone 4S from the scope of the proposed licence. Rather, these Offers used definitions of Licensed and Old Products that would have allowed a competent court (whether within the rate-setting proceedings or outside) to review infringement by the iPhone 4S, albeit by taking into account Apple's non-infringement defences, such as the one based on the Qualcomm Agreement (see recital (447)).
- (454) Seventh, Apple's refusal to initially acknowledge its past infringement of all the SEPs covered by the Settlement Agreement and Motorola's damages claims is not a sign of its unwillingness to enter into a licence agreement for Motorola's SEPs on FRAND terms and conditions<sup>363</sup>.
- (455) As set out in section 8.2.3.2.1.3, as of its Second Orange Book Offer, Apple allowed Motorola to seek damages in accordance with German law, in the relevant damages proceedings. For the reasons set out in section 8.2.3.2, Apple was entitled to insist on a formulation of the Settlement Agreement that would have safeguarded its right to argue non-infringement or invalidity in damages proceedings. Its reluctance to accept unconditional liability for damages for past infringement does not amount to unwillingness to enter into a licence agreement on FRAND terms and conditions.
- (456) Eighth, SEP holders are in principle entitled to request reciprocity in line with the rules of SSOs. However, in the circumstances of this case, Apple's alleged refusal to include in the Settlement Agreement a reciprocal grant back to Apple's own SEPs for the same standards is not a sign of its unwillingness to enter into a licence agreement for Motorola's SEPs on FRAND terms and conditions<sup>364</sup>.
- (457) In the first place, while clause 6.1 of the ETSI IPR Policy stipulates that the FRAND commitment: "[...] *may be made subject to the condition that those who seek licences agree to reciprocate*", it does not, however, prescribe how such reciprocity has to be achieved. In particular, it does not provide that the only way to grant reciprocity is through a cross-licence. Other means to grant reciprocity such as unilateral licences therefore remain available to SEP holders that have given a FRAND commitment to ETSI in order to grant reciprocity.
- (458) In the second place, as recognised by Motorola<sup>365</sup>, [...] <sup>366</sup>.
- (459) [...]. Motorola's continuation of the injunction proceedings following the Second Orange Book Offer cannot therefore be justified by Apple's alleged refusal to include a reciprocal grant back to Apple's own SEPs.

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<sup>362</sup> See Apple's brief of 19 January 2012 to the Karlsruhe Appellate Court, submitted to the Commission by Motorola as Appendices 115, 116 of Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>363</sup> See point 5.8 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>364</sup> See point 5.8 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>365</sup> See Annex 1 to Motorola's response to the Complaint [Doc ID 190].

<sup>366</sup> See Annex 1 to Motorola's response to the Complaint [Doc ID 190].

- (460) In the third place, neither the ETSI IPR Policy nor Union competition law requires Apple to enter into a specific cross-licence with Motorola in the context of the German injunction proceedings.
- (461) [...]. Instead, Motorola acknowledges in its submissions to the Mannheim District Court that it wanted Apple to present a cross-licensing offer as part of its Orange Book defence, failing which those offers would not meet the requirements of the Orange Book judgment<sup>367</sup>.
- (462) Apple's preference to avoid conducting discussions regarding the licensing of its own SEPs to Motorola once Motorola had sought an injunction on the basis of the Cudak GPRS SEP cannot be considered as a sign of unwillingness to enter into a licence on FRAND terms and conditions.
- (463) In the fourth place, [...]. The last brief to the German courts that suggested that Motorola was entitled to reject Apple's Orange Book Offers on this basis, is Motorola's response to Apple's Third Orange Book Offer of 10 November 2011<sup>368</sup>. Motorola confirmed this at the Oral Hearing.
- (464) In the fifth place, in its submissions to the Commission, Motorola has stated that "*Apple continued to be an unwilling licensee until clarification of its Sixth Orange Book offer*"<sup>369</sup>, despite the Sixth Orange Book offer not including a cross-licence to Apple's SEPs. This therefore contradicts Motorola's argument that Apple's alleged refusal to include in the Settlement Agreement a reciprocal grant back to Apple's own SEPs for the same standards is a sign of its unwillingness to enter into a licence agreement for Motorola's SEPs on FRAND terms and conditions.

## **9.2. Acting in line with the applicable German case-law**

- (465) Motorola claims that it was entitled to seek and enforce an injunction against Apple in Germany on the basis of the Cudak GPRS SEP because it was acting in line with the requirements of the Orange Book judgment<sup>370</sup>.
- (466) This argument cannot be accepted.
- (467) First, Article 102 TFEU applies only to anti-competitive conduct engaged in by undertakings on their own initiative. If anti-competitive conduct is required of undertakings by national legislation or if the latter creates a legal framework which itself eliminates any possibility of competitive activity on their part, Article 102 TFEU does not apply. In such a situation, the restriction of competition is not attributable to the autonomous conduct of the undertakings. Article 102 TFEU may, however, apply if it is found that the national legislation does not preclude undertakings from engaging in autonomous conduct which prevents, restricts or distorts competition. Thus, if a national law merely encourages or makes it easier for

<sup>367</sup> See Section A.III of Motorola's submission of 17 October 2011 to the Mannheim District Court. See Appendices 84 and 85 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>368</sup> See point 3.d) of Motorola's submission of 2 January 2012 to the Mannheim District Court. See Appendices 110 and 111 to Annex 1 of Motorola's response to the Complaint [Doc ID 190].

<sup>369</sup> See title and point 5.12 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>370</sup> See for example points 2.12 to 2.18 of Motorola's response to the Complaint [Doc ID 101], point 11 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254] and see point 4.1 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].



undertakings to engage in autonomous anti-competitive conduct, those undertakings remain subject to Articles 101 and 102 TFEU<sup>371</sup>.

- (468) Motorola is in a dominant position on the market for the licensing of the Cudak GPRS SEP. As a result, it has a special responsibility not to allow its conduct to impair genuine undistorted competition in the internal market. Motorola had full discretion throughout the German proceedings to decide whether to seek an injunction in the first place and whether to enforce the injunction once it was granted by the Mannheim District Court. As a result, the fact that on the basis of their interpretation of the requirements of the Orange Book judgment, the Mannheim District Court granted the injunction and the Karlsruhe Appellate Court allowed it to be enforced cannot absolve Motorola from responsibility under Article 102 TFEU.
- (469) Second, such a conclusion is in line with the principle of legal certainty<sup>372</sup>.
- (470) The Commission is entrusted with the task of ensuring application of the principles laid down in Articles 101 and 102 TFEU of the Treaty, and is responsible for defining and implementing the orientation of the Union's competition policy<sup>373</sup>. In order to guarantee, subject to the control of the Union judiciary, the uniform application of Union competition law, the Commission "[...] cannot be bound by a decision given by a national court in application of Articles [101] and [102] of the Treaty. The Commission is therefore entitled to adopt at any time individual decisions under Articles [101] and [102] of the Treaty, even where an agreement or practice has already been the subject of a decision by a national court and the decision contemplated by the Commission conflicts with that national court's decision"<sup>374</sup>.
- (471) The adoption of a decision by the Commission in order to ensure that the Union competition rules are applied coherently throughout the Union is therefore in line with the principle of legal certainty<sup>375</sup>.
- (472) The fact that Motorola's conduct has not yet been subject to any Commission decision or judgment by the Union courts has, however, been taken into account by this Decision in the assessment of the appropriateness of imposing a fine on Motorola (see section 16.).

