

**ACT | The App Association – Legal Opinion on FRAND Questions to be
Addressed by the Court of Justice of the European Union**

(Referral by District Court of Düsseldorf of November 26, 2020)

ACT | The App Association (“App Association”) is an international not-for-profit organization representing thousands of small businesses software application developers and technology firms located across the European Union (EU) and around the globe that create software applications used on mobile devices / connected devices and in enterprise systems. Today, the ecosystem the App Association represents – which we call the “app economy” – is valued at approximately €830 billion and is responsible for millions of jobs across EU Member States. Alongside the world’s rapid embrace of mobile technology, our members develop innovative hardware and software solutions that power the growth of the internet of things (IoT) across modalities and segments of the economy.

The App Association devotes itself to ensuring and developing principles for licencing patents under fair and balanced conditions, which are required for the business of its members (i.e., such patents that are essential for network and mobile communication standards), known as standard-essential patents (SEPs) for which their owners voluntarily have promised to licence these SEPs on fair, reasonable, and non-discriminatory (FRAND) terms. It is important that all manufacturers—big or small, regardless of where they are in a supply chain—can use these standards to build new products, develop new technologies, innovate, and compete.

Background

In 2013, the Düsseldorf District Court already referred questions on standard-essential patent (SEP) licencing under fair, reasonable, and non-discriminatory (FRAND) conditions to the Court of Justice of the European Union (CJEU) seeking clarification on several general questions as to the obligations of the holder of a SEP and the implementer seeking for a FRAND licence. This referral led to the CJEU judgment in 2015 (*Huawei vs. ZTE*, case-number C-170/13). Although the CJEU clarified some questions, others remained unanswered and led to diverging judgments across Europe. This led to legal uncertainty for companies seeking for licences on FRAND terms.

Against this background, the App Association welcomes the Düsseldorf District Court’s referral to the CJEU, two sets of questions seeking further clarification and harmonisation in the field of FRAND licencing and requesting guidance for the assessment of injunctive relief in its order of 26 November 2020 in a litigation between Nokia and Daimler (docket-no. 4c O 17/19). The questions particularly concern the right to a full FRAND licence to all users of the standard in the supply chain (Part A) and how the courts should assess further general FRAND obligations that likewise remained unanswered in the *Huawei v. ZTE* judgment of the CJEU in 2015 (Part B).

It is worth noting that the order of the Düsseldorf District Court already includes the court's detailed reasoning of the court's opinion on the questions to be answered by the CJEU.

The order with said reasoning was published in law magazines and may be downloaded (in German) from the official law data base (https://www.justiz.nrw.de/nrwe/lgs/duesseldorf/lg_duesseldorf/j2020/4c_O_17_19_Beschluss_20201126.html). A copy of the order is attached as **Annex A** together with a working-translation provided by the App Association.

Executive Summary

The convergence of computing and communication technologies will continue as a diverse array of industries come together to build the IoT. Wi-Fi, LTE, Bluetooth are among the technological standards that provide seamless interconnectivity. These technological standards, which are built on contributions through an open and consensus-based process, bring immense value to consumers by promoting interoperability between devices made by different manufacturers while enabling healthy competition between these downstream innovators. Often, many companies will collaborate to develop these standards and some will contribute their patented technologies to these efforts. Competition between these technological contributions and with non-patented alternatives ends when the standard is defined. At that point, the patented technologies included in the standard become essential because manufacturers are compelled to use them to maintain product compatibility. Consequently, the owner of each standard essential patent (SEP) has the power to prevent users of the standard from selling their products unless they agree to the patent owner's licensing terms. This power to exclude and force licenses to accept the owner's preferred licensing terms is known as hold up.

