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### **SEP LICENCES SHOULD BE AVAILABLE TO ALL COMPANIES IN A SUPPLY CHAIN THAT WANT A LICENSE FOR SEPS IN THEIR PRODUCTS – SUPPORTING REFERENCES**

On 24<sup>th</sup> 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 chain<sup>1</sup>.

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.

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<sup>1</sup>Fair Standards Alliance, Position paper- SEP LICENCES AVAILABLE TO ALL, [https://fair-standards.org/160624\\_fsa\\_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 the possibility of publishing an update in the future.

## Policies of Standards Setting Organisations

1. International Telecommunication Union (ITU) Patent Policy<sup>2</sup>:
  - “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 Policy<sup>3</sup>:
  - “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 Policy<sup>4</sup> (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:

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

<sup>3</sup> TIA, Intellectual Property Rights Policy, [https://www.tiaonline.org/wp-content/uploads/2018/05/TIA\\_Intellectual\\_Property\\_Rights\\_Policy.pdf](https://www.tiaonline.org/wp-content/uploads/2018/05/TIA_Intellectual_Property_Rights_Policy.pdf).

<sup>4</sup> ATIS Intellectual Property Rights Activities, [https://www.itu.int/dms\\_pub/itu-t/oth/06/5B/T065B00000C0013PPTe.ppt](https://www.itu.int/dms_pub/itu-t/oth/06/5B/T065B00000C0013PPTe.ppt).

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

#### 7. ETSI IPR Policy <sup>5</sup>:

- Promise to be “prepared to grant irrevocable licenses 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 licenses 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 Guidelines <sup>6</sup>:

- “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 agreements <sup>7</sup>:

<sup>5</sup> ETSI Intellectual Property Rights Policy, <https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>. The ETSI Director-General that oversaw development of the ETSI IPR Policy has written that “[t]he whole idea [of the ETSI Patent Policy] was that if a FRAND promise was made, everyone was entitled to a FRAND license.” Karl Heinz Rosenbrock, *Licensing At All Levels Is The Rule Under The ETSI IPR Policy* (Nov. 3, 2017), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3064894](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3064894); Karl Heinz Rosenbrock, *Why the ETSI IPR Policy Requires Licensing to All* (Aug. 2017), <http://www.fair-standards.org/wp-content/uploads/2017/08/Why-the-ETSI-IPR-Policy-Requires-Licensing-to-All> Karl-Heinz-Rosenbrock\_2017.pdf.

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

<sup>7</sup> 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).

- 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 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 agreements<sup>8</sup>:

- 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 decision<sup>9</sup>:

- 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*

<sup>8</sup> 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](https://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf).

<sup>9</sup> Case AT.39985 – Motorola – Enforcement of GPRS Standard Essential Patents, Commission Decision of 29 Mar. 2014, [https://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39985/39985\\_928\\_16.pdf](https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf).

*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 decision<sup>10</sup>:

- 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 clearance<sup>11</sup>:

- para 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 license to the patent on fair and reasonable terms”.*

6. KFTC v. Qualcomm (Korea 2017)<sup>12</sup>:

- [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) <sup>13</sup>

- 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.

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<sup>10</sup> Case AT.39939 – Samsung-Enforcement of UMTS Standard Essential Patents, Commission Decision of 29 Apr. 2014, [https://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39939/39939\\_1501\\_5.pdf](https://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf)

<sup>11</sup> 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](https://ec.europa.eu/competition/mergers/cases/decisions/m7047_687_2.pdf)

<sup>12</sup> [http://www.ftc.go.kr/solution/skin/doc.html?fn=50ba93a6149acc5be3cae03dc2f4de97e254681689def7a42b2e4ae6eaaf1924&rs=/fileupload/data/result/BBSMSTR\\_00000002402/](http://www.ftc.go.kr/solution/skin/doc.html?fn=50ba93a6149acc5be3cae03dc2f4de97e254681689def7a42b2e4ae6eaaf1924&rs=/fileupload/data/result/BBSMSTR_00000002402/).

<sup>13</sup> Japan 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](https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/IPGL_Frand.pdf).