### **9.3. The ETSI IPR Policy does not prescribe a waiver of the right to seek injunctions**

- (473) Motorola claims that it was entitled to seek and enforce an injunction against Apple in Germany on the basis of the Cudak GPRS SEP because the ETSI IPR Policy does not prescribe a waiver of the right of ETSI members to seek injunctions, notwithstanding previous debates within ETSI in this regard<sup>376</sup>.
- (474) As set out in recital (275), the illegality of abusive conduct under Article 102 TFEU is unrelated to its compliance or non-compliance with other legal rules<sup>377</sup>. As a result,

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<sup>371</sup> Case C-280/08 P *Deutsche Telekom v Commission* [2010] ECR I-9555, paragraphs 80 and 82.

<sup>372</sup> See point 4.12 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>373</sup> Case C-344/98 *Masterfoods and HB* [2000] ECR I-11369, paragraph 46.

<sup>374</sup> Case C-344/98 *Masterfoods and HB* [2000] ECR I-11369, paragraph 48.

<sup>375</sup> Case T-65/98 *Van den Bergh Foods Ltd v Commission* [2003] ECR II-04653, paragraphs 197-199 confirmed on appeal in Case C-552/03 P *Unilever Bestfoods (Ireland) Ltd v Commission* [2006] ECR I-9091.

<sup>376</sup> See point 4.4 (iii) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>377</sup> Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 132.

the question as to whether or not the ETSI IPR Policy prescribes a general waiver of the right to seek injunctions, can have no bearing on the existence of an abuse under Article 102 TFEU as established by this Decision.

#### **9.4. Acting in line with the 2004 TTBER**

- (475) Motorola argues that the termination clause in section 7(1) of the Settlement Agreement benefits from the exemption provided for in the 2004 TTBER<sup>378</sup>. It asserts that the 2004 TTBER recognises that in a *bona fide* settlement context, non-challenge (and *a fortiori* termination) clauses are generally not capable of giving rise to anti-competitive effects, and that this is the case for the termination clause in the *bona fide* settlement of the long-running litigation between Apple and Motorola.
- (476) Motorola's arguments cannot be accepted for the following reasons.
- (477) First, the grant of exemption, whether individual or block exemption, under Article 101(3) TFEU cannot be such as to render inapplicable the prohibition set out in Article 102 TFEU<sup>379</sup>. Whether the termination clause benefits from block exemption pursuant to the 2004 TTBER cannot therefore affect the ability of the Commission to establish an infringement of Article 102 TFEU.
- (478) Second, pursuant to Article 3(1) of the 2004 TTBER, where the undertakings party to an agreement are competing undertakings, the exemption provided for by the 2004 TTBER applies only on condition that their combined market share does not exceed 20% on the relevant licensing or product market. The 2004 TTBER cannot therefore apply to the Settlement Agreement as Motorola has a 100% market share on the market for the licensing of the Cudak GPRS SEP (see recital (225)).
- (479) Third, although Article 5(1)(c) of the 2004 TTBER provides that the exemption provided for by the 2004 TTBER applies to the possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights, such an exception is justified only in situations where a licensee has the possibility to make use of competing technology and is not dependent on a dominant licensor<sup>380</sup>. That possibility does not exist in the present case where the Cudak patent is standard essential and where there are no viable substitutes available. In this scenario, a termination clause has the same effect as a non-challenge clause.

#### **9.5. Advantages in terms of efficiencies that also benefit consumers**

- (480) A dominant undertaking may justify behaviour that is liable to be caught by the prohibition under Article 102 TFEU if it can demonstrate that the anti-competitive effect produced is counterbalanced, outweighed even, by advantages in terms of efficiency that also benefit consumers. It is for the dominant undertaking to show that the following four cumulative conditions are met: (i) the efficiency gains likely to result from the conduct under consideration counteract any likely negative effects

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<sup>378</sup> See point 5.8 of Motorola's response to the Complaint [Doc ID 101], point 11 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254], points 1.10 (ii) (b) and 6.15 (iii)-(iv) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>379</sup> Case T-51/89 *Tetra Pak v Commission* [1990] ECR II-309, paragraph 25.

<sup>380</sup> See also Article 5(1)(b) of the 2014 TTBER which states that the exemption provided for by the TTBER applies to the possibility of providing for the termination of the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights only in the case of an exclusive licence.

on competition and consumer welfare in the affected markets; (ii) that those gains have been, or are likely to be, brought about as a result of that conduct; (iii) that such conduct is necessary for the achievement of those gains in efficiency; and (iv) that it does not eliminate effective competition, by removing all or most existing sources of actual or potential competition<sup>381</sup>.

- (481) Motorola has put forward two alleged advantages in terms of efficiency which it claims counterbalance and outweigh any anti-competitive effect produced by the termination clause<sup>382</sup>. First, the termination clause avoids further litigation between Motorola and Apple<sup>383</sup>. Second, termination clauses in general maintain the incentives of licensors to innovate<sup>384</sup>.
- (482) Neither of these alleged advantages in terms of efficiency provide justification for the termination clause as they do not counteract the likely negative effects of Motorola's conduct. Their necessity for the achievement of those efficiency gains has also not been demonstrated<sup>385</sup>.
- (483) The alleged advantages in terms of efficiency do not counteract the likely negative effects of Motorola's conduct for the following reasons:
- (484) First, because of its ownership of the Cudak GPRS SEP, Motorola is an unavoidable trading partner for Apple, and Apple cannot sell lawfully standard-compliant products without obtaining a licence to Motorola's Cudak GPRS SEP. Under these circumstances, the termination clause *de facto* prevents Apple from challenging the validity or infringement of the SEPs licensed under the Settlement Agreement, thereby unduly shielding Motorola's German telecommunication SEPs portfolio from challenges by one of its major competitors (see section 8.2.3.2.1.1).
- (485) Second, Motorola's argument ignores the fact that the Settlement Agreement was not achieved as a result of undistorted commercial negotiations between Motorola and Apple, but as a result of Motorola's abusive conduct which left Apple no other choice but to accept in a "settlement" Motorola's licensing terms or to see the injunction order enforced and its products excluded from the market. In this regard, the Commission disagrees with Motorola's assertion that the Settlement Agreement

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<sup>381</sup> Case C-209/10 *Post Danmark A/S v Konkurrencerådet*, judgment of 27 March 2012, not yet reported, paragraphs 41-42.

<sup>382</sup> Points 11.1.15 and 11.1.16 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254].

<sup>383</sup> See point 11.1.15. of Motorola's response to the RFI of 3 May 2012 [Doc ID 254] and point 7.5 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591]. Motorola emphasises: (i) the fact that there has already been extensive litigation both in Germany and globally (ii) that litigation has significant direct and indirect costs with chilling effects on innovation and standard-setting, (iii) that the impact of invalidity and non-infringement actions is likely to be trivial, could be to the licensee's disadvantage and would anyway be priced in within the rate-setting proceedings; (iv) that settlement brings certainty as opposed to a prolonged "patent war".

