



23 Avenue Marnix - 1000 Brussels - Belgium
T. +32 (0)2 289 0802
information@fair-standards.org

www.fair-standards.org

8 June 2020

SEP LICENSES SHOULD BE AVAILABLE TO ALL COMPANIES IN A SUPPLY CHAIN THAT WANT A LICENSE FOR SEPs IN THEIR PRODUCTS – SUPPORTING REFERENCES

On 24 June 2016 the Fair Standards Alliance published a [position paper](#) concerning the failure of some SEP holders to comply with the non-discriminatory requirement of FRAND by refusing to license companies who would like a license to SEPs used in their products. The paper addressed the negative impact of such discriminatory licensing practice on the product ecosystem and on consumers. It explained why this practice is not acceptable and why FRAND SEP licenses must be available to all entities, regardless of their role within the product supply chain¹.

Some highlights from this position paper include the following:

- The non-discriminatory requirement of the FRAND policy means that SEP licenses must be available to all entities, regardless of their role within the product supply chain; accordingly, SEP licensors shall not refuse to provide licenses to willing licensees including at the level of intermediate subsystem manufacturers;
- Subsystem manufacturers are better equipped than end-product manufacturers to assess patent assertions by SEP licensors, and to monitor the evolution of the standardized technologies that are incorporated within their products;
- Most, if not all, of the inventive aspects of a SEP holder's patent claims only apply to the subsystem that implements the standard;
- Some SEP holders discriminate by offering different licensing rates for the same technology at different levels of the supply chain;
- The ecosystem is placed at risk by the unfair and discriminatory practices of some SEP holders who attempt to unreasonably take value from the end product, effectively placing a tax on the value chain;
- Such practices have the potential of reducing the attractiveness of the standardised technology to the end-product manufacturer. In turn, this hinders the propagation of the standard and may deprive the end consumer of the benefit of the technology.

¹Fair Standards Alliance, Position paper- SEP LICENSES AVAILABLE TO ALL, https://fair-standards.org/160624_fsa_position_paper_-_sep_licenses_available_to_all/.

As a follow up to that position paper, the FSA thought it would be helpful for SEP licensors and prospective licensees of SEPs to have an easy to reference document that highlights some of the supporting policy statements and supporting case law.

We would be interested to hear of other policy decisions and case law that interested parties are aware of, and we shall explore publishing an update in the future.

Policies of Standards Setting Organisations

1. International Telecommunication Union (ITU) Patent Policy²:
 - “A patent embodied fully or partly in a Recommendation | Deliverable must be accessible to everybody without undue constraints.”
 - “The Patent Holder is prepared to grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to make, use and sell implementations of the above document.”
2. IEEE Pre-2015 Patent Policy:
 - “A Letter of Assurance [includes] [a] statement that a license for compliant implementations of the standard will be made available to an unrestricted number of applicants....”
3. IEEE current IPR Policy:
 - “A statement that the Submitter will make available a license for Essential Patent Claims to an unrestricted number of Applicants on a worldwide basis without compensation or under Reasonable Rates, with other reasonable terms and conditions that are demonstrably free of any unfair discrimination to make, have made, use, sell, offer to sell, or import any Compliant Implementation that practices the Essential Patent Claims for use in conforming with the IEEE Standard.”
4. TIA IPR Policy³:
 - “A license under any Essential Patent(s), the license rights which are held by the undersigned Patent Holder, will be made available to all applicants under terms and conditions that are reasonable and non-discriminatory.”
5. ATIS IPR Policy⁴ (3GPP Member):
 - “A license will be made available to applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination.”
6. 3GPP’s Public Representations:
 - “All Individual Members of 3GPP abide by the IPR policies of the [3GPP-member SDO] to which they belong; all such policies are broadly similar ... and require IPR holders to make licences

² International Telecommunication Union, Common Patent Policy for ITU-T/ITU-R/ISO/IEC, <https://www.itu.int/en/ITU-T/ipr/Pages/policy.aspx>.

³ TIA, Intellectual Property Rights Policy, https://www.tiaonline.org/wp-content/uploads/2018/05/TIA_Intellectual_Property_Rights_Policy.pdf.

⁴ ATIS Intellectual Property Rights Activities, https://www.itu.int/dms_pub/itu-t/oth/06/5B/T065B00000C0013PPTTE.ppt.

available to all third parties, whether or not they are 3GPP Individual Members, under fair, reasonable and non-discriminatory (FRAND) terms.”

