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Diversified FRAND Enforcement and TRIPS Integrity

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Abstract: As an integral part of the WTO trading regime and in line with the international trend of antitrust control, TRIPS harmonized intellectual property protection with competition in mind. However, diverse national FRAND enforcement practices that take either a contractual or an antitrust approach challenge TRIPS integrity. While personal property recognition for SEPs lends constitutional support to the contractual approach to FRAND enforcement, private property's in-built limitation warrants a balance with the antitrust approach for needs from others. A critical examination of the TRIPS conclusion and the analytical structure of TRIPS provisions reveal that TRIPS obligation against anticompetitive practices is imperative. The imbalance of harmonized TRIPS with un-harmonized FRAND practices reflects TRIPS birth defect and challenges TRIPS integrity. To improve balance of rights and obligations in international trade and to ensure innovation and technology dissemination that is conducive to social and economic welfare, the paper calls for a contract–antitrust balanced approach to FRAND enforcement and the resumption of WTO's competition negotiations.

1. Introduction

Standards, as both the driver and outcome of rapid technology development in the marketplace, are powerful market tools that facilitate product efficiency and consumer welfare. On the one hand, interoperability among products gained from standardization 'is critical to developing and introducing innovative products that satisfy a range of consumer needs'.[1] Moreover, standards 'provide many benefits for technology consumers, including not just interoperability but

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1 The US Federal Trade Commission (FTC), 'The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition' (March 2011), 191, https://www.ftc.gov/reports/evolving-ip-marketplace-aligning-patent-notice-remedies-competition (accessed 16 June 2016).

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also lower product costs and increased price competition'.[2] As the US Department of Justice (DOJ) and US Patent and Trademark Office (PTO) pointed out, '[v]oluntary consensus standards-setting activities benefit consumers and are in the public interest'.[3] On the other hand, however, standards can also be misused, such as when holders of standard-essential patents (SEPs) 'sought to ban competitors' products from the market on the basis of their SEPs'.[4] Therefore, SEP holders are required by standard setting organizations (SSOs) to commit to licensing their SEPs on Fair, Reasonable, and Non-Discriminatory (FRAND) terms. The operation of FRAND terms alleviates potential anticompetitive concerns and ensures that 'the technology incorporated in a standard is accessible to the manufacturers of standard-compliant products' and that SEP holders are financially rewarded.[5] Due to SEPs essentiality to a standard, and their importance for industries, the frequency of patent disputes, in particular those related to SEPs, has increased considerably over the last three decades.[6] The 'Smartphone Wars' outbreak in the FRAND context in 2010 has now drawn in almost every phone manufacturer worldwide.[7] Due to the significance of intellectual property rights (IPRs) in regional and international trading frameworks,[8] FRAND wars certainly have significant implications for market operation, technology development, and international trade.

The interpretation of FRAND terms has both theoretical significance and international implications. Firstly, interpretation of the diverse FRAND terms and ensuing controversies have attracted much academic discussion,[9] and the theoretical justifications vary, ranging from patent law to antitrust, contract, and property law.[10] While some suggest a contract-based theory offers a better approach in

2 *Microsoft Corp.* v. *Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012); *Apple, Inc.* v. *Motorola Mobility, Inc.*, No. 11-cv- 178-bbc, 2011 WL 7324582, at *1 (W.D.Wis. 2011).

3 US Department of Justice (DOJ) and US Patent and Trademark Office (USPTO), 'Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments', 8 January 2013 (thereafter, Policy Statement), https://www.justice.gov/sites/default/files/atr/legacy/2014/09/18/290994.pdf (accessed 16 May 2016).

4 European Commission, 'Competition Policy Brief' (2014), 1, http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf (accessed 26 May 2016).

5 European Commission, 'Competition Policy Brief', 3.

6 Ibid., 2.

7 Jorge L. Contreras, 'Fixing FRAND: A Pseudo-Pool Approach to Standards-Based Patent Licensing', 79.1 *Antitrust Law Journal* (2013), 47–48. See also, Daniel S. Sternberg, 'A Brief History of RAND', 20.2 *Boston University Journal of Science and Technology Law* (2014), 234.

8 Peter Drahos, 'China, the TPP and Intellectual Property', 47.1 *International Review of Intellectual Property and Competition Law* (2016), 1–4.

9 See, e.g., Contreras, 'Fixing FRAND'; Jorge L. Contreras, 'A Market Reliancd Theory for FRAND Commitments and Other Patent Pledges', 479 *Utah Law Review* (2015); Jay P. Kesan and Carol M. Hayes, 'FRAND's Forever: Standards,Patent Transfers, and Licensing Commitments', 89 *Indiana Law Journal* (2014); Douglas H. Ginsburg, Koren W. Wong-Ervin, and Joshua D. Wright, 'The Troubling Use of Antitrust to Regulate FRAND Licensing', 10,1 *CPI Antitrust Chronicle* (2015).

10 Kesan and Hayes, 'FRAND's Forever', 262–285.

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many situations than that of patent and antitrust approaches due to the effective support of the property-based approach,[11] others argue a novel 'market reliance' theory creates 'a stronger and more defensible foundation' for FRAND enforcement than that of the 'inaccurate and incomplete' contractual understanding.[12] At the international level, while China has been mainly concerned with the 'negative impacts' of the combination of IPRs and standards on international trade,[13] economic development, and technology dissemination,[14] the European Community suggested that standards that contain any IPR 'can be used by market operators' on FRAND conditions.[15] The academic confusion as to the theoretical foundations of the enforcement of FRAND terms and the issue's international implications warrant an in-depth theoretical analysis of the FRAND justification to be based not only on domestic frameworks but also against the background of the international trading regime.

Connecting jurisprudential critiques of property and contract with interpretation of international treaty obligations, the paper offers a critical analysis of the nature of FRAND commitments and its implications for the regime of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Section 2 reveals that, while the competition-minded TRIPS harmonized intellectual property protection across member states, Members' approaches to the enforcement of FRAND terms vary between contractual and antitrust approaches. Section 3 suggests that although the contractual and antitrust approaches both have their own theoretical foundations, the diversity in the enforcement of FRAND terms challenges TRIPS integrity. A jurisprudential critique of property and contract reveals that while recognizing SEPs as personal property lends constitutional support to the contractual approach, property theory's built-in limitation of private rights anticipates a complementary IP–competition dynamic in TRIPS. A further critical analysis of the circumstances of the TRIPS conclusion and an analytical examination of TRIPS antitrust obligations suggests that TRIPS antitrust obligations, which mandate Members to balance the contractual approach with antitrust concerns in FRAND enforcement, are indeed imperative. Finally, in Section 4 the paper concludes with a call for a contract–antitrust balanced approach to FRAND enforcement to develop an IPR friendly and competition-minded free trade framework for the benefit of 'the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare'.

11 Ibid., 313.

12 Contreras, 'A Market Reliancd Theory for FRAND Commitments and Other Patent Pledges', 558.

13 PRC Communication to the WTO TBT Committee: Intellectual Property Right (IPR) Issues in Standardization (G/TBT/W/251, 25 May 2005).

14 WTO Trade Policy Review Body, 'Trade Policy Review: China, Minutes of Meeting Addendum' (WT/TPR/M/199/Add.1, 28 August 2008), 192–193.

15 Ibid., 192.

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2. Harmonized TRIPS v. diversified FRAND enforcement

2.1 TRIPS as a competition-minded regime

Although intellectual property rights are generally territorial, TRIPS harmonizes the international protection of intellectual property under the WTO framework. As an integral part of the international trading framework, the TRIPS regime is inherently competition friendly. Indeed, trade policy and competition policy 'can be mutually reinforcing policy tools', and 'trade and competition policy objectives are complementary' to a certain extent.[16] Of course, the WTO framework is aware of the trade restraining effects of anticompetitive practices. Indeed, 'core GATT provisions', such as the basic non-discrimination principles of national treatment, most-favored-nation treatment, and transparency, 'are supportive of an effective competition policy regime'.[17] For example, dumping and subsidization are both similarly regulated under the GATT regime and both considered as practices 'unfair to domestic competitors' that undermine international free trade.[18] While the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) can be viewed as the trading framework's effort to regulate governments' unfair practices,[19] the WTO Antidumping Agreement (ADA) can certainly be seen as the trading framework's antitrust control of company's unfair practices.[20] Under the SCM Agreement, Members are prohibited from using any subsidy that causes 'serious prejudice to the interests of another Member', such as displacing or impeding 'the imports of a like product of another Member into the market of the subsidizing Member', or 'the export of a like product of another Member from a third country market'.[21] As to the international antidumping regime, its development from domestic antitrust experiences can be traced back to the pre-GATT era.[22] In contrast to the Canadian antidumping approach to 'defusing protectionist pressure', the American antitrust approach as stated in the US Antidumping Act of 1916 was to deal with predatory pricing in international trade.[23] This US characteristic further defines the antitrust nature of the

16 Merit E. Janow, 'Trade and Competition Policy', in Patrick F.J. Macrory, Arthur E. Appleton, and Michael G. Plummer (eds.), *The World Trade Organization: Legal, Economic and Political Analysis* (New York: Springer, 2005), 488.

17 Ibid., 499–500.

18 P. J. Lloyd, 'Anti-Dumping and Competition Law', in Patrick F.J. Macrory, Arthur E. Appleton, and Michael G. Plummer (eds.), *The World Trade Organization: Legal, Economic and Political Analysis* (New York: Springer, 2005), 69–70.

19 Articles 15.3 and 15.5 of the SCM Agreement.

20 Articles 3.3 and 3.5 of the ADA.

21 Articles 5(c), 6.3(a), and 6.3(b), ADA.

22 Aradhna Aggarwal, *The Anti-Dumping Agreement and Developing Countries: An Introduction* (New Delhi: Oxford University Press, 2007), 49–65.