<sup>384</sup> See point 11.1.18 of Motorola's response to the RFI of 3 May 2012 [Doc ID 254]. As set out by Motorola in this response to the RFI of 3 May 2012, "[T]ermination clauses strike an appropriate balance between ensuring that invalid IP is eliminated and maintaining licensors' incentives to innovate. If licensors were precluded from including termination clauses in licence agreements, this would have a detrimental effect on licensors' willingness to invest in R&D and innovation, or to grant licences. Patent litigation is lengthy and expensive and results in the undesirable outcomes explained above."

<sup>385</sup> See Case C-209/10 *Post Danmark A/S v Konkurrencerådet*, judgment of 27 March 2012, not yet reported, paragraph 42.

between Motorola and Apple would be a "clear example" of a situation of efficient and *bona fide* settlement which "should be encouraged" by the Commission<sup>386</sup>.

- (486) In undistorted commercial negotiations, parties can balance the pros and cons (including in terms of costs) of litigation versus settlement, and accept a settlement after having compared the different (viable) options. By contrast, in the present case, the settlement discussions under the threat of an injunction on the basis of a SEP for which there is no alternative were unduly distorted in favour of Motorola, as Apple had no other viable option than agreeing to a settlement. Therefore, in the present case, the Commission cannot presume any general efficiencies resulting from the Settlement Agreement. Instead, as shown in sections 8.2.3.2.1.1 to 8.2.3.2.1.3, the terms of the Settlement Agreement have the potential to lead to higher costs (including more onerous licensing rates both for Apple and for other industry players).
- (487) The alleged advantages of the termination clause in terms of efficiency are not necessary either for the achievement of the alleged efficiency gains. Invalid patents by definition do not represent valuable technology innovation. Moreover, there is no public interest in guaranteeing revenues based on patents granted in error. On the contrary, as set out above (see recitals (376)-(382)), there is a public interest in eliminating such patents. Innovation cannot be said to be driven by investments in invalid patents which should not have been granted in the first place.
- (488) Motorola has also argued that the Settlement Agreement as a whole gives rise to advantages in terms of efficiency which counterbalance and outweigh any likely anti-competitive effect as it ensures portfolio-based licensing and rate-setting, which is more efficient than litigation on a patent-by-patent basis<sup>387</sup>. According to Motorola, portfolio licensing generates the following efficiencies:
- it avoids patent-by-patent licensing negotiations (and renegotiations when one patent becomes obsolete or a new technology is developed) in a field of activity where the products anyway need to be compatible with various standards and hundreds of thousands of patents;
  - it avoids patent-by-patent litigation on validity and infringement. Motorola argues in this regard that validity and infringement are "intrinsically probabilistic"<sup>388</sup>, as the final determination of validity and infringement is uncertain *ex ante*, and depends on highly complex and technical analyses. It would thus be more efficient to have a portfolio rate that generally reflects that portfolio's strength without however assessing validity and infringement on a patent-by-patent basis.
- (489) This argument also cannot be accepted.
- (490) First, regarding the alleged efficiencies associated with avoiding patent-by-patent licensing negotiations, in its Second Orange Book Offer, Apple already proposed that the licence would cover Motorola's entire portfolio of 2G, 3G and Wi-Fi/WLAN SEPs in Germany. It was therefore not necessary for the achievement of those alleged efficiency gains for Motorola to continue to seek and enforce an injunction

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<sup>386</sup> See points 1.10 (ii) (b) and 6.15 (iii)-(iv) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>387</sup> See points 6.15 (i) and (ii) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>388</sup> See point 6.15 (i) (a) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

against Apple in Germany on the basis of the Cudak GPRS SEP as of Apple's Second Orange Book Offer.

- (491) Second, regarding the alleged efficiencies associated with avoiding patent-by-patent litigation on validity and infringement, it is in the public interest to allow challenges to the validity of patents and to ensure that royalties are not unduly paid. It was therefore not necessary for the achievement of those alleged efficiency gains for Motorola to seek and enforce an injunction against Apple in Germany on the basis of the Cudak GPRS SEP as of Apple's Second Orange Book Offer<sup>389</sup>.

## 10. CONCLUSION

- (492) The seeking and enforcement of an injunction by a patent holder, including a holder of SEPs, is generally a legitimate course of action. However, the context is different with regard to the seeking and enforcement of an injunction on the basis of a SEP for which a voluntary commitment to license on FRAND terms and conditions has been given during a standard-setting process. The essence of the commitment to license on FRAND terms and conditions is a recognition by a SEP holder that, given the purpose of the standardisation process, its essential patents will be licensed in return for FRAND remuneration, in contrast to those patents which do not read on a standard and for which no FRAND commitment has been given by the patent holder.
- (493) The GPRS standard-setting process and Motorola's commitment to license the GPRS SEP on FRAND terms and conditions lead to specific Union competition law obligations relating to that SEP.
- (494) Motorola's seeking and enforcement of an injunction against Apple on the basis of its Cudak GPRS SEP in Germany as from Apple's Second Orange Book Offer led Apple to agree to the inclusion in the Settlement Agreement of disadvantageous licensing terms to which it would likely not have agreed absent Motorola's conduct.
- (495) A SEP holder is entitled to appropriate remuneration and as such should be entitled to seek injunctions against a potential licensee who is unwilling to enter into a licence on FRAND terms and conditions. However, as set out in section 9.1, Apple's Second Orange Book Offer provided a clear indication that Apple was not unwilling to enter into a licence agreement on FRAND terms and conditions as determined by a court of competent jurisdiction. Therefore, at least as of that Second Orange Book Offer, there was no need for Motorola to have recourse to an injunction in order to be appropriately remunerated for the use of its SEPs.
- (496) This Decision therefore concludes that in the exceptional circumstances of this case and in the absence of an objective justification, Motorola abused its dominant position by seeking and enforcing an injunction against Apple on the basis of its Cudak GPRS SEP in Germany as from Apple's Second Orange Book Offer.

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<sup>389</sup> See in this regard the Mannheim District Court's questions in its letter of 15 November 2013 to the Commission [Doc ID 806 and 807].

## **11. INTERNATIONAL OBLIGATIONS AND FUNDAMENTAL RIGHTS**

### **11.1. Consistency with the Union's international obligations under the TRIPS Agreement**

- (497) According to Article 28 of the TRIPS Agreement, a patent confers on its owner the right to exclude others from its use and assign, or transfer by succession, the patent and conclude licensing contracts. Articles 8(2) and 40(2) of the TRIPS Agreement provide that measures may be taken to prevent the abuse by right holders of their IP rights.
- (498) This Decision concerns a situation in which the Commission is required to apply Article 102 TFEU to the factual and legal circumstances of the particular case and in which it must be presumed, in the absence of proof to the contrary, that the conclusions which it reached in that regard are the only ones that it could validly adopt<sup>390</sup>. There is nothing in the provisions of the TRIPS Agreement to prevent the competition authorities of the members of the WTO from imposing remedies which limit or regulate the exploitation of IP rights held by an undertaking in a dominant position where that undertaking exercises those rights in an anti-competitive manner. It follows expressly from Article 40(2) of the TRIPS Agreement that the members of the WTO are entitled to regulate the abusive use of such rights in order to avoid effects which harm competition<sup>391</sup>.
- (499) The finding in this Decision that Motorola has abused a dominant position by seeking and enforcing an injunction against Apple in Germany on the basis of the Cudak GPRS SEP is therefore consistent with the Union's international obligations under the TRIPS Agreement.