Many standards development organizations (SDOs) ask holders of patents on standardised technologies to licence their patents on FRAND terms if they want their patents included in the standard. These commitments help preserve for consumers the benefits of the competition between technologies that took place before the standard was set and prevent SEP from exploiting the unearned market power that they gain as a consequence of the broad adoption of a standard. In exchange for making a voluntary FRAND commitment with an SDO, SEP holders gain the ability to obtain reasonable royalties from many users of the standard, a licensee market that might not exist absent the standard. Without the constraint of a FRAND commitment, SEP holders would have the same power as a monopolist that faces no competition and could force licenses to pay unreasonably high royalties in order to keep their products in the market. Unfortunately, a number of owners of FRAND-committed SEPs are flagrantly abusing their unique position by reneging on those promises with unfair, unreasonable, or discriminatory licencing practices. These practices, threaten healthy competition and unbalance the patent system, and impact the viability of new markets like the nascent IoT. The negative impacts on small businesses are amplified because they can

neither afford years of litigation to fight for reasonable royalties nor risk facing an injunction if they refuse to take a licence that is not FRAND compliant.

The App Association endorses the referral to the CJEU by the Düsseldorf District Court seeking further clarification on important SEP licencing questions. The answers and guidance to be given by the CJEU shall lead to further harmonisation across Europe and clarity for the parties involved in FRAND licencing.

Furthermore, the App Association largely agrees with the reasoning of the Düsseldorf District Court as to how the questions should be answered by the CJEU. The main findings of the Düsseldorf District Court are:

- The SEP holder shall be obliged to grant licences on FRAND terms to suppliers of components in the supply chain and not only to end-product manufacturers;
- The FRAND licence to a supplier has to be unlimited and unrestricted;
- In line with the previous CJEU decision in *Huawei vs. ZTE*, courts should first assess whether or not the offer of the SEP holder is FRAND before looking at the counteroffer and behaviour of the licensee.
- There is no loss of a right to a FRAND licence, and the parties may make up for their FRAND obligations after the suit has been brought; and
- No excessive requirements shall apply to the declaration of willingness to take a FRAND licence – in particular, the counteroffer of the implementer cannot be used to determine the implementer's willingness.

The App Association broadly concurs with the view of the Düsseldorf District Court that there shall be a right to a FRAND licence on the component level in the supply chain as well as with the answers to the more general FRAND related questions. The stakeholders involved, e.g., the Member States as well as the EC, are well advised to carefully read the well-reasoned rationale of the Düsseldorf District Court that reaffirms the App Association's previous statements made on the pertinent questions of SEP licencing and which the App Association CJEU will affirm also.

As is also noted by the Düsseldorf District Court in paragraph 41 of its rationale, the

“answer to the questions referred has far-reaching significance. In Europe, and in particular in Germany, a large number of patent infringement suits are currently being brought on the basis of standard-essential patents, in which a more or less complex value-added chain consisting of a large number of suppliers stands behind the alleged patent infringer. The antitrust requirements to be imposed on the SEP holder in such cases, in particular to what extent or to whom it must grant FRAND licences, are currently disputed. The European Commission has also issued requests and demands for information to the parties involved following complaints from the defendants and some suppliers.”

The Düsseldorf District Court's rationale supporting that there shall be a right to a FRAND licence at all levels of the supply chain is further supported by other important authorities such as the Antitrust Authorities, and the purpose of SDOs patent policies.

The SDOs, by means of the respective FRAND commitments to be signed by the SEP holders, require a contractual undertaking to grant licences on FRAND terms to all third parties. The FRAND commitment conveys a contractual right to third parties that shall be considered beneficiaries in this regard, meaning that the FRAND commitment shall therefore apply vis-à-vis any third party, irrespective of additional disruptive market behaviour in terms of antitrust law.

Likewise, as discussed in greater detail below, the Antitrust Authorities and the European Commission have made several statements endorsing antitrust law's role in providing effective access to standards on FRAND terms for all interested third parties. Below, the rationale of the Düsseldorf District Court shall be dealt with and commented on in more detail, also taking into consideration the statements of the aforementioned authorities as well as European case law.

Factual Background of the Referral Order

First, the factual background of the litigation before the Düsseldorf District Court shall be briefly outlined for a better understanding of the referral questions. This background is also broadly applicable to many other suppliers and manufacturers in the auto industry and other industries (e.g., in the field of IoT), who face many of the same issues.

In the specific case at hand, Nokia (SEP holder) sued Daimler (car manufacturer) for infringement of mobile communication SEPs (LTE-Standard) that were allegedly implemented in modules called Telematics Control Units (TCUs) enabling cars to connect to the internet for a variety of services ("connected cars").