23 The Antidumping Act of 1916 is the Title VIII ('Unfair Competition') of the Act entitled 'An Act to Increase the Revenue and for Other Purposes' approved 8 September 1916 (15 USC 72, 39 Stat. 756). The Act had heritage in competition law, mainly from the Sherman Antitrust Act of 1890 and the Wilson Tariff

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WTO's antidumping regime, as the US Antidumping Act of 1921 set out the basis of the antidumping regime of the GATT 1947.[24] The WTO antidumping regime's origin from the US domestic antitrust regime explains the nature of antitrust control in the WTO framework. Other WTO agreements, too, provide mechanisms addressing anti-competitive practices. As to monopolies and exclusive services suppliers in the context of trade in services, GATS recognizes that certain business practices of service suppliers 'may restrain competition and thereby restrict trade in services', and Members concerned shall accord 'full and sympathetic consideration' to other relevant Members' consultation requests.[25]

When it comes to the dynamics between intellectual property and competition policy, the legitimate monopoly interests of intellectual property to some extent naturally make intellectual property something of an anti-competition concern.[26] The international framework's concerns regarding IP–competition tension were developed long before the TRIPS era. Indeed, the first international instrument that recognized the tension between IP and competition was the Paris Convention 1967, which allows compulsory licensing to perform a checking role against the abuse of patent's exclusive rights.[27] The Paris Convention recognizes Members' right 'to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work'.[28] Also, under the Paris Convention, Members are obliged to guarantee 'effective protection against unfair competition'.[29] The Paris Convention defines 'unfair competition' as 'any act of competition contrary to honest practices in industrial or commercial matters', and prohibits dishonest practices in business, such as acts creating confusion, false allegations, and misleading the public.[30] In the context of the growing global concerns as to barriers from IPRs against technology transfer to developing countries, the International Code of Conduct on the Transfer of Technology was negotiated under the auspices of the United Nations (UN). Although it was

Act of 1894. It is repealed by Section 2006 to the Miscellaneous Trade and Technical Corrections Act of 2004 (H.R. 1047, P. L. 108–429) which was signed into law by President Bush on 3 December 2004.

24 During the negotiations to establish the International Trade Organization, the US proposed an antidumping draft based on its Antidumping Act of 1921, which set out the basis for Article VI of the GATT 1947. See US House of Representatives Committee on Ways and Means, Overview and Compilation of US Trade Statues 2013 (January 2013), at 101. See also Aggarwal, *The Anti-Dumping Agreement and Developing Countries: An Introduction*, 52–54.

25 Articles IX(1) and (2), the General Agreement on Trade in Services (GATS). Of course, this concerns only service-related anti-competitive practices.

26 See Joseph E. Stiglitz, *The Roaring Nineties: A New History of the World's Most Prosperous Decade* (New York: W. W. Norton & Company, 2003), 208.

27 The Paris Convention for the Protection of Industrial Property (concluded in 1883, as amended in 1967, the Paris Convention). The Articles 1 through 12, and Article 19 of the Paris Convention 1967 are incorporated into the TRIPS Agreement by Article 2(1).

28 Article 5.A(2), the Paris Convention.

29 Article 10bis(1), the Paris Convention.

30 Articles 10bis(2) and(3), the Paris Convention.

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suspended in 1985, the transfer-oriented (focusing on technology transfer) instead of competition-oriented Draft Code covers both aspects from contract law and competition law in technology transfer agreements. According to the Draft Code, restrictive business practices include grant-back provisions, challenges to validity, exclusive dealing, various undue restrictions, price fixing, tying arrangements, patent pool or cross-licensing agreements, and other arrangements.[31]

The TRIPS negotiations superseded the UN forum, and the resulting TRIPS Agreement incorporated the Paris Convention 1967.[32] In general, the WTO provides no mechanism to balance IP protection with competition in the TRIPS Agreement. However, the TRIPS Agreement makes the objective of the regime clear in that intellectual property protection and enforcement 'should contribute to … the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare'.[33] Under this objective, the TRIPS Agreement clearly sets the promotion of public interest 'in sectors of vital importance to their socio-economic and technological development' as one of the fundamental principles of the regime that is as important as, though not more important than, public health and nutrition protection.[34] If the exercise and licensing of SEPs is in an industry that falls within one of the 'sectors of vital importance to socio-economic and technological development', which should mostly be the case, interpretation of the FRAND terms for purpose of public interest promotion – such as the antitrust interpretation approach indicates – should then be WTO encouraged.

Moreover, the principles expressed in Article 8.1 above serve the 'general exceptions' function in the TRIPS Agreement, which enables Members policy flexibility in managing intellectual property rights for public interest promotion.[35] Accordingly, to 'promote public interest' in vital sectors would be one of the justifications qualifying intellectual property rights, as long as it were in a manner consistent with the TRIPS Agreement. For the issue of patentable subject matter, for example, the TRIPS Agreement allows Members to exclude certain inventions from patentability for the purpose of offering protection to 'human, animal or plant life or health'.[36] Therefore, the objectives and principles as expressed in Articles 7 and 8.1 of the TRIPS Agreement clearly accommodate the interests of public concern and should not be interpreted lightly.[37] In fact, it has also been similarly reiterated in the Doha Declaration, that 'each provision of the TRIPS

31 Chapter 4, Draft International Code of Conduct on the Transfer of Technology (1985).

32 Article 2.1, the TRIPS Agreement.

33 Article 7, the TRIPS Agreement.

34 Article 8.1, the TRIPS Agreement.

35 *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs* (*EC–Trademarks and Geographical Indications*), Panel report (WT/DS174/R, 15 March 2005), para. 7.210.

36 Article 27.2, the TRIPS Agreement.

37 See para. 19, Ministerial Declaration, adopted at the Fourth Session of the Ministerial Conference at Doha on 14 November 2001, WT/MIN(01)/DEC/1.

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Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles'.[38] The WTO panels' practice in general also confirm this. In the discussion of the limiting conditions of adopting the patent right exceptions prescribed in Article 30 of the TRIPS Agreement, the Panel in *Canada–Pharmaceutical Patents* states that, when examining the limiting conditions, '[b]oth the goals and the limitations stated in Articles 7 and 8.1 must obviously be borne in mind'.[39]

Following this reasoning, the TRIPS Agreement recognizes that IPRs can be abused and potentially harm competition policy and other considerations of public good. Under the TRIPS Agreement, appropriate measures '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' providing that they are also TRIPS-consistent.[40] Under the TRIPS framework, therefore, it is clearly envisaged that public health, development needs, or competition policy considerations are legitimate factors to balance or control IPR abuses. The TRIPS Agreement, therefore, goes beyond abstract intellectual property philosophy statements, and also establishes Member's obligations to act against anticompetitive contractual licensing practices. The TRIPS Agreement recognizes that 'some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology'.[41] The TRIPS Agreement further lists examples of anticompetitive practices – including exclusive grantback conditions, conditions preventing challenges to validity, and coercive package licensing – and vests the authority of determining whether a certain practice is anticompetitive or not to a given Member's laws and regulations.[42]

In addition to the general anti-competition control over contractual licensing practices, the TRIPS Agreement also touches the IP–competition dynamics in the context of a compulsory licensing exception to patent rights. According to TRIPS, on the condition of 'do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties', Members may provide limited exceptions to a patent's exclusive rights.[43] Also, if some procedural limitations as to prior attempt of license negotiation, limitation on domestic market supplies, and the requirement of adequate remuneration are

38 Paragraph 5(a), the Doha Declaration on the TRIPS Agreement and Public Health (WT/MIN(01)/DEC/2, adopted at the Fourth WTO Ministerial Conference in Doha, Qatar on 14 November 2001, the 2001 Doha Declaration).

39 *Canada – Patent Protection of Pharmaceutical Products* (*Canada–Pharmaceutical Patents*), Panel Report (WT/DS114/R, 17 March 2000), para. 7.26.

40 Article 8.2, the TRIPS Agreement.

41 Article 40.1, the TRIPS Agreement.

42 Article 40.2, the TRIPS Agreement.

43 Article 30, the TRIPS Agreement.

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satisfied, Members may also take compulsory licensing measures to serve as the exception to patent rights.[44] Where there is a need 'to remedy a practice determined after judicial or administrative process to be anti-competitive', Members are not obliged to follow the compulsory licensing's conditions of prior negotiations and applications limited to domestic market supplies, and may take 'the need to correct anti-competitive practices' into account in determining the amount of remuneration of compulsory licensing.[45] Most importantly, TRIPS allowing compulsory licensing for dependent patents confirms the availability of the anticompetitive relief when standards on interoperability require a new patent to use currently existing patents.[46] When the exploitation of a new patent is impossible without infringing an existing patent, Members may authorize compulsory licensing if a new patent presents an important technical advance, the cross-license of the new patent is available to the owner of the existing patent, and assignability of the existing patent is limited.[47]

The WTO as the world's free trade regime is inherently competition friendly. As an integral part of the WTO trading framework and inconsistent with the global trend of anti-competition control – from the Paris Convention to UN Code of Conduct – the TRIPS Agreement is indeed a competition-minded framework. TRIPS is truly the first international treaty to generally recognize the need to regulate IPR-related anticompetitive practice, though it does not provide a detailed mechanism for management of IP–competition dynamics. As a harmonized intellectual property protection system, yet without a detailed mechanism to manage IP–competition dynamics, Members' practices as to the enforcement of FRAND terms across different jurisdictions vary substantially, which potentially erodes TRIPS integrity. Before discussing the erosion of TRIPS integrity, the next section next will reveal the diversified FRAND approaches among TRIPS Members.