8. Questions of the German Federal Cartel Office (Bundeskartellamt)

According to an article published in a Law Journal<sup>14</sup>, in June 2020, by amicus curiae letter (unpublished), the Bundeskartellamt intervened in patent infringement proceedings pending at German courts on the question of licensing essential standard patents (SEP) in the supply chain. It asked the courts to refer certain questions to the European Court of Justice (ECJ). The questions related to potential abuse of a dominant position if a SEP holder seeks for injunctive relief against an end-product maker because it infringes the SEPs while refusing to fully license its suppliers to these SEPs. In particular, according to the news, the Bundeskartellamt raised the following questions:

1. Can an undertaking at a downstream stage of the infringement action for injunction or recall brought by the proprietor of a patent essential to a standardisation organisation for a patent standardised by that organisation, who has irrevocably undertaken vis-à-vis that organisation to grant a licence to any third party on FRAND terms, object to the action being regarded as an abuse of a dominant position within the meaning of Article 102 TFEU, because the patented technology is used only in an intermediate product which he has purchased and whose supplier has applied in vain to the proprietor of the patent for his own unrestricted licence on FRAND terms to manufacture that product?
2. Does Article 102 TFEU impose specific qualitative, quantitative and/or other requirements on the criteria according to which the proprietor of a patent essential to a standardisation organisation who has undertaken vis-à-vis a standardisation organisation to grant third parties a licence on FRAND terms is to decide which potential infringers at different levels of the same production chain are to be sued for an injunction or recall?
3. Does the proprietor of an essential patent for a standard which has undertaken to a standardisation organisation to grant third parties a license on FRAND terms abuse his dominant position if he refuses to grant to any market participant in the same production chain who is willing to license his own full license on FRAND terms?
  - a. In any event, does that apply where it refuses to grant its own full license on FRAND terms to more than one stage other than the final product stage in the same production chain?
  - b. Does this apply in any event where it refuses to grant a full license to market

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<sup>14</sup> Axel Verhauwen and Joachim Gerstein, On The Obligation To License Standard Essential Patents In The Supply And Exploitation Chain: Selection Right Of The SEP Holder vs. FRAND Everyone's Right, *les Nouvelles*, LES International (LESI) (December 2020), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3739957](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3739957) .

participants in an upstream stage of production and brings an action for an injunction or recall for patent infringement against the downstream stage of the same production chain?

4. If the answers to questions 1 to 3 are in the negative: Is the holder of a standard essential patent who has under-taken vis-à-vis a standardisation organisation to grant third parties a license on FRAND terms free under antitrust law to choose whether and to which stage in a production chain he grants exclusively a direct, full license on FRAND terms?

A civil chamber of the Düsseldorf Regional Court (Az. 4c O 17/19) referred related questions to the European Court of Justice (ECJ). These questions will be illustrated in more detail below.

### 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.”

- “[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 license 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.”*

c. LG Düsseldorf, Beschl. v. 26.11.2020, Az 4c O 17/19

By this court order the 4c Civil Chamber of the Düsseldorf Regional Court referred several questions to the European Court of Justice (ECJ) regarding the licensing of essential standard patents within multi-level supply chains. A first set of the referred questions relates to the basic question if a SEP holder is obliged under antitrust law to offer FRAND licenses to any entity of a supply chain which seeks a license. A second set of questions aims at concretization of the negotiation regime between SEP holders and prospective licensees which the ECJ had set up in its earlier decision Huawei/ZTE (judgment of 16 July 2015, C- 170/13).

The plaintiff, an owner of SEPs to cellular standards, believes that, as the holder of a standard essential patent, it is free to decide at which stage of a complex production and supply chain it grants licenses on FRAND terms.

The defendant, an automaker, and its intervening suppliers for components such as telematics control units (TCUs), asserts that, based on the rules of the EU internal market and the FRAND Declaration which had been given for the patents in suit, the plaintiff, as the owner of the essential standard patent, must offer every willing licensee an individual unlimited license for all patent-relevant types of use of the essential standard patent. Priority should therefore be given to the license-seeking suppliers, which also corresponds to the standard procedure in the defendant's industry (automotive).

The Düsseldorf Regional Court assumes that the plaintiff in principle has a claim for injunction against defendant for patent infringement. However, the court raises the question of whether the plaintiff's assertion of its claim for injunctive relief can be regarded as an abuse of its undisputed dominant position in the licensing market. The decisive question is whether and, if so, under which circumstances the owner of a patent essential to a standard abuses his dominant position if he files an action for injunction against a manufacturer or distributor of an end product in which SEP is used, without first having complied with the licensing request of suppliers which supply the components in which the patents are used.