The TCUs are not manufactured by the car manufacturer, but within a supply chain consisting of several steps / tiers. Tier 1-supplier provides the final TCU to be inserted into the car by the car manufacturer. The Tier 1-supplier receives components called NADs (Network Access Devices) to be used for the network capability of the TCU from their suppliers (Tier 2-suppliers). The chips required for the NADs are again provided to Tier 2-suppliers by further suppliers (Tier 3-suppliers).

After the SEP holder notified the car manufacturer about the alleged infringement of its SEP by the TCUs, it offered a licence for its SEPs to the car manufacturer. Upon a licencing request of Tier 1 and Tier 2 suppliers, it offered a “licence” to the Tier 1-manufacturer only. However, this “licence” initially was a contractual arrangement according to which the Tier 1-supplier acted as an intermediary for licencing the manufacturer. Later, an additional limited licence was offered to Tier 1-suppliers, which, however, was limited to research and development, and the manufacture of connected cars. A part from this, the supplier would still have to rely on the car manufacturer’s licence and its “have made” right, which includes the production of the TCU by the Tier 1-supplier, but only regarding this specific car manufacturer under its licence.

During the litigation, the SEP holder made a new licence offer that included an unrestricted licence to Tier 1 suppliers covering the production and distribution of TCUs. However, no offer was made to Tier 2-suppliers, i.e., the manufacturer and supplier of the NAD.

Legal Background – Unanswered Questions in *Huawei vs. ZTE*

As to the relevant legal background, the District Court refers to the FRAND obligations as laid down in the previous CJEU judgment in the case *Huawei v. ZTE*. In said case, the CJEU clarified that the holder of a SEP that conveys a market dominant position would infringe Article 102 of the Treaty on the Functioning of the European Union (TFEU) if certain prerequisites have not been met vis-à-vis the licence seeker before bringing an action. Furthermore, the CJEU set forth some obligations for the licence seeker in order to rely on the FRAND defence in the litigation. The mutual obligations have been particularly addressed in paragraphs 60 to 68 in the *Huawei v. ZTE* judgment.

According to paragraphs 60 and 61 of the judgment, the holder of a SEP would infringe on Article 102 TFEU when bringing an action for injunctive relief and/or for the recall and destruction of products against the alleged infringer without prior notice of the alleged infringer, even if the SEP has already been used by the alleged infringer. Rather, the SEP holder, first, has to alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed. This obligation is referred to as the “infringement alert”. The rationale behind this is that in view of the large number of SEPs composing a standard, it is not certain that the infringer of one of those SEPs will necessarily be aware that it is utilising a SEP that is both valid and essential to a standard (para. 62).

Following up on the infringement alert, the CJEU requires the alleged infringer to express its willingness to conclude a licencing agreement on FRAND terms (para. 63). Unfortunately, the CJEU has neither laid down any specific requirements as to the content nor the conduct associated with the declaration of willingness. This was one of the reasons that led to diverging case law in Europe in the aftermath of said judgment. The national courts applied different standards as regards to the willingness of the implementer and the question of whether the implementer may remedy alleged unwillingness after the filing of the action by the SEP holder. Thus, there is an urgent need for further clarification that was picked up by the Düsseldorf District Court by means of the pertinent referral questions (see below).

In the *Huawei v. ZTE* judgment, the CJEU also made clear that following the declaration of willingness, it is the SEP holder that has to make a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated (“FRAND-offer”; see para. 63). This was a major change since according to the previous German case law under the regime of the so-called “*Orange Book Standard*” of the German Federal Court of Justice, where the obligation for the licensor’s initial offer was considered disadvantageous for the licence seeker given the information asymmetry (e.g., lack of knowledge about the other licence agreements the SEP holder concluded). Rightly, the CJEU held in this regard that it is the SEP holder that is better placed to check whether its offer complies with the condition of non-discrimination than is the alleged infringer (para. 64).