### **11.2. Striking a fair balance between the fundamental rights and freedoms at stake**

- (500) In reaching the conclusion that Motorola has abused a dominant position by seeking and enforcing an injunction against Apple in Germany on the basis of the Cudak GPRS SEP, this Decision has taken account of the requirements that stem from the protection of the applicable fundamental rights and freedoms guaranteed by Union law. These rights and freedoms in this case are:
- the rights linked to IP enshrined in Article 17(2) of the Charter of Fundamental Rights of the European Union ("the Charter");
  - the right of access to a tribunal, enshrined in Article 47 of the Charter; and
  - the freedom to conduct a business, enshrined in Article 16 of the Charter.

#### *11.2.1. Scope of the rights and freedoms in question*

##### **11.2.1.1. The rights linked to IP**

- (501) The rights linked to IP are protected by Article 17 of the Charter.
- (502) In relation to patents, the right of a patent holder to oppose infringements forms part of the specific subject matter of that property<sup>392</sup>. The intangible nature of patent rights may make it necessary for a patent holder to have recourse to court proceedings in order to exercise its property rights in case of a dispute regarding the infringement of

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<sup>390</sup> Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 799.

<sup>391</sup> Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 1192.

<sup>392</sup> See among others Cases 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paragraph 9 and Joined Cases C-267/95 and C-268/95 *Merck* [1996] ECR I-6285, paragraph 31.

a patent. The right to seek to oppose potential infringements of patent rights through court proceedings is therefore a corollary of that property right.

- (503) When interpreting Article 17(2) of the Charter, the Court of Justice has, however, made clear that there is "*nothing whatsoever in the wording of [the Charter] or in the Court's case-law to suggest that that [IP] right is inviolable and must for that reason be absolutely protected*"<sup>393</sup>.

#### 11.2.1.2. The right of access to a tribunal

- (504) The right of access to a tribunal is a component of the principle of effective judicial protection laid down in Article 47 of the Charter<sup>394</sup>.
- (505) Article 47 of the Charter secures in Union law the protection afforded by Article 6(1) of the ECHR. As a result, the Court of Justice has held that it is necessary to refer only to Article 47 of the Charter<sup>395</sup>.

#### 11.2.1.3. The freedom to conduct a business

- (506) Article 16 of the Charter recognises the freedom to conduct a business in accordance with Union law. The protection afforded by Article 16 of the Charter covers the freedom to exercise an economic or commercial activity, the freedom of contract and free competition<sup>396</sup>.
- (507) When choosing between different possible interpretations of a provision of Union law, an interpretation which ensures a greater enjoyment of the freedom to conduct a business, while at the same time not adversely affecting the substance of an IP right, should be favoured<sup>397</sup>.

#### 11.2.2. Limitations on the exercise of the rights and freedoms in question

- (508) Article 52(1) of the Charter provides that any limitation on the exercise of rights and freedoms recognised by the Charter must be provided for by law and respect the essence of those rights and freedoms. Subject to the principle of proportionality, limitations may be made only if they are necessary and genuinely meet objectives of general interest recognised by the Union or the need to protect the rights and freedoms of others.
- (509) In other words, the rights and freedoms recognised by the Union legal order do not constitute unfettered prerogatives and may be restricted, provided that the restrictions in fact correspond to objectives of general interest pursued by the measure in question and that they do not involve, with regard to the objectives pursued, a disproportionate and intolerable interference which infringes upon the very substance

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<sup>393</sup> Case C-70/10 *Scarlet Extended* [2011] ECR I-11959, paragraph 43; Case C-360/10 *SABAM*, judgment of 16 February 2012, not yet reported, paragraph 41; Case C-314/12 *UPC Telekabel Wien*, judgment of 27 March 2014, not yet reported, paragraph 61.

<sup>394</sup> Case C-199/11 *Europese Gemeenschap v Otis NV*, judgment of 6 November 2012, not yet reported, paragraph 48.

<sup>395</sup> Case C-386/10 P *Chalkor v Commission* [2011] ECR I-13085, paragraph 51.

<sup>396</sup> Cases C-283/11 *Sky Österreich* judgment of 22 January 2013, not yet reported, paragraph 42 and C-101/12 *Herbert Schaible v Land Baden-Württemberg*, judgment of 17 October 2013, not yet reported, paragraph 25; Case C-314/12 *UPC Telekabel Wien*, judgment of 27 March 2014, not yet reported, paragraph 49.

<sup>397</sup> Case C-510/10 *DR, TV2 Danmark A/S v NCB - Nordisk Copyright Bureau*, judgment of 26 April 2012, not yet reported, paragraph 57.

of the rights guaranteed<sup>398</sup>. Where several rights and fundamental freedoms protected by the Union legal order are at issue, the assessment of the possible disproportionate nature of a measure of Union law must be carried out with a view to reconciling the requirements of the protection of those different rights and freedoms and striking a fair balance between them<sup>399</sup>.

### 11.2.3. Application in the present case

- (510) The finding in this Decision that Motorola has abused a dominant position by seeking and enforcing an injunction against Apple in Germany on the basis of the Cudak GPRS SEP, whilst taking into account the public interest in maintaining effective competition, respects the requirement that a fair balance be struck between the different rights and freedoms protected by the Union legal order: Motorola's rights linked to IP, Motorola's and Apple's right of access to a tribunal, and the freedom to conduct a business of Apple and other potential licensees that are not unwilling to enter into a licensing agreement on FRAND terms and conditions.
- (511) In conducting this balancing exercise, the Decision has, in line with Article 52(1) of the Charter, assessed whether the restriction on Motorola's fundamental rights brought about by this Decision: (i) is provided for by law; (ii) corresponds to objectives of general interest recognised by the Union; (iii) does not constitute a disproportionate and intolerable interference, impairing the very substance of those rights; and (iv) is necessary to protect the rights and freedoms of others.

#### 11.2.3.1. The restriction is provided for by law

- (512) In order for the act of a Union institution imposing a restriction on an undertaking's exercise of the rights and freedoms recognised by the Charter to be provided for by law, it must have a specific legal basis in Union law<sup>400</sup>.
- (513) This Decision is based on Article 102 TFEU, a provision of primary Union law. Article 102 TFEU is sufficiently precise to meet the requirement that any restriction on Motorola's fundamental rights resulting from a decision under Article 7 of Regulation (EC) No 1/2003 finding an infringement of Article 102 TFEU is "provided by law".

#### 11.2.3.2. The restriction corresponds to an objective of general interest pursued by the Union

- (514) The restriction on Motorola's fundamental rights corresponds to the objective of the Union to establish an internal market, which in accordance with Protocol No 27 on the internal market and competition, annexed to the Treaty of Lisbon<sup>401</sup>, includes a

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<sup>398</sup> Regarding the rights linked to IP, see Case C-416/10 *Jozef Križan and Others*, judgment of 15 January 2013, not yet reported, paragraph 113. Regarding the right of access to a tribunal, see Joined Cases C-317/08 to C-320/08 *Allassini and others* [2010] ECR I-2213, paragraph 63 and Case C-334/12 *RX-II Arango Jaramillo and Others v EIB*, judgment of 28 February 2013, not yet reported, paragraph 43. Regarding the freedom to conduct a business, see Cases C-544/10 *Deutsches Weintor eG*, judgment of 6 September 2012, not yet reported, paragraph 54, and C-348/12 P *Council v Manufacturing Support & Procurement Kala Naft*, judgment of 28 November 2013, not yet reported, paragraph 122.