7. ETSI IPR Policy⁵:

- Promise to be “prepared to grant irrevocable licences on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions.”
- ETSI IPR Policy Clause 6.1: Patent owners declare that they are “prepared to grant irrevocable licences on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions under such IPR to at least the following extent:
 - MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
 - sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
 - repair, use, or operate EQUIPMENT; and use METHODS.”

Definitions:

“Manufacture” means “production of EQUIPMENT.”

“Equipment” means “any system, or device fully conforming to a STANDARD.”

To be read together with the ETSI IPR Guidelines⁶:

“Third parties have certain RIGHTS under the ETSI IPR Policy [including] [t]o be granted licenses on fair, reasonable and non -discriminatory terms and conditions in respect of a standard”

“Third parties have certain RIGHTS under the ETSI IPR Policy [including] [t]o be granted licenses on fair, reasonable and non -discriminatory terms and conditions in respect of a standard at least to manufacture, sell, lease, repair, use and operate, (Clause 6.1).”

Statements by Antitrust Authorities

1. European Commission Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements⁷:

- para. 269: Once a standard is implemented, holders of SEPs included in that standard may behave in anti-competitive ways, “for example by ‘holding-up’ users after the adoption of the standard either by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard.”
- paras. 285-287: “In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms (“FRAND commitment”). FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and

⁵ ETSI Intellectual Property Rights Policy, <https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>.

⁶ ETSI Guide on Intellectual Property Rights (IPRS) (19 Sept 2013), <https://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf>.

⁷ Commission Communication, Guidelines on the applicability of Article 101 of the TFEU to horizontal co-operation agreements, 2011 O.J. C., 14.1.2011, paras. 269, 285-287, [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011XC0114\(04\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011XC0114(04)&from=EN).

conditions. In particular, FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees.”

2. European Commission Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements⁸:

- para. 261: “The creation and operation of the pool, including the licensing out, generally falls outside Article 101(1) of the Treaty, irrespective of the market position of the parties, if [...] (e) the pooled technologies are licensed out to all potential licensees on FRAND terms.”

3. European Commission in the 2014 *Motorola/SEP* prohibition decision⁹:

- para 63: “[Under the ETSI IPR Policy] Importantly, owners of essential patents in a proposed standard are requested to make their SEPs available to all interested third parties on FRAND terms and conditions.”
- para. 290: “In order to ensure effective access to the GPRS standard, SEP holders are required by ETSI to commit to license its SEPs on FRAND terms and conditions.”
- para. 294: “On the basis of that commitment [the FRAND commitment], manufacturers of GPRS-compliant products can reasonably expect that Motorola makes its SEPs available on FRAND terms and conditions to all implementers.”
- paras. 282-284: “As a general principle, a patent owner has the right both to refuse to license a patent and to obtain remuneration should it decide to license that patent. The situation is, however, different in the standard-setting context where the owner of the patent has voluntarily committed to license its essential patent on FRAND terms and conditions, and where the benefits of the standard-setting process in terms of increased compatibility, interoperability and competition, lower production and lower sales costs may be endangered by the seeking and enforcement of an injunction on the basis of a SEP by a dominant undertaking.”

4. European Commission in the 2014 *Samsung/SEP* commitment decision¹⁰:

- para. 34: “Under the ETSI IPR Policy, ETSI members have an obligation to inform ETSI about all IPR they may hold in a future standard. They are also requested to make their SEPs available to all interested third parties on FRAND terms and conditions.”

5. DG COMP in the 2013 *Nokia-Microsoft* merger clearance¹¹:

- paragraph 192: “FRAND commitments essentially oblige SEP holders: (i) to make the patent in question available to all interested third parties; (ii) not to discriminate between different licensees; and (iii) to offer a licence to the patent on fair and reasonable terms.”

⁸ Communication from the Commission: Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014 O.J.C. 28.3.2014, para. 34, https://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf.

⁹ Case AT.39985 – Motorola – Enforcement of GPRS Standard Essential Patents, Commission Decision of 29 March 2014, https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf.

¹⁰ Case AT.39939 – Samsung-Enforcement of UMTS Standard Essential Patents, Commission Decision of 29 April 2014, https://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf.

¹¹ Case COMP/M.7047 – Microsoft/Nokia, Commission Decision of 4 December 2013 at para. 192, https://ec.europa.eu/competition/mergers/cases/decisions/m7047_687_2.pdf.