According to paragraph 65, the alleged infringer should respond to that offer in accordance with recognised commercial practices in the field and in good faith on the basis of objective factors and without delaying tactics. In case the licence seeker does not accept the offer made to it, it may rely on the abusive nature of an action for injunctive relief or for the recall/destruction of products only if it has submitted to the respective SEP holder, promptly and in writing, a specific counteroffer that corresponds to FRAND terms (see para. 66). Upon the rejection of the counteroffer, the implementer has to provide appropriate security, in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit. The calculation of that security must include, inter alia, the number of the past acts of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use (para. 67). The parties may further, by common agreement, request that the amount of the royalty be determined by an independent third party (para. 68).

Against this background, in *Nokia v. Daimler* case, the Düsseldorf District Court identified several questions that were not answered by the CJEU in the *Huawei v. ZTE* judgment and that were relevant for the pertinent case to be decided by the District Court. Said questions will now be dealt with in more detail.

Questions Referred to the CJEU

As indicated above, the District Court's referral relates to two sets of questions. Part A deals with component level licencing and Part B with how to evaluate the parties' negotiations under *Huawei v. ZTE* before any injunction can issue, in particular as it regards willingness and the making up for obligation after the bringing of an action.

Part A. Is there an obligation to licence suppliers preferentially?

- 1. Can a company in a downstream position in a patent infringement action for injunctive relief brought by the holder of a standard-essential patent (SEP) who has irrevocably committed to grant a licence to any third party on FRAND terms, raise the objection of abuse of a dominant market position within the meaning of Art. 102 TFEU if the standard for which the patent is essential or parts thereof are implemented in an upstream product purchased by the defendant whose supplier is a willing licensee, and the patent holder refuses to grant an independent and unlimited licence on FRAND terms covering all types of use relevant under patent law for products implementing the standard?***

The first referral question addresses one of the core disputes between Nokia and Daimler, i.e., whether an SEP holder, under its FRAND licencing commitment, is obliged to grant an unlimited and independent licence to the supplier of a component that implements the standard / teaching of the SEP, if requested by the supplier, or whether the SEP holder can insist to only licence the manufacturer of the final product.

The District Court takes a clear position on this and dismisses the argument of Nokia that it is within its discretion which company to licence. First, the court refers to the FRAND declaration not allowing for any such discretion of the SEP holder. Rather, the court in holds that:

“[19] In view of the “fact that the FRAND declaration does not contain any restrictive conditions, apart from the expressed wish of the licence seeker, it obliges the SEP holder vis-à-vis anyone to grant him a licence on FRAND terms.”

As a consequence, the SEP holder is obliged to offer a FRAND licence to anyone seeking a FRAND licence. This necessarily includes all manufacturers and suppliers in the supply chain, including upstream manufacturers / distributors of components or products implementing the pertinent standard and thus the claimed teaching of the SEP. Convincingly, the court goes on with the public interest in FRAND licencing that require this finding:

“ In this regard, the grant of the licence shall not merely grant any access to the standardised market, but shall grant the licence seeker a participation in the standardised technology to such an extent as to enable him to compete freely in all product markets now and in the future contemplated by him.”

“[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. The choice of who the SEP holder offers a licence to in its SEP portfolio determines who can participate in competition in product markets downstream from the technology market. The licencing practice of an SEP holder is therefore a significant shaping factor for the level in a production chain at which a free market can emerge on competitive terms. This is shown by the facts of the case at hand. With their own unrestricted licence to the plaintiff's SEP, the suppliers seeking the licence are in a position to independently and legally securely further develop, manufacture and sell TCUs and the necessary components for them to any automobile manufacturer. Only with this licence 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 the 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.”

At the same time the District Court, with convincing reasoning, dismissed the arguments brought by Nokia that licencing end-manufacturers only would be more efficient and avoid transaction costs as well as the risk of double payments. In paragraphs 25 and 26 of the reasoning, the court rightly concluded:

“(25) There are no efficiency reasons against an obligation to licence suppliers on a priority basis. In principle, it is recognized that efficiency advantages are in principle suitable to justify the anti-competitive behaviour 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)). In this context, the efficiency benefits must outweigh any negative effects on the affected markets and the conduct must not eliminate effective competition. This cannot be established in the present case. The fact that licencing 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 licencing of the baseband chip producers would be appropriate, of which there are no more than ten manufacturers worldwide. Apart from this, any simplification of licencing does not represent a justifiable efficiency advantage in the sense described above.”