<sup>399</sup> Regarding the rights linked to IP, see Cases C-70/10 *Scarlet Extended* [2011] ECR I-11959, paragraph 45 and C-360/10 *SABAM*, judgment of 16 February 2012, not yet reported, paragraph 43. Regarding the right of access to a tribunal, see Case C-279/09 *DEB* [2010] ECR I-13849, paragraph 56. Regarding the freedom to conduct a business, see Case C-283/11 *Sky Österreich*, judgment of 22 January 2013, not yet reported, paragraph 60.

<sup>400</sup> Case C-407/08 P *Knauf Gips* [2010] ECR I-6371, paragraph 91.

<sup>401</sup> OJ C 83, 30.3.2010, p. 309.



system ensuring that competition is not distorted to the detriment of the public interest, individual undertakings and consumers. Article 102 TFEU is one of the competition rules that is necessary for the functioning of the internal market<sup>402</sup> and its application constitutes one of the aspects of public interest in the Union<sup>403</sup>. Consequently, pursuant to Article 102 TFEU, restrictions may be applied on the exercise of the rights linked to IP, provided that they are not disproportionate and do not impair the substance of those rights. For example, it is permissible, in the public interest in maintaining effective competition in the market, to encroach upon the exercise of the exclusive right of the holder of an IP right<sup>404</sup>.

(515) The restriction on Motorola's fundamental rights therefore corresponds to an objective of general interest pursued by Union law.

11.2.3.3. The restriction does not involve a disproportionate and intolerable interference that infringes upon the very substance of Motorola's fundamental rights

(516) The restriction does not involve a disproportionate and intolerable interference that infringes upon the very substance of Motorola's fundamental rights.

(517) First, the restriction interferes with Motorola's fundamental rights only with regard to the seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP. This Decision does not therefore prevent Motorola, within or outside Germany, from seeking and enforcing an injunction against Apple on the basis of another SEP in circumstances where Apple is unwilling to enter into a licensing agreement on FRAND terms and conditions. It also does not prevent Motorola, within or outside Germany, from seeking an injunction on the basis of any of its SEPs, including the Cudak GPRS SEP, against another potential licensee that is unwilling to enter into a licensing agreement on FRAND terms and conditions.

(518) Second, this Decision curtails Motorola's use in Germany against Apple of only one specific remedy under patent law with regard to the Cudak GPRS SEP and does not interfere with Motorola's right, within or outside Germany, to seek other remedies for infringement of that SEP (or any other SEP) against both willing and unwilling potential licensees<sup>405</sup>. This is confirmed by the fact that Motorola has sought damages against Apple for infringement of the Cudak GPRS SEP in the context of the proceedings initiated by Motorola against Apple in Germany, which Motorola has kept open following the withdrawal of its injunction claim<sup>406</sup>.

(519) Motorola claims that damages actions do not adequately protect its commercial interests as such actions are slow, expensive and generally only retrospective, due to the fact that they need *"to be conducted on a patent-by-patent basis and can therefore only be brought with respect to a handful of patents"*<sup>407</sup>. Regarding the need to conduct damages actions on a patent-by-patent basis, as a matter of patent law, injunction proceedings also have to be conducted on a patent-by-patent basis. As for the allegedly slow, costly and retrospective nature of damages actions, the fact that Motorola is seeking damages and rendering of accounts from Apple in Germany

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<sup>402</sup> Case C-52/09 *TeliaSonera* [2011] ECR I-527, paragraphs 20-21.

<sup>403</sup> Case T-138/07 *Schindler Holding Ltd and others v Commission* [2011] ECR II-4819, paragraph 190.

<sup>404</sup> Case T-201/04 *Microsoft v Commission* [2007] ECR II-3601, paragraph 691.

<sup>405</sup> Regarding Motorola's right to seek damages pursuant to Article 13(1) of the Enforcement Directive, see recital (403).

<sup>406</sup> See point 6. of Motorola's submission of 15 October 2012 [Doc ID 309].

<sup>407</sup> See point 7.4 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

shows that Motorola nonetheless considers that such actions do provide it with a certain level of protection of its commercial interests.

- (520) Third, by declaring the Cudak patent essential to the GPRS standard and by giving a commitment to ETSI to license the SEP in question on FRAND terms and conditions, Motorola has publicly indicated that it does not wish to use the Cudak GPRS SEP to prevent implementers from marketing standard-compliant products, provided that it receives appropriate remuneration for the use of that SEP.
- (521) Apple and other manufacturers of GPRS-compliant products that are not unwilling to enter into a licence on FRAND terms and conditions should therefore be able to rely on the legitimate expectation that Motorola will honour its commitment to license the Cudak GPRS SEP on FRAND terms and conditions. The seeking and enforcement of an injunction by Motorola against Apple in Germany on the basis of the Cudak GPRS SEP runs counter to that commitment.
- (522) Fourth, as the technology covered by the Cudak GPRS SEP in Germany relates only to the baseband chipset, a small component of the relevant end-product whose selling price amounts to only a fraction of the final mobile device, the seeking and enforcement of an injunction by Motorola against Apple in Germany on the basis of the Cudak GPRS SEP, as of Apple's Second Orange Book Offer, constitutes a disproportionate interference with the freedom of Apple to conduct its business.
- (523) In the present case where, as of its Second Orange Book Offer, Apple agreed to the judicial determination of FRAND royalties, damages, as opposed to the exclusion of Apple's alleged infringing products from the market by way of an injunction, are therefore a more proportionate means of ensuring that Motorola is appropriately remunerated for Apple's past use of the Cudak GPRS SEP in Germany.

#### 11.2.3.4. The restriction is necessary to protect the rights and freedoms of others

- (524) The restriction imposed by this Decision on Motorola's right to seek and enforce an injunction against Apple in Germany on the basis of the Cudak GPRS SEP is necessary to protect the freedom of Apple and other potential licensees that are not unwilling to enter into a licence on FRAND terms and conditions to conduct a business consisting in the lawful sale and manufacture of GPRS-compliant products in reliance on the commitment to license the Cudak GPRS SEP on FRAND terms and conditions which Motorola has given during the standard-setting process. This ability, in turn, furthers the above-mentioned objective of general interest that competition is not distorted to the detriment of the public interest and consumers.
- (525) The restriction imposed by this Decision on Motorola's right to seek and enforce an injunction against Apple in Germany on the basis of the Cudak GPRS SEP is also necessary to protect Apple's right of access to a tribunal in Germany. By seeking and enforcing an injunction against Apple in Germany on the basis of the Cudak GPRS SEP following its Second Orange Book Offer, Motorola led Apple to accept licensing terms that hindered Apple's ability to challenge in court the validity and infringement (by the iPhone 4S) of the SEPs covered by the Settlement Agreement. As a result, Apple and other potential licensees (in light of possible successful invalidity actions by Apple) may end up paying for invalid or non-infringed patents.

#### 11.2.3.5. Conclusion on the balancing of fundamental rights

- (526) Therefore, this Decision's limitation of Motorola's right to seek and enforce an injunction against Apple in Germany on the basis of the Cudak GPRS SEP strikes a fair balance between the fundamental rights and freedoms at stake.