2.2 International diversity in the enforcement of FRAND terms

2.2.1 US Contractual approach to FRAND licensing

1nternationally, approaches to the interpretation of FRAND terms are quite diverse. Although there has been a growing trend towards increasing use of antitrust sanctions on SEP holders who rely on injunctive relief against alleged infringement and break their FRAND commitments in the EU, Korea, Canada, and Japan,[48] this is not exactly the case in the US. No court in the US has ever held

44 Article 31, the TRIPS Agreement.

45 Article 31(k), the TRIPS Agreement.

46 Article 31(l), the TRIPS Agreement. See also, Section 24, German Patent Act (came into effect in 1998).

47 Article 31(l), the TRIPS Agreement.

48 Ginsburg, Wong-Ervin, and Wright, 'The Troubling Use of Antitrust to Regulate FRAND Licensing', 2.

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that 'seeking injunctive relief on a FRAND-encumbered SEP violates the antitrust laws', and US courts address the issue under contract law principles instead.[49] In the US, a FRAND commitment has been treated as a contractual commitment by the courts,[50] which reflects the rationale that contractual opportunism alone gives rise to no antitrust issue other than a contractual issue.[51] According to the US District Court (W.D. Wisconsin) in *Apple* v. *Motorola Mobility* for example, the combination of the policies and bylaws of the SSOs – ETSI and IEEE in the case – and SEP holder's – Motorola's in the case – membership in these SSOs and FRAND assurances 'constitute contractual agreements'.[52] This conclusion was reached through a detailed analysis of the offer, acceptance, and consideration.[53]

Moreover, FRAND commitments, as legally binding contracts, apply not only between the parties of these 'contracts', but also to willing 'third-party beneficiaries'.[54] The third-party beneficiary approach under contract law has been well recognized by US federal courts.[55] The US Court of Appeals (9th Circuit), for example, stated in *Microsoft* v. *Motorola* that FRAND declarations create a contract enforceable by a third-party beneficiary, and the contract governs what actions an SEP holder may take to enforce its SEPs.[56]

Of course, the popular recognition of the contractual nature of FRAND commitments[57] does not absolutely exclude an antitrust interpretation of FRAND terms in

49 Ibid., 6.

50 See, e.g., *Research in Motion Ltd.* v. *Motorola, Inc.*, 644 F.Supp.2d 788, 797 (N.D. Tex. 2008); *Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609, at *4 (N.D. Ill. 3 October 2013); *Microsoft Corp.* v. *Motorola, Inc.*, No. C10–1823JLR, 2013 WL 2111217, at *1 (W.D. Wash. 25 April 2013), *aff'd* 795 F.3d 1024 (9th Cir. 2015); *Apple, Inc.* v. *Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1083–84 (W.D. Wis. 2012); *Microsoft Corp.* v. *Motorola, Inc.*, 854 F. Supp. 2d 993, 999–1001 (W.D. Wash. 2012), *reaffirmed*, 864 F. Supp. 2d 1023, 1030–33 (W.D. Wash. 2012), *aff'd in relevant part*, 696 F.3d 872, 884 (9th Cir. 2012).

51 Ginsburg, Wong-Ervin, and Wright, 'The Troubling Use of Antitrust to Regulate FRAND Licensing', 6.

52 *Apple, Inc.* v. *Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1083 (W.D. Wis. 2012).

53 Ibid., 1083–1084.

54 See Roger G. Brooks and Damien Geradin, 'Interpreting and Enforcing the Voluntary FRAND Commitment', 9.1 *International Journal of IT Standards and Standardization Research* (2011), 1–23; Damien Geradin, 'The Meaning of "Fair and Reasonable" in the Context of Third-Party Determination of FRAND Terms', 21.4 *Georgy Mason Law Review* (2014), 921.

55 See, e.g., *ESS Technology, Inc.* v. *PC–Tel., Inc.*, 1999 WL 33520483, *4 (N.D. Cal. 1999); *Microsoft Corp.* v. *Motorola, Inc.* 854 F.Supp.2d 993, 997 (W.D. Wash. 2012); *Apple, Inc.* v. *Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1087 (W.D. Wis. 2012); *Microsoft Corp.* v. *Motorola, Inc.*, 864 F.Supp.2d, 1023, 1030–1033 (W.D. Wash. 2012); *Microsoft Corp.* v. *Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012). It should be noted that the 'third party beneficiary' approach might not be recognized in other jurisdictions, such as in Germany (see, *Microsoft Corp.* v. *Motorola*, Inc., 696 F.3d 872, 879 (9th Cir. 2012)) and in South Korea (see, Thomas F. Cotter, 'Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties', *Texas Intellectul Property Law Journal* 22.3 (2014): 319 (footnote 30)).

56 *Microsoft Corp.* v. *Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012).

57 It should be made clear that this is a popular, yet not universally accepted view of the nature of FRAND commitments. Some commentators argue – indeed quite convincingly – that SSO FRAND

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the US. In a relevant context, the US Supreme Court in *eBay* v. *MercExchange* established that, 'traditional principles of equity' applies to the injunctive relief application 'in patent disputes no less than in other cases governed by such standards'.[58] According to the US FTC, the *eBay* standard of injunctive relief 'allows courts to take these important competition and innovation policy issues into account'.[59] Since the *eBay* case in the US, the percentage of prevailing patent owners that obtained permanent injunctions dropped from close to 100% of cases to about 75% of cases.[60] According to the DOJ & USPTO, a FRAND-encumbered SEP holder's use of an injunction or exclusion orders 'may harm competition and consumers' and 'may be inconsistent with the public interest', in particular if it is based on a FRAND-encumbered patent and appears to be inconsistent with the FRAND commitment.[61] Nevertheless, an exclusion order may still be an appropriate remedy if the putative licensee acts outside of the FRAND commitment or 'is not subject to the jurisdiction of a court that could award damages'.[62] Therefore, the antitrust approach to the interpretation FRAND terms is, of course, also available in the US.[63]

However, the *eBay* standard's antitrust implications should not be overstated. Among the four *eBay* equitable factors of irreparable injury, remedy inadequacy, balance of hardships, and public interest, the 'public interest' factor is admittedly the closest one that may be tethered to competition interest. The 'public interest prong' has been interpreted by the courts in the majority of post-*eBay* cases as that the 'public has an interest in maintaining a strong patent system. This interest is served by enforcing an adequate remedy for patent infringement.'[64] Moreover, due to the difficulties of establishing Sherman Act violations and the fact that US law 'generally doesn't condemn excessive pricing in and of itself', 'the role of US antitrust law as a means for enforcing FRAND commitments seems quite

policy 'is not a contract'. See Contreras, 'A Market Reliance Theory for FRAND Commitments and Other Patent Pledges', 506 (particularly the analysis' reference to the *Interdigital ITC Initial Determination* case and the *True Position* case). This diversity of views is indeed the key controversy driving the current paper's argument for a balance between contractual (private) and antitrust (public) measures in FRAND terms enforcement.

58 *eBay Inc.* v. *MercExchange, L.L.C.*, 547 US 388, 394 (2006).

59 Moreover, the FTC stated that '[p]atent hold-up risks harming competition, innovation, and consumers'. See the US FTC, 'Interest of Amicus Curiae', filed to US Court of Appeals for the Federal Cir. (Nos. 2012–1548, 2012–1549), 4 December 2012, https://www.ftc.gov/policy/advocacy/amicus-briefs/2012/12/apple-inc-and-next-software-inc-v-motorola-inc-and-motorola (assess 16 May 2016).

60 Cotter, 'Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties', 320.

61 US DOJ and USPTO, Policy Statement, 6.

62 Ibid., 7.

63 Cotter, 'Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties', 327–332.

64 *TiVo* v. *Echostar Commc'ns Corp.*, 446 F. Supp. 2d 664, 670 (E.D. Tex. 2006). For references of 19 other post-*eBay* cases in the similar position, see FTC, *The Evolving IP Marketplace*, 270, footnote 97.

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limited', and does not hold much promise.[65] In a recent high-profile investigation by the US ITC, SEP holder Samsung was entitled to an exclusion order prohibiting certain Apple products from entering into the US due to a SEP violation.[66] The ITC's June 4 exclusion order, unfortunately, was disproved by the US Trade Representative shortly after due to concerns about patent holdup.[67] To a certain extent, the USTR's disapproval indicates that the antitrust approach has limited application as to the interpretation of FRAND terms in the US.

2.2.2 *The spreading antitrust approach to FRAND enforcement*

Quite different from the US' contractual approach, the European approach shows a clear antitrust perspective on FRAND disputes. According to the European Commission, FRAND commitments are designed to 'prevent IPR holders from making the implementation of a standard difficult' by refusing to license, requesting excessive fees, or by charging discriminatory royalty fees.[68] In its investigation against Samsung, the European Commission stated that IPRs 'should not be misused when they are essential to implement industry standards'; and upon 'a commitment to license the patents in return for fair remuneration', SEP holder's 'use of injunctions against willing licensees can be anti-competitive'.[69] The European Court of Justice (ECJ) too, in the case when standards on interoperability require the use of current basic technology, has confirmed that 'the refusal by an undertaking in a dominant position to allow access to a product protected by an intellectual property right, where that product is indispensable for operating on a secondary market, may be regarded as abusive' if the undertaking requested produces new goods or services for consumers.[70] Recently in *Huawei* v. *ZTE*, the ECJ emphasized that 'the exercise of an exclusive right linked to an intellectual property right by the proprietor may, in exceptional circumstances, involve abusive conduct'.[71] As FRAND undertaking 'creates legitimate expectations on the part of third parties', according to the ECJ, 'the abusive nature of such a

65 Cotter, 'Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties', 332.

66 US ITC, Notice of Final Determination, In the Matter of Certain Electronic Devices, Inv. No. 337-TA-794 (4 June 2013).

67 See Letter from Michael B. G. Froman, Executive Office of the President of the US Trade Representative, to the Honorable Irving A. Williamson, Chairman, US International Trade Commission (3 August 2013), https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF (accessed 21 May 2016).

68 European Commission, 'Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the European Union to the Horizontal Co-Operation Agreement' (OJ C 11/01, 14.1.2011), para. 287.

69 European Commission, 'Antitrust: Commission sends Statement of Objections to Samsung on Potential Misuse of Mobile Phone Standard-Essential Patents' (Press Release, Brussels, 21 December 2012), http://europa.eu/rapid/press-release_IP-12-1448_en.htm (assessed 18 May 2016).

70 See *IMS Health GmbH & Co.* v. *Commc'n*, para. 49, case C-418/01 (2004 E.C.R. I-5069.). See also *Radio Telefis Eireann* v. *Commc'n*,, C-241/91 P and C-242/91 P (1995 E.C.R. I-808).

71 *Huawei* v. *ZTE*, case C-170/13 (16 July 2015), para. 47.