“(26) The level of transaction costs and the risk of double payment when concluding several licence agreements for the same subject matter of the licence also do not stand in the way of an obligation to licence suppliers on a priority basis. Both can be reliably countered by contractual arrangements.”

The App Association would like to emphasize that the above considerations go beyond the car industry and also apply to all other complex IoT connected products of which there are also many more manufacturers than chipset / baseband manufacturers supplying the components such complex products are equipped with.

Against this background, the compelling finding of the court in paragraph 29 that an SEP holder abuses its dominant position when refusing to licence in the supply chain likewise applies to the suppliers of connected products other than cars:

“[29] The right of each supplier to demand an unrestricted FRAND licence for itself exists in principle and unconditionally after all, so that the demand for a FRAND licence 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 licence seeker can rely.”

Furthermore, the District Court correctly puts a focus on the legitimate interest of the licence seekers to act freely and independently on the technological market that is affected by the standard and thus by the SEP. The whole concept of FRAND licencing of SEPs and all related aspects under procedural and material law are based on the principle that competition shall not be hindered.

It is therefore appreciated that the District Court confirms *“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”*.

The App Association agrees that a licence limited to a specific market or a specific level of market participants in the supply chain would block innovation and competition on other markets. If the SEP holder was allowed to decide the level of the supply chain to be licenced, it would effectively shape the market(s) on which further innovations could freely take place. If, for example, the licence to the component supplier is limited and ultimately depends on its sale of products to specific buyers / technology markets, the supplier would be hindered from approaching other buyers, accessing new technology markets, or entering into competition with other suppliers in such other markets. This would result in a severe restriction of free competition and a separation of markets.

In summary, the District Court of Düsseldorf aligns and reaffirms the views of the main authorities in this regard. Besides the reference to the article of Judge Kühnen, who chairs one of the two patent Senates at the Appeal Court of Düsseldorf, and that confirms the right to a FRAND licence in the supply chain, the District Court references the Communication from the European Commission (EC) of 29 November 2017 on licencing practices for SEPs. With said Communication, the EC reconfirmed the “licence to all” obligation of FRAND committed SEP holders that had already been established in the EC’s 2011 Horizontal Guidelines (“Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements”).¹ Therein, it was laid down that “refusing to licence” would constitute anti-competitive behaviour of SEP holders. To prevent this, it was suggested that the obligation to licence “all third parties” shall be implemented in the IPR policies of SDOs, as stated in paragraphs 285 and 287 of the Horizontal Guidelines:

“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 licence 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 licence 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.”

The EC further indicated that compliance with Article 101 TFEU would require the SDOs to implement such FRAND commitments in their IPR policies (cf. para 288). Effectively, this led to a high degree of harmonisation among the IPR policies of the main SDOs, e.g., IEEE, 3GPP, ETSI, ATIS. The current IPR policies of those SDOs unanimously provide for an obligation to grant licences under FRAND terms “to all third parties” (cf. 3GPP’s Public Representations) and “an unrestricted number of applicants” (IEEE IPR Policy) respectively. None of those IPR policies provides for an exception to the extent that

¹ Commission Communication, Guidelines on the Applicability of Article 101 of the TFEU to horizontal co-operation agreements, 2011 O.J. C., 14.1.2011, [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)

the SEP holder shall be entitled to only selectively licence its SEPs, e.g., not granting licences to certain levels in the supply chain.

Likewise, it was also pointed out in paragraph 34 the Commission's 2014 *Samsung - Enforcement of UMTS standard essential patents* decision²:

"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."

In the same manner, in the 2013 *Nokia/Microsoft* merger decision, the EC reminded Nokia (the party subject to the present CJEU referral) in paragraph 192 of the decision that

"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 licencees; and (iii) to offer a licence to the patent on fair and reasonable terms."

Against this backdrop, it is fair to say the Düsseldorf District Court is aligned with the European Commission in refusing to endorse the "access for all" rationale with regard to SEP licence availability, as favored by some SEP holders such as Nokia in the underlying CJEU Referral, since this would allow SEP holders to arbitrarily refuse to licence implementers willing to take a licence under FRAND terms.