#### 11.2.4. *Motorola's arguments with regard to the applicable legal test*

- (527) Motorola argues that its seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP cannot amount to an abuse of a dominant position on the facts of the case<sup>408</sup>. Motorola claims that its conduct could constitute an abuse only in wholly exceptional circumstances, namely if the two cumulative criteria established in *ITT Promedia*<sup>409</sup> and *Protégé International*<sup>410</sup> are fulfilled. In particular, it would have to be demonstrated that the seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP: (i) cannot reasonably be considered as an attempt to establish the rights of Motorola and therefore only serves to harass Apple; and (ii) has been conceived in the framework of a plan whose goal is to eliminate competition<sup>411</sup>. Since the two cumulative criteria constitute an exception to the general principle of access to the courts, which ensures the rule of law, they must be construed and applied strictly<sup>412</sup>.
- (528) Motorola argues that neither of the two cumulative criteria is met as: (i) Motorola was at all times seeking to enforce its legal rights in accordance with German law before the German courts and its claims were successful; and (ii) Motorola had no exclusionary intent in respect of Apple<sup>413</sup>.
- (529) Motorola further argues<sup>414</sup> that any other conclusion would mean that hundreds of SEP holders will find themselves in wholly exceptional circumstances giving rise to liability under Article 102 TFEU, contrary to the finding in *ITT Promedia* and *Protégé International* that the two cumulative criteria must be applied strictly.
- (530) The Commission cannot subscribe to Motorola's assertions.
- (531) First, there is no indication in either *ITT Promedia* or *Protégé International* that the General Court was seeking to establish a different legal standard to the one developed by the case-law of the Court of Justice with regard to the type of restrictions that may be imposed under Union law on the right of access to a court (see section 11.2.1.2). When noting in *ITT Promedia* that access to a court is a fundamental right, the General Court referred expressly to the protection afforded to that right by Article 6 ECHR, right which is now secured by Article 47 of the Charter (see recital (505))<sup>415</sup>. Moreover, further confirmation that restrictions on a dominant undertaking's right to enforce its IP in court may be ordered in application of Article 102 TFEU, irrespective of the criteria used in *ITT Promedia* and *Protégé International*, is provided by *IMS Health* where the Court of Justice held that IMS's refusal to grant a licence to use its copyright-protected brick structure for the presentation of regional sales data could constitute an abuse of a dominant position within the meaning of Article 102 TFEU even though IMS was exercising that right by seeking to obtain an injunction prohibiting all unlawful use of its brick structure

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<sup>408</sup> See point 4 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>409</sup> Case T-111/96 *ITT Promedia v Commission* [1998] ECR II-2937.

<sup>410</sup> Case T-119/09 *Protégé International v Commission*, judgment of 13 September 2012, not yet reported.

<sup>411</sup> Case T-111/96 *ITT Promedia* [1998] ECR II-2937, paragraph 55, *Protégé International*, judgment of 13 September 2012, not yet reported, paragraph 49.

<sup>412</sup> Case T-111/96 *ITT Promedia* [1998] ECR II-2937, paragraph 61, *Protégé International*, judgment of 13 September 2012, not yet reported, paragraph 49.

<sup>413</sup> See point 4.8 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>414</sup> See point 4.2 of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>415</sup> Case T-111/96 *ITT Promedia v Commission* [1998] ECR II-2937, paragraph 60.

in a German court<sup>416</sup>. If the exercise of an IP right through the seeking of an injunction could be abusive only if the *ITT Promedia* or *Protégé International* criteria applied, there would have been no need for the Court of Justice to assess whether IMS's refusal to licence could constitute an abuse of a dominant position within the meaning of Article 102 TFEU on the basis of different criteria.

- (532) Second, in order to determine whether an undertaking has abused a dominant position, it is necessary to consider all relevant circumstances<sup>417</sup>. The standardisation context and Motorola's commitment to ETSI to license the Cudak GPRS SEP on FRAND terms and conditions differentiate this case from *ITT Promedia* and *Protégé International*, which concerned proceedings in relation to unfair commercial practices and to trademark oppositions.
- (533) By giving a FRAND commitment during the standard-setting process, Motorola made a binding declaration that it will grant licences to the Cudak GPRS SEP to potential licensees, such as Apple, that are not unwilling to enter into a licence on FRAND terms and conditions, and thus that it will not rely on its IP right to exclude Apple and other such potential licensees (see recitals (294)-(299)). Such a commitment was absent in both *ITT Promedia* and *Protégé International*.
- (534) Third, this Decision concerns only the seeking and enforcement by Motorola of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP. Whether the conditions that give rise to Motorola's liability under Article 102 TFEU are fulfilled in other instances where Motorola and other SEP holders seek and enforce injunctions must be made *in concreto*, with a view to the specific circumstances of each case, and cannot be inferred from this Decision<sup>418</sup>.

## 12. EFFECT ON TRADE BETWEEN MEMBER STATES AND BETWEEN CONTRACTING PARTIES TO THE EEA AGREEMENT

### 12.1. Principles

- (535) Article 102 TFEU prohibits an abuse of a dominant position as incompatible with the internal market "*in so far as it may affect trade between Member States*". Article 54 of the EEA Agreement prohibits an abuse of a dominant position as incompatible with the functioning of the EEA Agreement "*in so far as it may affect trade between Contracting Parties*."
- (536) The effect on trade criterion consists of three elements.
- (537) First, trade between Member States must be affected. The concept of trade is not limited to traditional exchanges of goods and services across borders, but covers all cross-border economic activity. In addition, it also encompasses practices affecting the competitive structure of the internal market by eliminating or threatening to eliminate a competitor operating within the territory of the European Union<sup>419</sup>.

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<sup>416</sup> Case C-418/01 *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG* [2004] ECR I-5039, paragraph 17.

<sup>417</sup> C-280/08 P *Deutsche Telekom AG v Commission* [2010] ECR I-9555, paragraph 175.

<sup>418</sup> See point 4.4 (iv) of Motorola's reply of 2 July 2013 to the SO [Doc ID 591].

<sup>419</sup> Joined Cases 6 and 7/73 *Commercial Solvents* [1974] ECR 223, paragraphs 32-33 and Joined Cases T-24/93 and others *Compagnie Maritime Belge v Commission* [1996] ECR II-1201, paragraph 203.

- (538) Second, a practice must be capable of having an effect on trade between Member States<sup>420</sup>. This notion implies that it must be foreseeable with a sufficient degree of probability on the basis of a set of objective factors of law or fact that the practice in question may have an influence, direct or indirect, actual or potential, on the pattern of trade between Member States<sup>421</sup>. Where a dominant undertaking engages in abusive conduct in more than one Member State, such abuse is normally, by its very nature, capable of affecting trade between Member States<sup>422</sup>.
- (539) Third, the effect on trade between Member States must be appreciable. This is assessed primarily with reference to the position of an undertaking on a relevant product market<sup>423</sup>. The stronger the position of an undertaking, the more likely it is that the effect on trade between Member States of a practice will be appreciable<sup>424</sup>. Moreover, when the holder of a dominant position obstructs access to the market by competitors, it makes no difference whether such conduct is confined to a single Member State as long as it is capable of affecting patterns of trade and competition on the common market<sup>425</sup>.