The Düsseldorf Regional Court therefore, inter alia, referred the following questions to the European Court of Justice:

A. Is there an obligation for priority licensing of suppliers?

1. Can a company located on a downstream economic level raise the objection of abuse of a dominant position according to Art. 102 TFEU against the claim for injunctive relief due to patent infringement brought by the holder of a patent essential to a standard standardized by a standardization organization (SEP) and

which has irrevocably committed itself vis-à-vis that organization to grant a license to any third party on FRAND terms, if the standard for which the patent is essential, or parts thereof, is already implemented in an intermediate product purchased by the infringing party whose supplier is willing to license but the patent holder refuses to grant an own unlimited license for all patent-relevant types of use on FRAND terms for products implementing the standard?

a) Does this apply in particular if it is customary in the relevant branch of the end product distributor's industry for the intellectual property rights situation of patents used by suppliers to be clarified by means of licensing by the suppliers?

b) Is there a licensing priority over suppliers at each stage of the supply chain or only over the supplier immediately upstream of the distributor of the final product at the end of the value chain? Do business practices determine this as well?

2. Does the prohibition of abuse under antitrust law require that the supplier be granted its own, unrestricted license for all types of use relevant under patent law on FRAND terms for products implementing the standard in the sense that the final distributors (and possibly the upstream buyers) in turn no longer require their own, separate license from the SEP holder in order to avoid a patent infringement in the event of proper use of the relevant supplier part?

3. If the question referred for is answered in the negative under 1: Does Article 102 TFEU impose specific quality, quantitative and/or other requirements on the criteria according to which the proprietor of a patent essential to the standard decides which potential patent infringers at different levels of the same production and exploitation chain he sues for an injunction?

[B. ...]

In the reasons for the order, the court provided its views of the questions raised. Some of them are:

- par 19: " In view of the fact that the FRAND declaration, apart from the expressed wish of the license seeker, does not contain any restrictive conditions, it obliges the SEP holder vis-à-vis anyone to grant him a license on FRAND terms. In this regard, the grant of the license shall not merely grant any access to the standardized market, but shall grant the license seeker a participation in a standardized technology to such extent as to enable him to compete freely in all product markets now and in future."

- para 20: "There is a public interest in preserving free competition both in a market already weakened by the qualification of a right as standard essential, and in other markets potentially affected by the exploitation of the right and/or still under development... With their own unrestricted license to the plaintiff's SEP, the suppliers seeking the license are in a position to independently and legally securely further develop, manufacture and distribute TCUs and the necessary components for them to

any automobile manufacturer. Only with this license can the suppliers further develop the patented technology for uses outside the automotive industry and open up new markets. If, on the other hand, they are only entitled to a limited right derived from the automakers, this significantly hinders the research, development and sale of TCUs and their components. This is because with derived rights, suppliers can only manufacture TCUs and their components within the scope of instructions issued to them by third parties and sell them to the contractually intended buyers. They would be prevented from entering the market independently of the respective customer, which would result in an unjustified restriction of their economic activities.”

- para 21: “It cannot be argued against an own, full-fledged license claim of the suppliers that even then there is still a need for the SEP holder to grant an own license to the further manufacturers. It is true that even unlimited licensing does not result in exhaustion outside the EU and of process claims and that exhaustion does not occur even if the claim has device features which are not yet present in the component distributed by the licensed supplier.”

- para 22: “It must be noted, however, that as a result of the confidence-building promise given by the SEP holder, licensing must take place on FRAND terms. This requires that provisions are made in the license agreement which lead to the exhaustion of the patent rights in the event that the license is exercised. According to its purpose, the FRAND declaration serves to enable everyone to participate fairly and without discrimination in the economic exploitation of the standardized technology in the product market. If the exploitation of the technical standard also takes place outside the EU or if, for example, process claims are involved, the FRAND declaration of the SEP holder must also be congruent with this by conveying to any interested party a licensing claim which is geographically unlimited and/or includes the exhaustion of process claims. Accordingly, the manufacturer of patent-using precursor products can demand a FRAND license from any SEP holder, which allows him to distribute his products without restrictions and thus releases any user of the invention at a later stage of exploitation from having to seek a license from the SEP holder for his part (Kühnen, GRUR 2019, 665, 670 f.)”

- para 24: “This applies all the more when the practices in the industry served by the exploitation chain are included in the consideration. In the automotive industry, it is standard practice for car manufacturers to obtain their products from suppliers free of third-party rights. This takes account of the fact that each level is responsible for the legal conformity of the technical solution that it develops itself and therefore knows best...The supplier who chooses a particular technical solution within the tiered supply chain is in the best position to check whether this solution infringes the property rights of third parties. In addition, the suppliers invest considerable expenditure in the research and development of new innovations and in this respect are independent of the end product customers in their activities and require for these activities the economic and legal freedom which can only be guaranteed with an unrestricted license in their favor.”