In the 2017 Communication cited by the Düsseldorf District Court, the EC also reiterated that the CJEU, in the *Huawei vs. ZTE* decision of 2015, confirmed that an effort *"to grant licences on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms"*. One may therefore assume that the CJEU in *Huawei v. ZTE* already – at least implicitly – confirmed the "licence to all" principle. However, by means of the second referral of the District Court of Düsseldorf, the CJEU now has the chance to explicitly confirm the licence to all obligations and to dismiss deliberately incorrect interpretations of its first judgment.

² 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

This finding would further be in line with the views and guidelines by non-European antitrust authorities and case law. It particularly follows from several U.S. decisions that selective licencing in the supply chain does not comply with antitrust law. This was explicitly decided with regard to modem chip suppliers in *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 licence their patents on ‘reasonable and non-discriminatory’ or ‘RAND’ terms. Under these agreements, an SEP holder cannot refuse a licence to a manufacturer who commits to paying the RAND rate.”

It was also held in this decision that this includes a *“requirement to negotiate licences with all seekers.”*

It should be added that the licencing of component suppliers upstream in the supply chain also allows for an adequate SEP valuation and corresponding royalty rate determination. The leading multistakeholder best practice development effort, developed within CEN-CENELEC in accordance with Guide 29 “CEN/CENELEC Workshop Agreements” and with the relevant provisions of CEN/CENELEC Internal Regulations - Part 2, discovered consensus across a diverse, international, and cross-sectoral stakeholder group of small and large businesses around (a) educational and contextual information regarding SEP licencing and the application of the FRAND commitment; (b) identification and illustration of the questions that negotiating parties may encounter in SEP licencing scenarios; and (c) key behaviours and best practices that parties should adopt to resolve any SEP licencing issues amicably and in compliance with the FRAND obligation. This deliverable, CWA 95000:2019 (“Core Principles and Approaches for Licencing of Standard-Essential Patents”),³ sets forth:

“SEPs should be valued based on their own technical merits and scope, not based on downstream values or uses. In many cases this will involve focusing on the smallest component that directly or indirectly infringes the SEP, not the end product incorporating additional technologies. As noted by the European Commission, SEP valuations “should not include any element resulting from the decision to include the technology in the standard.” Moreover, “[i]n defining a

³ Available at: ftp://ftp.cencenelec.eu/EN/News/WS/2019/CWA_SEP/CWA95000.pdf.

FRAND value, parties need to take account of a reasonable aggregate rate for the standard.”

On the other hand, in the case of downstream licencing in the supply and production chain, the valuation might be based on other aspects than value provided by the SEP and its technical teaching as such, which is to be avoided. As the EC made clear in the 2017 Communication referenced by the Düsseldorf District Court, the “use-based pricing” model is to be avoided since it would allow SEP holders – like Nokia – to inflate licence fees based on the value created by other innovators, or factors that are unrelated to the patent rather than on its technical contribution.

However, it should be noted that the specific scenario of complex products is by no means limited to the automotive industry. It likewise applies to other complex products such as mobile phones and other connected devices across IoT use cases. Past automobiles, the convergence of computing and communication technologies will continue as a diverse array of industries come together to build IoT that will rely on seamless interconnectivity made possible by technological standards like Wi-Fi, LTE/5G, and others. The success or failure of new IoT use cases across consumer and enterprise verticals will depend on access to standards and, therefore, the ability to licence patents essential to such standards in a fair, transparent, and consistent manner. App Association members across the EU need this fairness, transparency, and consistency with regard to SEP licencing in order to grow and create new jobs. Ultimately, there will be a direct impact on the choices available to, and related costs borne by, European consumers.

In summary, the App Association fully concurs with the Düsseldorf District Court and the views of the pertinent other authorities that the FRAND obligations require full licencing in the supply chain.

- a) Does this apply in particular if it is customary in the relevant industry of the distributor of the end-product that intellectual property rights situation for the patents used by the supplied part is cleared by means of licencing by the suppliers?