## 12.2. Application in the present case

- (540) Motorola has sought and enforced an injunction against Apple in Germany on the basis of the Cudak GPRS SEP. This Decision has set out how this conduct was capable of resulting in the temporary elimination of Apple's products from the German market. As such, Motorola's conduct is capable of affecting the competitive structure of the internal market and thus of trade between Member States. The first two elements of the effect on trade criterion are thus met in this case.
- (541) In addition, as indicated in section 7, Motorola has a dominant position with regard to the Cudak technology, as specified in the GPRS standard technical specifications, on which Motorola's Cudak GPRS SEP reads. The effect on trade resulting from its conduct is therefore appreciable.
- (542) It follows that Motorola's conduct affected trade between Member States within the meaning of Article 102 TFEU, and between the Contracting Parties to the EEA within the meaning of Article 54 of the EEA Agreement.

## 13. DURATION OF THE INFRINGEMENT

- (543) The infringement lasted 7 months 3 weeks and 4 days.
- (544) It started on the date of Apple's Second Orange Book Offer of 4 October 2011, which provided for full judicial determination of the FRAND royalties, covering all Apple products infringing Motorola's SEPs in Germany. Motorola has not shown any valid objective justification or efficiency gains for the seeking and subsequent enforcement of the injunction against Apple beyond this date.

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<sup>420</sup> Case 322/81 *Nederlandsche Banden Industrie Michelin v Commission* [1983] ECR 3461, paragraph 104; Case C-41/90 *Höfner and Elsnér v Macrotron* [1991] ECR I-1979, paragraph 32; and Case T-228/97 *Irish Sugar v Commission* [1999] ECR II-2969, paragraph 170.

<sup>421</sup> Case 5/69 *Franz Völk v Établissement J. Vervaecke* [1969] ECR 295, paragraphs 5-7.

<sup>422</sup> Commission Notice - Guidelines on the effect on trade concept contained in Articles 81 and 82 of the Treaty, OJ C 101, 27.4.2004, p. 81, paragraph 75.

<sup>423</sup> Case 5/69 *Franz Völk v Établissement J. Vervaecke* [1969] ECR 295, paragraphs 5-7.

<sup>424</sup> Case T-65/89 *BPB Industries and British Gypsum v Commission* [1993] ECR II-389, paragraph 138.

<sup>425</sup> Case 322/81 *Nederlandsche Banden Industrie Michelin v Commission* [1983] ECR 3461, paragraphs 103-104.

(545) It ended on 29 May 2012 following the declaration by Motorola to the Mannheim and Düsseldorf District Courts<sup>426</sup> pursuant to section 91a of the German Code of Civil Procedure that the injunction procedures against Apple were moot.

## **14. ADDRESSEE**

### **14.1. Principles**

(546) It falls to the person managing the undertaking at the time an infringement was committed to answer for that infringement, even if, at the date of the decision finding the infringement, that undertaking is under the responsibility or the management of a new person<sup>427</sup>.

### **14.2. Application to this case**

(547) As set out in recitals (544)-(545), the infringement started on 4 October 2011 and ended on 29 May 2012.

(548) On 22 May 2012, pursuant to the terms of the Agreement and Plan of Merger ("Merger Agreement"), dated 15 August 2011<sup>428</sup>, Google completed the acquisition of Motorola through the merger of RB98 INC (Google's wholly owned subsidiary) with and into Motorola, with the entity Motorola Mobility LLC continuing as the surviving corporation<sup>429</sup> and legal successor of Motorola Mobility Inc.<sup>430</sup>. As a result of the merger, Motorola Mobility LLC became a wholly owned subsidiary of Google<sup>431</sup>.

(549) The Settlement Agreement was signed before the closure of the merger between Google and Motorola Mobility Inc. Motorola declared moot the injunction proceedings on 23 May (Karlsruhe Appellate Court) and 29 May (Mannheim and Düsseldorf District Courts) 2012, i.e. respectively one day and seven days following the closure of the merger (22 May 2012). Due to this short duration, Google is not held jointly liable for Motorola's conduct.

(550) Motorola Mobility LLC, as the legal successor of Motorola Mobility Inc. is thus held solely liable for the conduct set out in this Decision.

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<sup>426</sup> Motorola filed a declaration on 23 May 2012 with the Karlsruhe Appellate Court that the injunction proceedings against Apple were moot, followed by similar declarations with the Mannheim and Düsseldorf District Courts on 29 May 2012. See recital (164) above.

<sup>427</sup> See for example Case C-297/98 P *SCA Holding v Commission* [2000] ECR I-10101, paragraph 27.

<sup>428</sup> Google Inc, Form 8-K, Current Report of 22 May 2012, available at: <http://google.client.shareholder.com/secfiling.cfm?filingid=903423-12-297>, printed on 12 February 2013 [Doc ID 458].

<sup>429</sup> Google Inc, Form 8-K, Current Report of 22 May 2012, available at: <http://google.client.shareholder.com/secfiling.cfm?filingid=903423-12-297>, printed on 12 February 2013 [Doc ID 458].

<sup>430</sup> See also point 4.1 of Motorola's response to the RFI of 15 January 2013 [Doc ID 379].

<sup>431</sup> Google Inc, Form 8-K, Current Report of 22 May 2012, available at: <http://google.client.shareholder.com/secfiling.cfm?filingid=903423-12-297>, printed on 12 February 2013 [Doc ID 458].

## 15. REMEDIES

### 15.1. The Commission's powers under Article 7(1) of Regulation (EC) No 1/2003

(551) According to Article 7(1) of Regulation (EC) No 1/2003, where the Commission finds that there is an infringement of Article 102 TFEU and Article 54 of the EEA Agreement, it may by decision require the undertaking concerned to bring such infringement to an end. If the infringement has already come to an end, the Commission may find that an infringement has been committed in the past provided that it has a legitimate interest in doing so<sup>432</sup>.

(552) In order to bring an infringement to an end, a decision pursuant to Article 7(1) of Regulation (EC) No 1/2003 may include an order to do certain acts or provide certain advantages which have been wrongfully withheld as well as prohibiting the continuation of certain acts, practices or situations which are contrary to the Treaty<sup>433</sup>. In order to ensure that a Decision is effective<sup>434</sup>, the Commission may also require a dominant undertaking to refrain from adopting any measures having an equivalent effect to the conduct identified as abusive<sup>435</sup>. Finally, any remedy must apply in relation to the infringement that has been established<sup>436</sup> and be proportionate<sup>437</sup> to attain the objective sought, namely re-establishment of compliance with the rules infringed<sup>438</sup>.

### 15.2. The Commission's legitimate interest to find an infringement

(553) As set out in recital (545), Motorola's abusive conduct ended on 29 May 2012. Nevertheless, the Commission has a legitimate interest to adopt a decision finding an infringement, in particular for the following three reasons.

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<sup>432</sup> Case 7/82 *GVL v Commission* [1983] ECR 483, paragraph 24; Joined Cases T-22/02 and T-23/02 *Sumitomo Chemical Co. Ltd and others v Commission* [2005] ECR II-4065, paragraph 137; Case T-392/08 *AEPI v Commission*, judgment of 12 April 2013, not yet reported, paragraph 62; Case T-422/08 *SACEM v Commission*, judgment of 12 April 2013, paragraph 80; Case T-432/08 *AKM v Commission*, judgment of 12 April 2013, not yet reported, paragraph 66; Case T-373/10 *Villeroy & Boch Austria v Commission*, judgment of 16 September 2013, not yet reported, paragraphs 300-306; Joined Cases T-379/10 and T-381/10 *Keramag Keramische Werke a.o. v Commission*, judgment of 16 September 2013, not yet reported, paragraphs 249-258; Joined Cases T-23/10 and T-24/10 *Arkema France and ECSC v Commission*, judgment of 6 February 2014, not yet reported, paragraphs 111-120; Case T-40/10 *Elf Aquitaine v Commission*, judgment of 6 February 2014, not yet reported, paragraphs 389-398.