- para 25: “There are no efficiency reasons against an obligation to license suppliers

on a priority basis. In principle, it is recognized that efficiency advantages are in principle suitable to justify the anti-competitive behavior of a dominant company. In this respect, technical improvements to increase quality and reduce costs in manufacturing or distribution are to be regarded as an efficiency advantage as an indispensable conduct (cf. Communication from the Commission on the EU's handling of standard-essential patents of November 29, 2017 COM (2017-7)). In this context, the efficiency benefits must outweigh any negative effects on the affected markets and the conduct must not eliminate effective competition...The fact that licensing is made easier for the plaintiff because it can more easily identify the end-product manufacturers than their suppliers is already not true in factual terms, because the number of suppliers is far smaller than that of the automobile manufacturers. From the point of view of efficiency, only licensing of the baseband chip producers would be an option, and there are no more than ten of them worldwide. Apart from this, any simplification of licensing does not represent a justifiable efficiency advantage in the sense described above."

- para 27: "[A]n SEP holder's interest in committing to a particular licensing program may not be without consideration of an SEP holder's antitrust obligations. It follows that while an SEP holder may preferentially solicit end-manufacturers of a particular product to take a license, it may not ignore or reject a supplier's legitimate license requests/offers. If any interested third party is to be granted a license on FRAND terms, this then includes those suppliers who require a license for their business operations."

- para 29: "The right of each supplier to demand an unrestricted FRAND license for itself exists in principle and unconditionally after all, so that the demand for a FRAND license is an act of permissible exercise of rights which, in the event of a refusal by the SEP holder, involves the abuse of a dominant position, on which both the claimed infringer at the end of the exploitation chain and the supplying license seeker can rely."

Regarding the negotiation regime set-up by the ECJ in *Huawei v. ZTE*, the Düsseldorf Regional Court identified some aspects relating to the relationships between SEP owner, end product manufacturer and suppliers upstream the value chain:

- para 32: "...The Court [ECJ] thus makes it clear that the steps described - infringement notice, licensing request and submission of a FRAND-compliant licensing offer - must take place before the injunctive relief is sought in court. The question therefore arises - which is predominantly answered in the affirmative in German case law - as to whether it is possible to make good for missed steps during the ongoing legal dispute. The issue is of significance in the dispute against the background that the plaintiff did not make various contract offers to the Tier 1 suppliers until well after the action had been filed. In this context, the Chamber is aware that the contract offers did not concern the defendant itself, but its interveners. However, the enforcement of an injunction has the same consequences for the interveners as for the defendant: both are no longer able to sell their products. If the defendant can no longer sell automobiles, the suppliers are also no longer able to sell their products to the

defendant. In this respect, it cannot make any difference whether the steps set out in Huawei./ZTE were not complied with vis-à-vis the defendant or vis-à-vis the interveners.”

## 2. Discriminatory licensing practices

### a. - *Higher Regional Court of Düsseldorf I-15 U 66/15, 2017 (Sisvel v Haier)*:

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 licenses that it has entered into. [para 258]

### b. - *Regional Court of Düsseldorf, ECLI:DE:LGD:2018:0711.4C.081.17.00 (Intellectual Ventures v. Vodafone)* <sup>15</sup>:

- 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 license 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,

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<sup>15</sup> Please note the translations are unofficial translations of the German decisions.

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 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 nondiscriminatory: "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 license to a Vodafone supplier who had requested such a license: "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 license. 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." <sup>16</sup>:

*S. 665: "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*

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<sup>16</sup> Kühnen, FRAND-Lizenz in der Verwertungskette GRUR (July 19, 2019), p. 665-673

*of the distribution chain, even if a FRAND licence has already been granted at a subsequent distribution stage.”*

*S. 666: “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 license seeker for a FRAND license in person is an act of lawful exercise of rights, irrespective of whether and how many FRAND licenses 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 license, such entity would have to ensure that its customer was in fact sufficiently entitled to a license for each and every sales transaction concerning its preliminary, intermediate or final product and, in the absence of such a license, would be directly subject to the SEP holder's claims for infringement of intellectual property rights, whereas, if it had its own FRAND license, 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.”*

- b. 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.”
- c. In his book titled ‘Patent litigation proceedings in Germany’<sup>17</sup>, Judge Kühnen says:

*“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 license 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*

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<sup>17</sup> Kühnen, Patent litigation proceedings in Germany, 12. Edition 2020, Kap. E II. 5. Rn. 352:

*not prevented by his request for a license. In such circumstances, the distributor may request a license on his own behalf and, through his own licensing efforts, avoid an action for injunction.”*

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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](mailto:information@fair-standards.org)

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