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refusal may, in principle, be raised in defence to actions for a prohibitory injunction or for the recall of products'.[72]

Some European national courts in general have shown reluctance in granting injunctive relief in relation to FRAND-encumbered SEPs. The Higher Regional Court of Karlsruhe in Germany in a 2012 judgement, for example, overturned a lower court's ruling granting an injunction for a SEP on the ground that 'a request to restrict sales would infringe EU competition law'.[73] The UK and the Netherlands also delivered rulings similarly based more on an antitrust approach involving other firms.[74] In fact, some EU Member States provide the possibility of linking SEPs to the compulsory licensing mechanism under a patent regime. In Germany, for example, the Federal Court of Justice 'has tethered standard-essential patents to the compulsory licensing provisions' of the German Patent Act.[75] Under the German Patent Act, a party is entitled to plead to the Patent Court for a compulsory license provided certain conditions are met.[76] Compulsory licensing is therefore a legal defense for SEP users in patent infringement suits 'to plead that antitrust regulations force the patentee to grant a compulsory license for the subject matter of the patent in dispute'.[77] In the Netherlands, similarly, a patentee is free to enforce a FRAND-encumbered patent except when the compulsory licensing requirements under the Dutch Patent Act are met.[78] It has therefore been submitted that it is a 'emerging consensus' in the EU that 'a [F]RAND obligation is closely tied to a jurisdiction's compulsory licensing regime'.[79]

72 Ibid., paras. 53, 54. According to the ECJ, 'the irrevocable undertaking' of FRAND 'justif[ies] the imposition on that proprietor of an obligation to comply with specific requirements when bringing actions against alleged infringers for a prohibitory injunction or for the recall of products'. Accordingly, while the SEP holder is expected to alert and notify the alleged infringer of the infringement and offer a specific and written offer for a FRAND licence before seeking an injunctive relief, the alleged infringer must diligently respond with acceptance or counter-offer, and appropriate security if the counter-offer rejected. Ibid., paras. 59–61, 63, and 65–67.

73 *Motorola* v. *Apple*, 2012, Higher Regional Court of Karlsruhe, Federal Republic of Germany, Case No. 6 U 136/11. See Keith Maskus and Stephen A. Merrill (eds.), *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communications Technology* (Washington, DC: The National Academies Press, 2013), 107.

74 *IPCom* v. *Nokia and HTC* [2012] EWCA Civ 567; *Samsung* v. *Apple* District Court of The Hague, 20 June 2012, case numbers/docket numbers 400367/HA ZA 11-2212, 400376/HA ZA 11-2213, and 400385/HA ZA 11-2215.

75 Sternberg, 'A Brief History of RAND', 238 (in-text note omitted).

76 Sections 24.1 and 85.1, German Patent Act.

77 Jochen Herr, 'Patent Litigation and Industry Standards: The Compulsory License Defense', 21.1 *Intellectual Property and Technology Law Journal* (2009), 11 (in-text notes omitted).

78 Sternberg, 'A Brief History of RAND', 238.

79 Ibid. In Australia, too, where the SEPs holder is in contravention of the Competition and Consumer Act, a license can be sought under the compulsory licensing provisions in Australian Patents Act. See, Productivity Commission, Australia, 'Compulsory Licensing of Patents' (28 March 2013), 102–103. This is the final report of the Public Inquiry by Productivity Commission that was entrusted by the Australian Government, http://www.pc.gov.au/inquiries/completed/patents/report/patents.pdf (accessed 18 May 2016).

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FRAND enforcement has also recently become a topical issue in China,[80] and both China's court and enforcement agency show clear preference for an antitrust approach to FRAND disputes. Firstly, two recent *Huawei* v. *IDC* cases by the Guangdong High Court showed China court's antitrust preference to FRAND enforcement.[81] Indeed, as early as in 2008, China's Supreme Court indicated that, if a patent holder has participated in the development of or consented to including its patents in a national, industrial, or local standard, the patent holder will be deemed to have consented to allow standard implementers to use the SEPs, and those uses constitute no patent infringement.[82] As to a voluntary national, industrial, or local standard, the Supreme Court further clarified in 2016 that, while an implementer should not raise an infringement defense simply because of the SEPs inclusion into the standard, an SEP holder should not be entitled to injunction relief if the holder willfully breaks FRAND commitments which lead to the failure of the licensing negotiations with the willing licensees.[83] Secondly, China's enforcement authority shows similar preference for an antitrust approach.[84] For a patent to be included in a national standard, the holder will have to agree to license to standard implementers on free or FRAND terms, or a compulsory national standard generally will not include patents.[85] Any market dominant firm who, without legitimate reason, breaks FRAND commitments through license denial, tie selling, or imposing unreasonable conditions, will be considered to be

80 D. Daniel Sokol and Wentong Zheng, 'FRAND in China', *Texas Intellectual Property Law Journal* 22 (2013); Guangliang Zhang, 'Enforcement of F/RAND and Antitrust Intervention: Discussion from the Huawei Decisions in China', 2.3 *China Legal Science* (2014); Elizabeth X. R. Wang and Harry Foster, 'An Economic Perspective of Standards and FRAND Enforcement in China', 3.suppl_1 *Journal of Antitrust Enforcement* (2015).

81 See Zhang, 'Enforcement of F/RAND and Antitrust Intervention: Discussion from the Huawei Decisions in China', 6–9.

82 PRC Supreme People's Court, 'Letter of Reply on Whether Chaoyang Xingnuo Co. Infringed on a SEP included in a Ministry of Construction Standard when it Implemented the Patent' (8 July 2008). Of course, according to the Supreme Court (ibid.), the SEPs holder may ask users to pay a royalty fee, yet the amount of the royalty should be substantially lower than the normal amount.

83 PRC Supreme People's Court, 'Interpretations on Several Issues relating to Law Application in Adjudication of Patent Infringement Disputes II', Articles 24.1 and 24.2 (*Fashi*[2016]1, 25 January 2016, came into effect as of 1 April 2016). Moreover, the SEPs holder and implementers can negotiate license conditions, or apply for court's determination on FRAND terms in the absence of an agreement. Ibid. Article 24.3.

84 China's National Development and Reform Commission (NDRC)'s investigation against InterDigital in June 2013, for example, shows a clear antitrust preference. NDRC dropped its investigation against InterDigital without a fine in May 2014 upon InterDigital's commitment to change its licensing practices to be FRAND consistent. See InterDigital, 'China's NDRC Accepts InterDigital's Commitments and Suspends Its Investigation' (22 May 2014), http://ir.interdigital.com/releasedetail.cfm?releaseid=849959 (accessed 25 May 2016).

85 Standardization Administration of China and the State Intellectual Property Office, 'Interim Provisions on the Administration of National Standards Involving Patents', Articles 9 and 10 (issued on 19 December 2013, came into effect on 1 January 2014).

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anticompetitive and reined in by Anti-Monopoly Law.[86] Moreover, as all IPRs antitrust decisions are entitled to remedies through administrative action to a relevant intellectual property court where the enforcement decision was made,[87] China's judicial and administrative preferences towards an antitrust approach are synchronized.

The contrasting contractual vs antitrust approach to FRAND enforcement among TRIPS Members obviously reveals the diversity of national competition policy. As the UNCTAD pointed out, due to the diversity of domestic competition standards, 'a global harmonization of the interface between competition policy and IPR seems unlikely in the near term'.[88] As TRIPS harmonized international intellectual property protection while keeping competition in mind, how much will TRIPS accommodate Members' diversified FRAND approaches and what are the implications for the international trading regime? These questions warrant an in-depth critical examination of the nature of FRAND commitments and TRIPS antitrust obligations.

3. SEPs, antitrust and trade in WTO law

3.1 Diverse FRAND approaches and the IP–competition dynamics

3.1.1 SEPs as private rights and the contractual approach

A better grasp of FRAND commitments is necessary to understanding the theoretical justification of FRAND enforcement, warranting a close look at the nature of SEPs. Keeping in mind that both 'the general principles of law' and 'the teachings of the most highly qualified publicists' give subsidiary, if not significant, support to the determination of international law,[89] we will begin with an analysis of the proprietary nature and limitations of patents. Building on this analysis, the paper further looks into the circumstances of TRIPS conclusion in order to elucidate the tension between property interests and limitations, and their implications for the FRAND SEP debates.

Under the US Patent Act, patents in general or SEPs in particular 'shall have the attributes of personal property' and 'shall be assignable in law'.[90] The TRIPS Agreement too states that WTO Members recognize that 'intellectual property rights are private rights'.[91] As a WTO Panel suggested, the 'common feature' of

86 PRC State Administration of Industry and Commerce (SAIC), 'Rules on Prohibiting Behaviors of Abuse of Intellectual Property Rights to Eliminate or Restricting Competition', Article 13 (7 April 2015 [2015]74).

87 China committed during the 7th US–China Strategic and Economic Dialogue in 2015. See 2015 US–China Strategic and Economic Dialogue Joint US–China Fact Sheet (Economic Track), US Department of Treasury, https://www.treasury.gov/press-center/press-releases/Pages/jl0092.aspx (accessed 28 May 2016).

88 UNCTAD, 'Competition Policy and the Exercise of Intellectual Property' (TD/B/COM.2/CLP/68, 15 May 2008), para. 8.

89 Articles 38.1(c) and 38.1(d), Statute of the International Court of Justice.

90 35 U.S.C. § 261 (2006). See also, UK Patents Act 1977, s. 30(1).

91 4th Recital of the Preamble, the TRIPS Agreement.

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the Sections in Part III of the TRIPS Agreement, in resting the responsibility of initiating various protection procedures on private right holders, for example, well indicates 'the nature of intellectual property rights as private rights'.[92] Moreover, recognizing intellectual property rights as private rights not only shifts the responsibility of enforcement to private rights holders from the governments, but also at the same time creates a barring effect against unwanted government actions. This is because the private right nature means that limits are set on third parties and public authorities, preventing them from engaging in illegitimate infringement, which also reveals the negative right nature of intellectual property rights. Taking trademark right as an example, a WTO Panel pointed out that the right conferred under TRIPS is an exclusive right that belongs to the right owner 'who may exercise it to prevent certain uses by 'all third parties not having the owner's consent', and the TRIPS provision 'only provides for a *negative right* to prevent all third parties from using signs in certain circumstances'.[93] Accordingly, 'the TRIPS Agreement does not generally provide for the grant of positive rights to exploit or use certain subject matter, but rather provides for the grant of *negative rights* to prevent certain acts'.[94]

Recognizing the personal property attributes of SEPs in particular or patents in general has both practical and theoretical significance. Having 'the attributes of personal property', the US Supreme Court recognized, patents' 'statutory right to exclude alone justifies its general rule in favor of permanent injunctive relief'.[95] Due to 'the difficulty of protecting a right to *exclude* though monetary remedies' – it has been a 'long tradition of equity practice' from at least the early nineteenth century – US courts 'have granted injunctive relief upon a finding of infringement in the vast majority of patent cases'.[96] Theoretically, moreover, this recognition gives SEPs constitutional significance, as private property bears fundamental significance to our social progress.[97] The right to private property is indeed the foundation of individual freedoms as 'freedom of individual decision is made possible by delimiting distinct individual rights'.[98] Private property is thus argued to be the precondition of the development of liberal, democratic social political institutions.[99] Moreover, it is the free movement of private property through the system of contract that marks 'the beginning of civilization', as private property

92 *China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights* (*China–Intellectual Property Rights*), Panel Report (WT/DS362/R, 26 January 2009), para. 7.247.