<sup>433</sup> Joined Cases 6/73 and 7/73 *Commercial Solvents* [1974] ECR 223, paragraph 45; Joined Cases C-241/91 P and C-242/91 P *RTE and ITP v Commission ("Magill")* [1995] ECR I-743, paragraph 90; Case T-228/97 *Irish Sugar v Commission* [1999] ECR II-2969, paragraph 298; Case T-128/98 *Aéroports de Paris v Commission* [2000] ECR II-3929, paragraph 82.

<sup>434</sup> Joined Cases 6/73 and 7/73 *Commercial Solvents* [1974] ECR 223, paragraph 46; Joined Cases C-241/91 P and C-242/91 P *RTE and ITP v Commission ("Magill")* [1995] ECR I-743, paragraph 91.

<sup>435</sup> Case T-83/91 *Tetra Pak v Commission* [1994] ECR II-755, paragraphs 220-221.

<sup>436</sup> Joined Cases 6/73 and 7/73 *Commercial Solvents* [1974] ECR 223, paragraph 45.

<sup>437</sup> The principle of proportionality is enshrined in Article 5(4) of the Treaty on European Union according to which "the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties". The Court of Justice has interpreted this principle as meaning that "measures adopted pursuant to EU law must not exceed what is appropriate and necessary to attain the objective pursued", and that where there is a choice between several appropriate measures, recourse must be had to the least onerous, and the disadvantages caused must not be disproportionate to the aims pursued; see Case 15/83 *Denkavit* [1984] ECR 2171, paragraph 25 and Case C-354/95 *The Queen v Minister for Agriculture, Fisheries and Food, ex parte National Farmers' Union and Others* [1997] ECR I-4559, paragraphs 49-50.

<sup>438</sup> Joined Cases C-241/91 P and C-242/91 P *RTE and ITP v Commission ("Magill")* [1995] ECR I-743, paragraph 93.

- (554) First, the likely anti-competitive effects of Motorola's conduct persist, as the Settlement Agreement is still in force and certain of its provisions may affect the FRAND royalty rate and the amount of damages that Apple will be ordered to pay to Motorola.
- (555) Second, there is no Union decisional practice concerning the legality of the seeking and enforcement of injunctions by SEP holders. National courts that have been dealing with this issue have arrived at substantively different outcomes<sup>439</sup>.
- (556) Third, the Commission has a legitimate interest to adopt a decision finding an infringement in light of the multitude of on-going disputes over FRAND-encumbered SEPs between industry players.

### **15.3. Remedies to prevent the reoccurrence of the same or similar abusive conduct and the continuation of the likely anti-competitive effects**

- (557) In order to ensure that this Decision is effective, Motorola should bring to an end the infringement found by this Decision insofar as it has not yet done so. It should also refrain from repeating any act or conduct having the same or similar object or effect.
- (558) In addition, because the likely anti-competitive effects of Motorola's conduct persist, Motorola should be required to eliminate them, in particular those resulting from sections 1(3), 4(4) and 7(1) of the Settlement Agreement.

## **16. FINES**

- (559) Under Article 23(2) of Regulation (EC) No 1/2003, the Commission may by decision impose upon undertakings fines where, either intentionally or negligently, they infringe Article 102 TFEU and Article 54 of the EEA Agreement<sup>440</sup>. The Commission has discretion when choosing whether to impose a fine and may exceptionally decide, based on objective reasons, not to impose a fine<sup>441</sup>. The Commission exercises that discretion in the specific context of each case when assessing whether it is appropriate to impose a fine in order to penalise the infringement found and to protect the effectiveness of competition law<sup>442</sup>.
- (560) The fact that the Commission and the Union courts have not yet had the opportunity to rule specifically on certain conduct does not, in itself, prevent the Commission from imposing a fine<sup>443</sup>.
- (561) In the specific context of this case, the Commission chooses not to impose a fine for the following reasons taken in combination: (i) there is no Union decisional practice or case-law regarding whether a SEP holder, which has given a commitment to

<sup>439</sup> See, for example, the judgment by the District Court of The Hague in *Koninklijke Philips Electronics N.V. v. SK Kassetten GmbH & Co. KG* of 17 March 2010, Joint Cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 where the District Court in paragraph 6.25 of the judgment explicitly rejected the approach taken by the German "Orange Book" case-law.

<sup>440</sup> Under Article 5 of Council Regulation (EC) No 2894/94 of 28 November 1994 concerning arrangements of implementing the Agreement on the European Economic Area "the Community rules giving effect to the principles set out in Articles 85 and 86 [now Articles 101 and 102 TFEU] of the EC Treaty [...] shall apply *mutatis mutandis*." (OJ L 305, 30.11.1994, p. 6).

<sup>441</sup> Case C-499/11 P *Dow Chemical and Others v Commission*, judgment of 18 July 2013, not yet reported, paragraphs 44-47.

<sup>442</sup> Case T-336/07 *Telefonica v Commission*, judgment of 29 March 2012, not yet reported, paragraph 357.

<sup>443</sup> Case C-457/10 P *AstraZeneca v Commission*, judgment of 6 December 2012, not yet reported, paragraph 164.



license that patent on FRAND terms and conditions, abuses a dominant position when it seeks and enforces an injunction on the basis of that SEP against a potential licensee that is not unwilling to enter into a licence agreement on FRAND terms and conditions; and (ii) national courts have reached diverging conclusions on this question<sup>444</sup>.

HAS ADOPTED THIS DECISION:

*Article 1*

Motorola Mobility LLC has infringed Article 102 TFEU and Article 54 of the EEA Agreement by seeking and enforcing against Apple Inc., Apple Sales International and Apple Retail Germany GmbH in the Federal Republic of Germany, an injunction on the basis of the Cudak GPRS SEP, for which it has given an irrevocable commitment to license on fair, reasonable and non-discriminatory (FRAND) terms and conditions to the European Telecommunications Institute (ETSI).

The infringement started on 4 October 2011 and ended on 29 May 2012.

*Article 2*

Motorola Mobility LLC shall immediately bring to an end the infringement referred to in Article 1 insofar as it has not already done so.

Motorola Mobility LLC shall eliminate any anti-competitive effects resulting from the infringement referred to in Article 1.

*Article 3*

Motorola Mobility LLC shall refrain from repeating any act or conduct described in Article 1 of this Decision and from any act or conduct having the same or similar object or effect.

*Article 4*

This Decision is addressed to Motorola Mobility LLC, 600 North U.S. Highway 45, Libertyville, Illinois 60048, USA.

This Decision shall be enforceable pursuant to Article 299 TFEU and Article 110 of the EEA Agreement.

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<sup>444</sup> See footnote 439. See also the request for a preliminary ruling lodged by the Landgericht Düsseldorf on 5 April 2013 in Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*.

Done at Brussels,

*For the Commission*

*Joaquín ALMUNIA*  
*Vice-President*