6. *KFTC v. Qualcomm* (Korea 2017)¹²:
 - [A]ccess to and use of cellular SEPs should be guaranteed for the modem chipset manufacturers in accordance with the purposes of standard-setting and FRAND commitments.
7. Guidelines for the Use of Intellectual Property under the Antimonopoly Act by Japan Fair Trade Commission (JFTC)¹³:
 - Refusal to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent holder, or refusal to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent holder after the withdrawal of the FRAND Declaration for that Standard Essential Patent may fall under the exclusion of business activities of other entrepreneurs by making it difficult to research & develop, produce or sell the products adopting the standards.

Court precedent/dicta

1. *Hartford-Empire Co. v. United States*, 323 U.S. 386, modified by 324 U.S. 570, 574 (1945):
 - Imposed requirement to license “all applicants to make, use, or sell the patented machines at reasonable royalties.”
2. *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (*Microsoft v. Motorola I*):
 - A FRAND promise to “grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to use the patented material necessary ... admits of no limitations as to who or how many applicants could receive a license”
3. *Microsoft Corp. v. Motorola, Inc.* 795 F.3d 1024, 1031 (9th Cir. 2015) (*Microsoft v. Motorola II*):
 - “To mitigate the risk that a SEP holder will extract more than the fair value of its patented technology, many SDOs require SEP holders to agree to license their patents on ‘reasonable and non-discriminatory’ or ‘RAND’ terms. Under these agreements, an SEP holder cannot refuse a license to a manufacturer who commits to paying the RAND rate.”
 - FRAND includes a “requirement to negotiate licenses with all seekers.”
4. *Ericsson Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1230 (Fed. Cir. 2014):
 - “[T]he licensor’s established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention [is not relevant for SEPs]. ... Because of [the] RAND commitment ... it cannot have that kind of policy for maintaining a patent monopoly.”
5. *Federal Trade Commission v. Qualcomm*, No. 17-220, Partial Summary Judgment Order at 25, 13 (N.D. Cal. 2015 Nov. 6, 2018):
 - “As a matter of law, the TIA and ATIS IPR policies both require [a declarant] to license its SEPs to modem chip suppliers.”

¹²http://www.ftc.go.kr/solution/skin/doc.html?fn=50ba93a6149acc5be3cae03dc2f4de97e254681689def7a42b2e4ae6eaaaf1924&rs=/fileupload/data/result/BBSMSTR_00000002402/.

¹³Japan Fair Trade Commission, Guidelines for the Use of Intellectual Property under the Antimonopoly Act (rev. 2016) at 11, https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/IPGL_Frand.pdf.

- “[T]he meaning of the contract is unambiguous”
6. *Apple Inc. v. Qualcomm Inc.* No. 17-108, Order Denying Anti-Suit Injunction at 31(N.D. Cal Sept. 7, 2017):
 - The ETSI policy “plainly states that any willing licensee is entitled to license [the declarant’s] intellectual property at a FRAND rate.”
 7. *Federal Trade Commission v. Qualcomm, Inc.*, No. 17- 220, Findings of Fact and Conclusions of Law, at 124, 132 (N.D. Cal May 21, 2019):
 - The Court held on summary judgment that the SEP owner’s “...FRAND commitments to two SSOs require [it] to license its SEPs to rivals”. Therefore, its refusal to license rival chip suppliers violates its FRAND commitments. The court concluded that this license level non-discrimination element in FRAND is a historical industry practice and that the SEP owner’s arguments to instead license only OEMs were “pretextual” and “not credible.”
 8. C-170/13 *Huawei Techs. Co, v. ZTE Corp.* (ECJ July 16, 2015) E.C.R. 477, para. 53:
 - “[An] undertaking to grant licenses on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licenses on such terms” and refusal to license in such terms “... may, in principle, constitute an abuse within the meaning of Article 102 TFEU.”

Emerging German case law (from an antitrust perspective)

1. Obligation to seek licenses in the value chain
 - a. OLG Karlsruhe, *Beschl. v. 23.04.2015 Az. 6 U 44/15, S.7*:

“If the SEP holder has made a FRAND undertaking and, as in this case, usually concludes licence agreements with manufacturers, there is no objective reason, if the manufacturer of the infringing object is aware of the infringement, for the SEP holder to initially only claim the manufacturer's distribution partner, assuming that the manufacturer is willing and able to license. Moreover, in such a situation it can reasonably be expected that he (initially) makes an offer to the manufacturer of the infringing product.”
 - b. OLG Düsseldorf, *Urt. v. 22.03.2019, Az. 2 U 31/16*:

“The voluntary willingness of all SEP holders, who are privileged by the standard-setting process, to enable competition by granting a licence for use on FRAND terms to anyone interested in the technology essential to the standard, is therefore a fundamental element of the technical standard-setting process and its legal admissibility.