93 *EC – Trademarks and Geographical Indications* (Panel), para. 7.602, and footnote 558 to para. 7.611 (emphasis added).

94 Ibid., para. 7.210. Emphasis added.

95 *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006).

96 Ibid., 395. Emphasis original.

97 Bentham, for example, argues that '[p]roperty and law are born together, and die together'. See J. Bentham, *Theory of Legislation* (London: TrüBner & Co., 1871), 113.

98 F. A. Hayek, *The Fatal Conceit: The Errors of Socialism* (London: Routledge, 1988), 63.

99 R. Pipes, *Property and Freedom* (Alfred A. Knopf. 1999).

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'is the heart of the morals of any advanced civilization', and its prior development 'is indispensable for the development of trading'.[100] Therefore, the dynamics between property, freedom, and contract situate at the center of the contractual approach to the interpretation of FRAND terms.

The dynamics between private property, individual freedom, and system of contract indicate that contract is indeed a great institution without which the evolution of human civilization is not even possible. First of all, under classic property theories, individual freedom depends on and manifests itself through private property ownership, as Hegel argues, the wholly abstract and undetermined 'will' as the 'basis of right' needs to be expressed through property as 'the first embodiment of freedom'.[101] The same holds true to the other classic property theorist Locke who suggests that it is private property ownership that separates individuals from the common, which gives birth to the autonomous self.[102] Secondly, individual freedom gains momentum in private property only when property comes alive through alienation by contract. When private property ownership separates the self from others and the public through which the individual gains independence and autonomy, the self becomes self-sufficient and alienated from others and the public.[103] The Hegelian modifications of property that are determined in the course of free will's relation to the thing through *taking possession*, to *use*, then to *alienation* upon which the free will that was put into the external thing is 'back from the thing into itself' indicate that private property also has 'a bearing on the anticipated relation to others'.[104] According to Maine, contract, as an institution 'without which modern society can scarcely be supposed capable of holding together', has 'exercised the greatest influence in transforming human society',[105] thus bears fundamental significance for individual freedom. Finally and most importantly, as property comes alive only in contract, contract – in particular freedom of contract – is indeed not only necessary, but also imperative for promoting individual freedom. According to Hegel, contract brings the existence of property beyond 'mere things' to something external that 'contains the moment of a will' to two free individuals, through which not only brings the property of the given individual to life, but also puts an end to the self-

100 Hayek, *The Fatal Conceit: The Errors of Socialism*, 30–31. According to Hayek, the adoption of private property 'marks the beginning of civilization'.

101 G. W. G. Hegel, *The Philosophy of Right*, trans. T. M. Knox (Oxford University Press, 1967), §§ 4 and 51. The references are to the numbered paragraphs of Hegel's text. According to Hegel (§41), '[a] person must translate his freedom into an external sphere in order to exist as Idea'.

102 John Locke, *The Second Treatise of Government* (New Jersey: Prentice-Hall, 1997), §§ 25, 27. The references are to the numbered paragraphs of Locke's text.

103 From legal right's autonomy, to self-sufficiency, to self-alienation, see Anthony Carty, 'From the Right to Economic Self-Determination to the Right to Development: A Crisis in Legal Theory', *Third World Legal Studies* (1984), 76.

104 Ibid. at, §§51, 53.

105 Henry S. Maine, *Ancient Law: Its Connection with the Early History of Society and Its Relation to Modern Ideas* (New York: Henry Holt & Company, 1906), 188, 97.

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alienation of the self by linking him/her back to a social relationship.[106] Therefore, freedom of contract goes beyond civil law to be recognized as a basic constitutional right.[107] The process of the development of freedom of contract has been the result of efforts minimizing the functions of the state in favor of individuals' freedom.[108] Thus, '[a]greements lawfully entered into take the place of the law for those who have made them'.[109] Freedom of contract, therefore, is both the means and the ends to individual freedom.[110]

The recognition of personal property attributes and the nature of negative rights provide a solid constitutional endorsement of the enforcement of SEPs. Any refusal of SEP holder's injunctive relief constitutes a *prima facie* violation of the contract freedom of the individual and goes against the sanctity of private property, which might potentially undermine the constitutional foundation of modern society. This intimacy between property and contract and its significance to individual freedom provides solid constitutional support to the contractual approach to the interpretation of FRAND terms. Moreover, the nature of negative rights of IPRs certainly lends solid jurisprudential support to SEP holders in preventing other external interferences – including of course antitrust application – in addition to contractual applications of SEPs' FRAND commitments.

3.1.2 The IP–competition dynamic and its antitrust foundation

Although recognizing IPRs as private rights lends solid support to the constitutional significance of IPRs in general or patents/SEPs in particular, it does not mean that IPRs are unlimited, but rather that they are subject to checks and balances from public interests and the needs from others. As SEPs have 'the attributes of personal property', the SEP holder is entitled a 'statutory right to exclude' that 'justifies its general rule in favor of permanent injunctive relief'.[111] However, 'the Patent Act itself indicates that patents shall have the attributes of personal property "[s]ubject to the provisions of this title", including, presumably, the provision that injunctive relief "may" issue only "in accordance with the principles of equity"'.[112] The US Supreme Court further emphasized that the approach of equity's qualification of patents' exclusive rights 'is consistent with … [the US Supreme Court's] treatment of injunctions under the Copyright Act'.[113]

Indeed, traditional property theory has an in-built limitation on the sanctity of private property. In recognizing IPRs as personal property rights, one thing that

106 Hegel, *The Philosophy of Right*, §§ 72–74.

107 See, e.g. Article 2.1, German Basic Law; Article 5.1, Greek Constitution.

108 Roscoe Pound, 'Liberty of Contract', 18.7 *Yale Law Journal* (1909), 456–457.

109 Article 1134(1), French Civil Code.

110 David N. Mayer, 'Substantive Due Process Rediscovered: The Rise and Fall of Liberty of Contract', 60 *Mercer Law Review* (2009), 572.

111 *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006).

112 Ibid. Internal footnotes omitted.

113 Ibid.

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should not have been forgotten is that both Lockean and Hegelian property theories implicitly or explicitly imply limitations on private property rights. The Lockean 'common law of nature', for example, indicates a clear limit on property rights and sets the measure of property nature by the extent of people's labor and the convenience of their life.[114] As whatever is beyond the limit set by the 'common law of nature' is more than the owner's share and 'belongs to others',[115] the limit of private property rights therefore comes from the needs of others. For Hegel, the modifications of property are determined in the course of the free will's relation to the thing from '*taking possession*', to '*use*', then to '*alienation*' upon which the free will that was put into external thing is 'back from the thing into itself'.[116] Upon property alienation, the previous owner gains true freedom as the self does not depend on the property anymore; and the new owner attains self-realization through new ownership. Therefore, private property's 'bearing on the anticipated relation to others'[117] sets a limit, though in a different sense, on private property rights. This Hegelian modification of property in relation to others to some extent endorses the Lockean implicit limitation of private property rights from the needs of others.

Neither is the freedom of contract, though imperative to private property rights, absolute and unlimited. Freedom of contract, as the manifestation of individual freedom through property ownership, has its own path of historical development, and its development and the movement 'from status to contract' might not always be linear and straightforward. According to Pond, '[t]he first extended discussion of the right of free contract as a fundamental natural right is in Spencer's *Justice*, written in 1886'.[118] As Pond pointed out, the pursuit of freedom of contract was born together with the establishment of the *laissez-faire*, at the age of industrial revolution when the rise of capitalism was intertwined with the flourishing of freedom of contract.[119] Around the turn of the twentieth century, we see the development of the large-scale enterprise and the predominant use of standardized contracts in business. With the 'decline of the free enterprise system' upon the shift from 'competitive capitalism towards monopoly', freedom of contract became 'a one-sided privilege' as law protected the unequal distribution of property.[120] Therefore, 'the fact that the belief in freedom of contract has remained one of the firmest axioms in the whole fabric of the social philosophy of our culture' has greatly facilitated the reverse of the historical evolution of the law 'from status to contract'.[121] Common Law's advent of the anticipatory breach doctrine

114 Locke, *The Second Treatise of Government*, § 37.
115 Ibid., § 31.
116 Hegel, *The Philosophy of Right*, § 53.
117 Ibid., §51.
118 Pound, 'Liberty of Contract', 455.
119 Ibid. 457.
120 Friedrich Kessler, 'Contracts of Adhesion – Some Thoughts About Freedom of Contract', 43 *Columbia Law Review* (1943), 640.
121 Ibid. 641.

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in the nineteenth century, according to Corbin, which transcended traditional theory that a person could only be bound by his own consensual promise, is a good example.[122] As social value changes following the change of social conditions, according to Corbin, contract rights and duties are determined more and more by 'the needs of the all' instead of the contractors only, and 'the line where personal privilege ceases and legal duty begins is now more greatly determined not by the will of the individual for himself, but by the desires and wills of the many'.[123] Therefore, the freedom of contract that underpins the contractual approach to FRAND terms of enforcement will be under the pressure of change in recognition of 'the needs of the all'.

Therefore, neither the sanctity of property nor freedom of contract preclude inbuilt limitations, which set a foundation for the accommodation of the antitrust approach. Although the personal property nature of SEPs and the institutional significance of contract freedom lend solid support to the contractual approach to the interpretation of FRAND terms, neither is personal property absolute nor is contract freedom unlimited. The sanctity of personal property is qualified by the Lockean 'common law of nature' in consideration of the needs of others, or limited by 'a bearing on the anticipated relation to others' in a Hegelian term. Freedom of contract that underpins the binding force of individual consensual promise has also been qualified and gradually determined more and more by 'the needs of the all' other than by contracting parties only. Indeed, in addition to its recognition of intellectual property rights as both private and negative rights, the TRIPS Agreement also emphasizes IPRs' public implications. TRIPS philosophy is to achieve a balance between rights and obligations in intellectual property rights protection.[124] For this purpose of balancing rights and obligations, the TRIPS Agreement allows Members to adopt measures 'necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development', and measures to prevent abuse of right holders' IPRs or anti-competition practices, as long as these measures are TRIPS consistent.[125] Also for this purpose of balancing rights with obligations, the TRIPS Agreement provides various exceptions and limitations to the exclusive rights conferred by a copyright, trademark, industrial design, or patent respectively.[126]

122 Arthur L Corbin, *Corbin on Contracts: A Comprehensive Treatise on the Working Rules of Contract Law*, vol. IV (St Paul, MN: West Publishing Co., 1951), § 959, footnote 1.

123 Ibid.

124 Article 7, TRIPS Agreement.

125 Articles 8(1) and 8(2), TRIPS Agreement.

126 Similar to exceptions to patent rights provided in Article 30 (see discussion *supra* in the main text associated with footnote 69 in section III.A), the TRIPS regime also provides exceptions to copyrights in Article 13, exceptions to trademark rights in Article 17, and exceptions to industrial designs in Article 26(2) of the TRIPS Agreement.

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Accordingly, IPRs are not unlimited in TRIPS, and public interests and social concerns can provide legitimate limitations on the exploitation of IPRs.[127] The TRIPS philosophy of the balance of rights and obligations certainly justifies the possible limitation on SEPs in the technology users' interest of social and economic welfare facilitation, which arguably might include antitrust consideration for public good. As its common usage, the word 'balance' as a noun means 'a situation in which different elements are equal or in the correct proportions'.[128] Therefore, neither should private IPRs override public interest or social economic welfare, nor should social and economic welfare considerations triumph private IPRs. Rather private IPRs and social and economic welfare should coexist and should even be mutually complementary with one and other. Indeed, it is submitted that IPRs and competition policy are the twin engines of development and share goals of promoting innovation and enhancing consumer welfare.[129] Intellectual propertyin fact is 'inherently pro-competitive', as it 'ensures the protection of differentiated, intangible business assets' and 'allows consumers to make choices between competing entrepreneurs'.[130] Therefore, it has been well established that '[t]he intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare'.[131] According to UNCTAD, the IP–competition dynamics 'is crucial for the economic dynamics of developing as well as of industrialized countries seeking to promote innovation, technology transfer, a fair chance for competitive firms on the markets and affordable good quality products for consumers'.[132] Under the philosophy of the balance of rights and obligations, how would TRIPS deal with the interpretation of FRAND terms and what are the implications?

3.2 TRIPS and the IP–competition dynamics in context

While recognizing IPRs as private rights lends constitutional support to the contractual approach of SEPs to the interpretation of FRAND terms, TRIPS objectives and principles that mandate public interest consideration to balance IPR abuse legitimize the antitrust approach to the enforcement of FRAND terms. Nevertheless, the goal of balancing rights and obligations might be difficult to

127 *China – Intellectual Property Rights* (Panel), paras. 7.131–7.132. Under the context of discussion of the tension between government's sovereign exception and exercise of private IPRs, the Panel spelt out WTO's conformity to WIPO's interpretation of the sovereign exception that authors may exercise their copyrights 'only if that exercise does not conflict with public order'.

128 Oxford English Dictionary, http://www.oxforddictionaries.com/definition/english/balance (accessed 23 May 2016).

129 UNCTAD, 'Competition Policy and the Exercise of Intellectual Property', para. 6.

130 World Intellectual Property Organization (WIPO), 'IP and Competition Policy', http://www.wipo.int/ip-competition/en/ (accessed 19 December 2015).

131 The US DOJ and FTC, 'Antitrust Guidelines for the Licensing of Intellectual Property' (jointly issued on 6 April 1995), http://www.justice.gov/sites/default/files/atr/legacy/2006/04/27/0558.pdf (accessed 27 May 2016).

132 UNCTAD, 'Competition Policy and the Exercise of Intellectual Property', executive summary.

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achieve or even mission impossible, as WTO judgements have ruled the sovereign exception defense in rejecting copyright protection to unconstitutional publications[133] or stockpiling patent provisions allowing consumers efficient access to low-cost generic drugs[134] to be WTO inconsistent. Indeed, there have long been heated debates as to 'what constitutes an adequate balance between proprietary intellectual property rights and the public interest' without much consensus reached.[135] While emphasis on the proprietary nature of IPRs 'neglects the conditions under which copyrighted materials are used', 'emphasis on public policy interests ignores the conditions necessary for their creation'.[136] This dilemma perfectly reflects the inherent tension between rights and obligations, a balance that should be, yet can hardly be, maintained; the TRIPS philosophy paradox that can in fact be traced back to the founding moment of the TRIPS regime.

Before the introduction of intellectual property rights into the international trading framework through the TRIPS Agreement, intellectual property was still the domain of specialists and intellectual property right producers.[137] TRIPS incorporation of intellectual property into the international trading framework 'elicited great concern over its pervasive role in people's lives and in society in general'.[138] The TRIPS negotiations started in September 1986, at a critical moment 'when the negotiations between developed and less-developed countries over the revision of the Paris Convention were deadlocked at WIPO'.[139] Before the Uruguay Round, in the 1970s, developing countries, in particular, were on the whole public interest oriented and focused on establishing new rules on a New International Economic Order (NIEO) that depended on developed countries' technology transfer. Developed countries, however, were more concerned with the WIPO system's failure to provide effective protection of the interests of their technology-based and expressive industries.[140] During the Uruguay Round

133 See *China – Intellectual Property Rights* (Panel), paras. 7.135–7.140.

134 *Canada – Pharmaceutical Patents* (Panel), para. 8.1. In this case, the stockpiling provision that permitted producers of generic drugs to make and start stockpiling the drugs six months prior to the expiration of the patent was found to be inconsistent with Canada's obligations under TRIPS. The judgment was criticized as indicating the Panel's 'myopic focus on the interests of the rights-holder' without regard to the policy goals or purpose of the patent reception. See M. J. Trebilcock and R. Howse, *The Regulation of International Trade* (London: Routledge, 2005), 418–421.

135 Thomas Dreier, 'Balancing Proprietary and Public Domain Interests: Inside or Outside of Proprietary Rights?', in Rochelle Cooper Dreyfuss, Diane leenheer Zimmerman, and Harry First (eds.), *Expanding the Boundaries of Intellectual Property: Innovation Policy for the Knowledge Society* (New York: Oxford University Press, 2001), 295.

136 Ibid., 297.

137 Rubens Ricupero and Ricardo Melendez Ortiz, 'Preface', in UNCTAD-ICTSD (eds.), *Resource Book on TRIPS and Development* (New York: Cambridge University Press, 2005), vii.

138 Ibid.

139 Peter K. Yu, 'The Objectives and Principles of the Trips Agreement', 46.4 *Houston Law Review* (2009), 982.

140 UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (New York: Cambridge University Press, 2005), 3.

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negotiations, the incorporation of intellectual property rights into international trade was quite controversial and opinions were divided between developing and developed countries.[141]

The context of TRIPS negotiations between developed and developing countries clearly indicate the contentious nature of the discussions surrounding intellectual property rights protection. While the draft legal text from developed countries including the EC, the US, Japan, Switzerland, and Australia – the 'A' text – emphasizes domestic enforcement and the applicability of the GATT dispute settlement mechanism to TRIPS disputes, a dozen developing countries proposed another legal text – the 'B' text – with a focus on maintaining flexibility to implement economic and social development objectives.[142] At the very beginning of the negotiations, developed countries and a few developing countries were only expecting a Tokyo Round type 'code' to be incorporated into the GATT framework. The US proposal submitted to the Group of Negotiations on Goods (GATT) in 1988 for example, suggests, as one of the objectives, to '[e]ncourage non-signatory governments to adopt and enforce the agreed standards for protection of intellectual property and join the [GATT] agreement'.[143] In relation to revisions and amendments of the GATT, the US proposed an open mechanism that is able to accommodate future consensus on improved protection for new forms of technology and creativity.[144] India, however, submitted a detailed paper indicating a developing country perspective in sharp contrast with the US proposal.[145] India suggested that only the restrictive and anti-competitive practices of the intellectual property right owners 'can be considered to be trade-related because they alone distort or impede international trade'.[146] India therefore suggested that, according to the mandates from the Trade Negotiation Committee, the negotiation on trade-related aspects of intellectual property rights 'should be governed by the concerns and public policy objectives underlying the national systems for the protection of intellectual property, including developmental and technological objectives'.[147] Therefore, India concluded that '[i]t would … not be appropriate to establish within the

141 Ibid. at, 3–4. See also, Yu, 'The Objectives and Principles of the Trips Agreement', 983–984.

142 Daniel J. Gervais, 'Intellectual Property, Trade and Development: The State of Play', 74.2 *Fordham Law Review* (2005), 507–508.

143 Suggestion by the United States for Achieving the Negotiating Objective (Revision), United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods (MTN.GNG/NG11/W/14/Rev.1, 17 October 1988), 3.

144 Ibid., 18.

145 Indian submission, 'Standards and Principles concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights' (MTN.GNG/NG11/W/37, 10 July 1989), Communication from India to Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods.

146 Ibid., 2.

147 Ibid. India argued that this is 'particularly important for developing countries' as the intellectual property system has 'wide ranging implications for their economic and social development'.