In this legal sense, the obligation undertaken with the FRAND commitment is legally effective and significant to grant every interested party permission to use his SEP under FRAND conditions.”
2. Discriminatory licensing practices
 - a. Higher Regional Court of Düsseldorf I-15 U 66/15, 2017 (*Sisvel v Haier*):

In 2017, in *Sisvel v. Haier*, the Higher Regional Court of Düsseldorf held that Sisvel’s licensing offer to Haier was not FRAND because it failed to be non-discriminatory.

The court found that dominant SEP holders are not obliged to treat all parties in exactly the same way and that different treatment is not abusive under Article 102 TFEU if it can be objectively justified. [para 254] However, the court considered that if a dominant SEP holder applies significantly different licensing conditions to different parties, they can be considered discriminatory and thus abusive, unless the SEP holder can show that such unequal treatment is justified. [para 255] The court also clarified that because licensees will typically not have access to the necessary information, the (secondary) burden of proof falls on the SEP holder who is obliged to provide information about other licences that it has entered into. [para 258]

The court concluded that Sisvel treated Haier significantly differently from its competitors as Sisvel failed to prove that discounts to other licensees were common practice in the industry or that particular business relationships warranted the discounts provided. [paras 271 - 273]

b. Regional Court of Düsseldorf, ECLI:DE:LGD:2018:0711.4C.O81.17.00 (*Intellectual Ventures v. Vodafone*)¹⁴:

In 2018, in *Intellectual Ventures v. Vodafone*, the Regional Court of Düsseldorf held that a SEP holder's unequal treatment of licensees and selective SEP licensing, including the SEP holder's refusal to offer a FRAND licence to Vodafone's suppliers, was discriminatory: "An unequal treatment satisfying the elements of a discrimination within the meaning of antitrust law exists not only if the patent proprietor holding a dominant position grants to individual licensees special or preferential contractual terms which it denies to other licensees, but equally if it selectively enforces its prohibitive rights under the SEP. Such selective enforcement is to be assumed if the patent proprietor lodges an infringement action against specific competitors to force them into a licensing agreement whilst leaving other competitors free to use its IP right." [para 273]

The court further held that not every selective enforcement of rights through lodging an infringement action or objectively refraining from doing so over a certain period of time establishes an abuse of the position of an SEP proprietor in breach of antitrust law. Rather, such abuse requires the exempted competitors to be infringers known to the IP rights holder or infringers not known to it merely as a result of breach of its market monitoring duty against which the patent proprietor, based on the overall circumstances – which include e.g. the scope of the acts of use and the availability of legal remedies in the country of prosecution – , can be reasonably expected to take action (cf. Kühnen, op. cit., Kap. E, paragraph 243). In the interest of equal treatment required by antitrust law, the reasonableness threshold to be applied must not be too high (cf. LG Düsseldorf, judgment of 30 November 2006, case ref. 4b O 508/05 – cited according to 279 juris). However, it has to be kept in mind that the patent proprietor, especially in the early phase of establishing the standard, is limited in terms of its financial and personnel resources and for that reason may be unable, even in good faith, to take action against numerous infringers operating on the market. Here it may be perfectly sensible and justified to concentrate its forces and to enforce rights of prohibition at first against infringers holding a strong market position, not least in the expectation that, once the matter has been successfully clarified by the courts, smaller infringers can then be persuaded to settle out of court (cf. Kühnen, op. cit., Kap. E, paragraph 243). [para 274]

The Plaintiff's behaviour is therefore not FRAND-compliant because it discriminates against the Defendant with its (litigation) strategy of selectively enforcing its rights against other companies. The Plaintiff's behaviour of lodging infringement actions against the Defendant

¹⁴ Please note the translations are unofficial translations of the German decisions.

and its two main competitors and of not lodging infringement actions against the other competitors or suppliers is a case discrimination. [para 276]