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framework of the General Agreement on Tariffs and Trade any new rules and disciplines pertaining to standards and principles concerning the availability, scope and use of intellectual property rights'.[148]

When it became clear that the significance of the TRIPS negotiations would certainly go beyond counterfeiting and piracy matters, the developing countries insisted on including the issue of anticompetitive practices into the TRIPS framework.[149] For example, together with clear, objective, and detailed measures, Peru's communication expressed the common concerns of developing countries and suggested that all countries should be able to adjust an intellectual property-protection system to facilitate national development and technology transfer.[150] Developed countries with established rules for the control of IPRs related anticompetitive practices, however, had no interest in incorporating the competition framework in the TRIPS context. Eventually, due to the threats of sanctions and implicit dismantling of the GATT, as well as concessions offered by developed countries in other areas like agriculture and textiles, 'the resistance of developing countries was overcome'.[151] The final result of the Uruguay Round mirrored the 'A' text and 'embodied norms that had been accepted by industrialized countries', and developing countries' concerns 'were reflected in large part in two provisions – Articles 7 and 8 [of the TRIPS Agreement]'.[152] Developing countries' concerns about the control of abuses of IPRs and the 'pernicious effects' of some contractual practices – that were first reflected in the 1990 Anell Draft[153] – eventually became Articles 8.2 and 40 of the TRIPS Agreement.[154]

The negotiating process of the compulsory licensing provision Article 31 in TRIPS perfectly reflects this dynamic. Prior to TRIPS, compulsory licensing was indeed a common practice internationally.[155] The Paris Convention, for example, explicitly states that each country 'shall have the right to take legislative measures providing for the grant of compulsory licenses'.[156] The negotiations revising the Paris Convention broke down in 1982, 'in significant part because of competing demands concerning compulsory licensing' between the NIEO demands of developing countries for technology sharing and the demands of

148 Ibid., 19–20.

149 See Daniel Gervais, *The Trips Agreement: Drafting History and Analysis*, 2nd edn (London: Sweet & Maxwell, 2003), 280; Pedro Roffe, 'Control of Anti-Competitive Practices in Contractual Licences under the Trips Agreement', in Carlos M. Correa and Abdulqawi A. (eds.), Yusuf *Intellectual Property and International Trade: The Trips Agreement* (London: Kluwer Law International, 1998), 279–80.

150 Communication from Peru, Guidelines for Negotiation that Strike a Balance between Intellectual Property Rights and Development Objectives (MTN.GNG/NG11/W/45, 27 October 1989).

151 UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 4.

152 Gervais, 'Intellectual Property, Trade and Development: The State of Play', 508.

153 Chairman's report to the Group of Negotiation on Goods (MTN.GNG/NG11/W/76), 23 July 1990.

154 UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 543–546.

155 Ibid., 462.

156 Article 5.A(2), Paris Convention.

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developed countries for stronger protection of proprietary interests of patents.[157] India's submission in 1989, for example, proposed a compulsory licensing regime that covered licensing for non-working, and licenses of rights relating to food, medicine, and agricultural chemicals.[158] It is worth noting that the Paris Convention expressly permitted compulsory licensing of patents on the grounds of 'failure to work'.[159] Nevertheless, the final result of the compulsory licensing negotiation reflected developed countries' interests more than developing countries' interests and the compulsory licensing on grounds of non-working was removed.[160]

The successful incorporation of intellectual property rights – as a regime of private rights with relatively limited attention to competition policy and public concerns – into the WTO through the conclusion of the TRIPS Agreement to some extent recognizes the power asymmetry and legalizes the fragmentation between the developed and developing countries. This unfortunate intellectual property rights divide between the North and the South in this regard is the birth defect of the TRIPS regime within the WTO framework.[161] Competition as one of the 'Singapore issues' was kicked off at the 1996 Singapore Ministerial Conference upon the establishment of the new working group on competition policy. The 2001 Doha Ministerial Declaration further recognizes 'the case for a multilateral framework to enhance the contribution of competition policy to international trade and development'.[162] The issue of the 'interaction between trade and competition policy', unfortunately, was dropped from Doha agenda in the 1 August 2004 decision due to no consensus. The negative implications of the TRIPS birth defect, however, travel beyond the intellectual property rights framework and affect the entire WTO framework. Developing countries adopted new commitments regarding intellectual property rights protection in the Uruguay Round in the expectation of getting better market access in agriculture, textiles, and other sectors.[163] When these benefits failed to materialize, developing countries' dissatisfaction has become one of the key factors causing the deadlock of the Doha Round negotiation.[164] The

157 UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 463.

158 Indian submission, 'Standards and Principles concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights' (MTN.GNG/NG11/W/37, 10 July 1989).

159 Article 5.A(2), the Paris Convention.

160 The issue of licensing on grounds of non-working was addressed indirectly by Articles 27.1 and 70.6 of the Agreement. See UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 467.

161 For more discussion on TRIPS 'birth defect', see W. Guan, *Intellectual Property Theory and Practice: A Critical Examination of China's TRIPS Compliance and Beyond* (Heidelberg: Springer, 2014), 5–7.

162 Para. 23, Doha WTO Ministerial Declaration (WT/MIN(01)/DEC/1), 20 November 2001.

163 United Nations Industrial Development Organization (UNIDO), *Public Goods for Economic Development* (Vienna: UNIDO, 2008), 80.

164 See, for example, the coalition of developing countries known as the Like Minded Group (LMG)'s attempt to challenge the launch of the Doha Round negotiation. Amrita Narlikar, *World Trade Organization: A Very Short Introduction* (Oxford: Oxford University Press, 2005), 54–55. See also, Graeme B. Dinwoodie and Rochelle C. Dreyfuss, 'Designing a Global Intellectual Property System Responsive to Change: The WTO, WIPO, and Beyond', 46.4 *Houston Law Review* (2009), 1188–1189.

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birth defect of the TRIPS and the deadlock of the Doha Round negotiation have indeed been key to the lost balance between rights and obligations and the complexity of the IP–competition dynamics in the TRIPS.

The lengthy discussion of the evolution of TRIPS birth defect carries significant weight in our analysis of the nature of Members' antitrust obligations under TRIPS, as the circumstances of the TRIPS conclusion provides an ideal 'supplementary mean of interpretation' under Vienna Convention on the Law of Treaties (VCLT) 1969.[165] Firstly, the philosophy of balancing rights and obligations indeed mirrors the tension between the NIEO demands of developing countries for technology sharing and antitrust control of abuses of IPRs versus the demands of developed countries for stronger protection of the proprietary interests of patent holders. The mutual concessions between developing and developed countries serving as the foundation of a TRIPS conclusion indicates that the balance between rights and obligations is indeed imperative rather than just for convenience. Secondly, antitrust control of IPRs pernicious contractual practices under Article 40 of TRIPS is indeed very closely related to the objectives and principles laid down in Articles 7 and 8 of TRIPS to ease Members' concerns about IPRs' anticompetitive abuses.[166] Therefore, Members are obliged to take into consideration antitrust obligations in their management of the contractual licensing of IPRs. We are thus led to the next section, on the TRIPS obligation to control anticompetitive practices.

3.3 TRIPS obligation against anticompetitive practices

As mentioned above, the TRIPS intellectual property philosophy of balancing rights and obligations to some extent warrants integration of the contractual and antitrust approach of SEPs to the interpretation of FRAND terms. While Articles 7 and 8.1 endorse the IP–competition complementary dynamics and the mandate of balancing rights and obligations, Articles 8.2 and 40 indeed directly put the objectives and principles in the context of the anticompetitive abuses of IPRs. Article 8.2 of the TRIPS Agreement, going beyond a mere 'policy statement' or a permissive and limiting principle, is indeed 'an enabling provision' that indicates Members' agreement on the existence of, and the need to, remedy such anticompetitive practices.[167] The Article lists three kinds of IPRs related practices that should be prevented: the IPR abuse by rights holders, practices which unreasonably restrain trade, and practices which adversely affect the international transfer of technology. Article 40 as the *lex specialis* in relation to Article 8.2, confers WTO Members a minimum obligation to act against IPRs related to 'licensing practices

165 Article 32, 1969 Vienna Convention on the Law of Treaties (VCLT 1969). See also, Robert Jennings and Authur Watts, *Oppenheim's International Law*, 9th edn, vol. 1 (London: Longman, 1992), 1278.

166 UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 543–544.

167 UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 546.

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or conditions' which 'restrain competition [and] may have adverse effects on trade and may impede the transfer and dissemination of technology'.[168] Different from Article 8.2's mere recognition of certain IPR abuses and anticompetitive practices, Article 40 imposes 'an obligation on Members to address certain forms of anticompetitive practices in licensing agreements' as these practices restrain competition, and may have adverse effects on trade and technology transfer.[169] These IPR related practices include yet are not limited to 'exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing'.[170]

Moreover, the structure and wording of TRIPS Article 40 indicates a very clear antitrust orientation to IPR abuses. While Article 8.2 as the enabling provision recognizes the need to prevent certain IPR abuses and anticompetitive practices, Article 40 serves as the *lex specialis* regarding control of anticompetitive practice only in contractual licenses. Within Article 40, while Article 40.1 provides Member's consensual recognition of the potential harmful licensing practices and conditions, Article 40.2 provides the *lex specialis* in the given context focusing on particularly harmful abuses – including exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing – together with the qualification of the 'adverse effect on competition in the relevant market'. This structure certainly enshrines a competition approach to the Members' regulation of IPRs contractual licenses.

Furthermore, the cooperation and consultation procedure under Article 40.3 and 40.4 stipulates Members' obligation to cooperate in acting against anticompetitive abuses which provide a procedural guarantee of the control of anticompetitive contractual practices. Firstly, when IPRs anticompetitive contractual practices take place, while any consultation requesting Member is entitled 'sympathetic consideration' and 'adequate opportunity' for consultation as well as cooperation in supplying all relevant information possible from the requested Member;[171] the requested Member shall also be entitled to consultations under the same condition.[172] The obligation of consultation and cooperation, therefore, clearly indicates that the anticompetitive practices from Members' 'nationals or domiciliaries' are not only matters falling within domestic affairs, but also issues covered under the WTO regime of antitrust control preventing IPR abuses. Secondly, the obligations of cooperation and consultation should not be taken lightly in the WTO framework. To 'accord sympathetic consideration to and afford adequate opportunity for consultation', however, as a fundamental obligation clearly stated in the DSU, is something subject to no derogation within the WTO framework.[173] As a

168 Article 40.1, the TRIPS Agreement.
169 UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 555.
170 Article 40.2, the TRIPS Agreement.
171 Article 40.3, the TRIPS Agreement.
172 Article 40.4, the TRIPS Agreement.
173 According to Article 4.2, Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), '[e]ach Member undertakes to accord sympathetic consideration to and afford adequate

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WTO Panel stated, 'Member's duty to consult is absolute' and its compliance is 'vital to the operation of the dispute settlement system'.[174] Under the DSU, should the consultations fail, a WTO panel will be established upon request according to the rule of negative consensus.[175] As consultation forms an integral part of the dispute settlement system, which centrally provides 'security and predictability' to the trading system and preserves Members' 'rights and obligations' under WTO agreements,[176] the cooperation and consultation obligation is therefore fundamental to TRIPS call for IPR abuse control.

Of course, this obligation comes with certain flexibility, as flexibility that is demanded from member states' sovereign autonomy to balance the rigidity of the international regime is built into the WTO framework.[177] WTO rules thus 'must strike a balance between commitments and flexibility'.[178] The TRIPS Agreement indeed provides certain flexibility. According to the TRIPS Agreement, Members on the one hand 'shall give effect to' TRIPS provisions, yet on the other hand are 'free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice'.[179] As to the obligation to consult and cooperate, the original correspondent text of Article 40 mandating an obligation to consult and to cooperate 'with a view to ensuring compliance' of nationals or domiciliaries with domestic legislation was removed during TRIPS negotiations to ease industrialized countries' concerns about the rigidity of the obligation.[180] Under international law, while states are required to fulfil their international obligations, generally they are also 'free as to the manner in which, domestically, they put themselves in the position to meet their international obligations'.[181] The jurisprudence of 'direct effect' of international law also calls for deference to domestic authority.[182] However, this flexibility of treaty compliance should not be overstated, rather it should be understood in the right context of the dichotomy

opportunity for consultation regarding any representations made by another Member concerning measures affecting the operation of any covered agreement taken within the territory of the former'.

174 *Brazil – Measures Affecting Desiccated Coconut* (Panel Report, WT/DS22/R, 17 October 1996), para. 287.

175 Article 4.7, DSU.

176 Article 3.2, DSU.

177 See, Peter Sutherland *et al*., *The Future of the WTO: Addressing Institutional Challenges in the New Millennium* (Geneva: WTO, 2004), para. 39.

178 WTO Secretariat, *World Trade Report 2009: Trade Policy Commitments and Contingency Measures* (Geneva: WTO, 2009), xiii.

179 Article 1.1, the TRIPS Agreement.

180 The original text correspondent to Article 40 included an extensive list of practices that might be considered as unlawful *per se* yet was replaced with a shorter and more open-ended text as current, due to industrialized countries' objection because of the fear of the 'risk of a ruling of *per se* illegality'. See UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 545–546.

181 Jennings and Watts, *Oppenheim's International Law*, vol. 1, 82.

182 During the Uruguay round negotiation, the question of whether the WTO Agreement should be given direct effect attracted a great deal of attention among leading trade scholars. See UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, 23.

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between domestic and international affairs in international law. The WTO is a 'member-driven organization',[183] and thus is accountable to Members instead of the nationals of Members. The framework of the relationship between individuals and states under an international regime, therefore, is a 'two-tiered social contract', 'under which the individual relates to the state in domestic law and only the state relates to the international legal order in international law'.[184] What the direct effect of jurisprudence really indicates is that WTO Members are not of the same legal order as their nationals, and the GATT/WTO consequently creates neither rights nor obligations on Members' nationals.[185] Rights of individuals are defined in domestic law and therefore are out of the purview of international law,[186] which necessitates the international regime's deference to national authority in domestic affairs[187]. Therefore, the doctrine of direct effect suggests only international law's deference to domestic affairs, yet provides no support at all to any derogation of international obligations. While the rights of individuals are issues related only to domestic constitutional law, their use is not. As a general jurisprudence, indeed, 'the creation of a right is distinct from the provision of remedies for violations of that right'.[188] While TRIPS would not address particular positive rights of patent, trademark, or copyright, it does address the use of rights in Articles 30, 31 – in relation to compulsory licensing – and Article 40 – in relation to contractual licensing – and acquisition, maintenance and enforcement.[189] Article 8 of the TRIPS Agreement, for example, 'concern[s] the use of rights, not the rights themselves'.[190] Hence, the flexibility of international compliance is constitutionally confined to domestic affairs autonomy to reflect the member-driven nature of the WTO's 'two-tiered' institutional structure. The 'balance' between flexibility and rigidity denotes the interdependent and complementary relationship between flexibility and rigidity. When the freedom of compliance method or manner is ensured, WTO Members 'shall give effect to' TRIPS provisions.[191]

183 WTO Secretariat, 'The WTO', https://www.wto.org/english/thewto_e/thewto_e.htm (accessed 16 April 2016).

184 Ronald A. Brand, 'Sovereignty: The State, the Individual, and the International Legal System in the Twenty First Century', 25 *Hastings International and Comparative Law Review* (2002), 286–287.

185 *United States* – Sections 301–310 *of the Trade Act 1974* (*US* – Section 301 *Trade Act*), Panel report (WT/DS152/R, 22 December 1999), para. 7.72.

186 Of course, the Panel in *US* – Section 301 *Trade Act* also emphasized that the statement was made as a matter of fact, and it is an issue of '*internal constitutional principles*' and Panel's statement 'does not prejudge any decisions by national courts on this issue'. Ibid. footnote 661 to para. 7.72. (emphasis added)

187 See the 'doctrine of non-intervention' as indicated in Article 2.7, the Charter of United Nations (UN Charter).

188 *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006).

189 These issues are covered under Parts II, III, and IV of the TRIPS Agreement respectively.

190 Nuno Pires de Carvalho, *The Trips Regime of Patent Rights*, 3rd edn (The Netherlands: Wolters Kluwer, 2010), 223.

191 Article 1.1, the TRIPS Agreement.

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Therefore, flexibility in compliance does not equal non-compliance. As the analysis above shows, the TRIPS Agreement sets out a very clear obligation for Members to act against IPRs anticompetitive practices, and the cooperation and consultation procedure therein brings such practices of Members' 'nationals or domiciliaries' into the international framework. Moreover, the operation of this antitrust control against IPR abuses is firmly grounded on TRIPS principles,[192] which undoubtedly lends solid support to the significance of the antitrust control of IPRs licensing practices. Under the WTO Agreement, each Member 'shall ensure the conformity of its laws, regulations and administrative procedures' with its WTO obligations.[193] GATT 1994 states similarly that, '[e]ach contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territories'.[194] Indeed, *Pacta sunt servanda* has been a well-established customary international law, and flexibility is not a good defense for non-compliance.[195] Therefore, '[a] party may not invoke the provisions of its internal law as justification for its failure to perform a treaty'.[196] It is therefore important to know that the compliance flexibility is the flexibility of the compliance 'method' or 'manner' rather than flexibility of non-compliance.[197]

In conclusion, a Member's consistent reliance on a contractual instead of an antitrust approach to FRAND terms interpretation might act against its TRIPS obligation of preventing IPRs related 'licensing practices or conditions' that 'restrain competition [and] may have adverse effects on trade and may impede the transfer and dissemination of technology', and may trigger concerns about WTO inconsistency. Indeed, it has been argued that FRAND licensing denial 'can violate the boundaries set by Articles 7, 8 and 40 TRIPS', as it directly and materially affects 'promotion of technical innovation' if 'standard setting can, due to the patent holder's conduct, not perform its function as a catalyst for standard-based technological progress'.[198] A Member's courts' FRAND terms enforcement, to adopt a contractual and antitrust balanced approach, will certainly be more consistent with the Member's TRIPS obligation.

192 According to Gervais, 'Article 8 is thus essentially a policy statement that explains the rationale for measures taken under Arts 30, 31, and 40'. Gervais, *The Trips Agreement: Drafting History and Analysis*, 121.

193 Article XVI.4, Agreement Establishing the World Trade Organization (the WTO Agreement).

194 Article 24.12, GATT 1994. See, similarly, Article 18.4, the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994.

195 Article 2.2, UN Charter; Articles 26 and 27, VCLT 1969.

196 Article 27, VCLT 1969.

197 See Article 1.1, the TRIPS Agreement; Jennings and Watts, *Oppenheim's International Law*, vol 1, 82.

198 Peter Picht, 'From Transfer of Technology to Innovation through Access', in Hanns Ullrich *et al.* (eds.), *TRIPS Plus 20: From Trade Rules to Market Principles* (Heidelberg: Springer, 2016), 518.

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4. Concluding remarks

Under TRIPS unity, there exist contrasting perspectives on managing the dynamics of IP–competition between the US contractual approach and the increasingly used antitrust approach in the EU and elsewhere as to SEPs' FRAND enforcement. While personal property recognition for SEPs lends constitutional support to the contractual approach to FRAND enforcement, private property's in-built limitation warrants a balance with the antitrust approach for needs from others. As the analytical examination above shows, Members' obligation under TRIPS to act against IPR abuses is indeed imperative. TRIPS warrants integration of the contractual and antitrust approach to the enforcement of FRAND terms in order to reach a balance of rights and obligations and to ensure that the control of IPR abuses is conducive to social and economic welfare and the promotion of technological innovation and to the transfer and dissemination of technology. A Member's court's adoption of a contractual instead of an antitrust approach to FRAND terms enforcement, even on a discretionary basis, might constitute a *prima facie* WTO inconsistency.

A critical examination of the circumstances of the TRIPS conclusion and the analytical structure of Article 40 in relation to Articles 7 and 8 of TRIPS reveals that the TRIPS obligation of antitrust control is imperative. Recognition of the need to control IPR anticompetitive abuse without providing a detailed management mechanism indicates that this is the beginning rather than the end of balancing rights and obligations, an unfinished story meant to be completed through a later 'Singapore issues' negotiation. Dropping the competition policy issue from the Doha agenda in 2004 meant a lost opportunity to complete the story of a rights-obligations balance through future negotiation. The imbalance of a harmonized TRIPS with an un-harmonized antitrust regime continues. Given the significance of intellectual property in a regional and international trading framework, the diversified practices as to FRAND terms enforcement certainly reflect the birth defect of TRIPS and undermine TRIPS integrity. For TRIPS to be a intellectual property regime that truly promotes technological innovation and technology dissemination that is conducive to social and economic welfare, it is high time to bring the competition issue back to WTO negotiation and adhere to a contract–antitrust balanced approach to FRAND terms enforcement.

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