SEP holders are obliged to provide with the SEP licensing offer, a royalty calculation allowing the potential licensee to assess whether the SEP holder's offer is indeed non-discriminatory: "The time requirements for submitting the offer explained above also apply when it comes to showing the way in which the royalties are calculated [...]. It is only when the infringer has received these details that an offer has been submitted whose reasonableness it may sufficiently review and to which it must respond in accordance with the requirements of the ECJ." [para 267]

The court also dismissed as lacking objective justification and thus discriminatory the refusal by Intellectual Ventures to offer a licence to a Vodafone supplier who had requested such a licence: "Lastly, the Plaintiff's (litigation)-strategic conduct in this regard also constitutes a discrimination to the extent that the Plaintiff, despite the indisputable licensing request, did not make the intervenor O any licensing offer and instead selectively lodged an action against the Defendant in the present proceeding. [para 281]

Judicial commentary

1. Recent comments of Judge Dr. Thomas Kühnen

- a. Judge Dr. Thomas Kühnen, who chairs a patent division of the Düsseldorf Higher Regional Court, has taken a firm stance that standard implementers at all levels of the supply chain are entitled to an exhaustive FRAND licence. In an article published in 2019 by the German Association for the Protection of Intellectual Property, Judge Kühnen wrote that "there can be no serious doubt that the SEP holder must respond to the licensing request of any interested party"¹⁵:

"First of all, any interested party is entitled to a licensing right without any particular conditions, and therefore also to the one who is at the beginning of the distribution chain, even if a FRAND licence has already been granted at a subsequent distribution stage." [p. 665]

"In this situation, it is not only completely legitimate, but even necessary for reasons of economic rationality, to be able to rely on one's own contractual obligations for one's business activities, instead of being dependent in its weal and woe on third licensees over whom, in case of doubt, no effective influence can be exerted. Only for this reason, the request of the licence seeker for a FRAND licence in person is an act of lawful exercise of rights, irrespective of whether and how many FRAND licences the SEP holder has already granted at which stage of the distribution chain. In particular, it cannot be denied to an entity which is at a lower level of economic value than the licensee considered by the SEP holder and which therefore cannot benefit from the principles of exhaustion. Without a separate licence, such entity would have to ensure that its customer was in fact sufficiently entitled to a licence for each and every sales transaction concerning its preliminary, intermediate or final product and, in the absence of such a licence, would be directly subject to the SEP holder's claims for infringement of intellectual property rights, whereas, if it had its own FRAND licence, it could easily be sure that it was acting in conformity with the law for each and every business transaction, regardless of which customer it concerned." [p. 666]

¹⁵ Kühnen, FRAND-Lizenz in der Verwertungskette GRUR (July 19, 2019), p. 665-673.

Referring to *Huawei v ZTE*, the judge also noted that “it is not by chance that the CJEU also links the obligation of the patent holder to submit a FRAND license offer in response to a simple licensing request of the SEP license seeker, without requiring to justify such a request in any particular way.”

- b. In his book titled ‘Patent litigation proceedings in Germany’¹⁶, Judge Kühnen wrote:

“Regardless the fact that the infringed party is in principle free to choose which of several infringers in the sales chain he sues for patent infringement and that he can therefore also sue the distributor before the manufacturer, in case of doubt he must fulfil his licensing obligations primarily vis-à-vis the manufacturer of the infringing product whose licensing regulates the entire subsequent distribution channel. As long as the patentee has not made sufficient licensing efforts in relation to the manufacturer, this therefore constitutes a considerable objection of defence in the proceedings against the distributor. [...]

The manufacturer's licensing priority does not imply that subsequent distribution is dependent on the manufacturer's licensing behaviour (and licensing failure). On the contrary, the FRAND commitment also entitles the distributor as such to a licence for his company, which becomes significant if the supplier (manufacturer) does not fulfil his obligation to engage in determined FRAND negotiations, so that an injunction against the distributor is not prevented by his request for a licence. In such circumstances, the distributor may request a licence on his own behalf and, through his own licensing efforts, avoid an action for injunction.”

This is not intended to be an exhaustive list, and does not constitute legal advice, but as discussed above the FSA would be interested to hear of other policy decisions and case law that interested parties are aware of, and we shall explore publishing a further update in the future. Please feel free to send additional information or news to information@fair-standards.org

NOTE: The positions and statements presented in this paper do not necessarily reflect the detailed individual corporate positions of each member.

¹⁶ Kühnen, Patent litigation proceedings in Germany, 12. Edition 2020, Kap. E II. 5. Rn. 352 [emphasis added].