With this sub-question, the Court raises the question whether the above finding that there is an obligation to licence in the supply chain shall particularly apply in industry sectors such as the automotive industry where, on a general basis, indemnifications regarding third party rights are being issued by the suppliers for the benefit of the end-product manufacturer. In paragraph 24 of its reasoning, this is generally answered in the affirmative by the court (highlighting added):

*“(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.** Since up to 30,000 components are installed in an automobile, it would mean a considerable effort for an automobile manufacturer to check whether the technical solutions installed in his vehicle and supplied by third parties make use of the property rights of third parties. **The problem becomes all the more pressing the more complex the supplier part is and the further the respective technology is removed from the actual field of activity of the automobile manufacturer,** as is the case with the TCUs and NADs in question here. **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 licence in their favor.”*

Although the App Association agrees with the finding that licencing in the supply is particularly required in scenarios of complex products and in which the supplier is in the best situation to determine potential infringements of intellectual property rights, it should not be decisive whether or not it is customary in the specific industry sector whether products are supplied free of third-party rights. Rather, it should only be focused on the complexity of the products and the pertinent knowledge of the supplier and the end-product manufacturer. This is true as the leading considerations of the court highlighted in bold in the above citation, equally apply to app developers as well as connected device manufacturers. Those devices also include, and depend on, a variety of technologies and technical solutions created on another level in the supply chain. The developer and manufacturer of a connected device is not necessarily an expert in internet connectivity or mobile communication technology. Chipsets implementing and enabling such technologies could be considered “black boxes” for most developers of connected devices. Thus, also here the problem—addressed by the District Court—arises that the technology implemented in the supplied part is complex and far removed from the actual field of business of the manufacturer of the final product. Also, the manufacturer of such a device usually does not have any influence on the technical solution embodied in the supplied parts needed for its device.

The fact that, in the automotive industry, supplied components are usually bought “free of third-party rights” results from the strong market and negotiating power of the car manufacturers. Mobile phone or other connected device manufacturers would most certainly also prefer to buy components “free of third-party rights”, in particular if they lack the pertinent factual or technical knowledge to be able to assess whether these components might infringe any third-party rights. Focusing on what has been established as “customary” in a certain industry in the past due to the imbalance of market powers would further perpetuate said imbalance which is certainly a result to be avoided from an antitrust law perspective. The App Association understands and appreciates that also the Düsseldorf District Court has not drawn any such incorrect conclusion.

This is also most important for the members of the App Association that are predominantly involved in IoT and do not have the market power similar to the car makers. The App Association therefore proposes that the most efficient and rational solution is to licence exhaustively at the chipset level, saving downstream actors like app developers from negotiating licences with companies far larger than themselves. This would ensure that downstream actors are able to use SEP-encumbered devices of all kinds in a multiplicity of ways on a fair and equitable basis. To safeguard this, the

CJEU should concur with the District Court of Düsseldorf that exhaustive licencing in the supply chain is required.

In summary, the obligation to grant FRAND licences in the supply chain shall in any event apply and be irrespective of whether or not it is customary in the specific sector to issue indemnifications which might not be true for smaller market players and end-product manufacturers in IoT that should not be disadvantaged vis-à-vis bigger market players.

b) Is there a preferential licencing to suppliers at any stage of the supply chain or only to the supplier immediately upstream of the distributor of the final product at the end of the supply chain? Is this also to be determined by business practices in the industry?

Although this question is not directly addressed in the reasoning of the Düsseldorf District Court, it follows from further considerations in the rationale that the Düsseldorf District Court's view is to also answer this sub-question in the affirmative and to require component level licencing at each stage of the supply chain. This is particularly true since the problems addressed under sub-question a) regarding the complexity of products likewise apply to First Tier suppliers that might also not be in a situation to assess potential infringements of intellectual property rights by the intended use of components provided by upstream suppliers. The Düsseldorf District Court also refers to the fact that SEP holders other than Nokia (and licensors of the same patent pool at stake) have also licenced Tier 2 suppliers indicating that the arguments raised against this by Nokia shall not prevail.

The App Association, for the reasons stated above, is also of the opinion that there shall not be any discretion of the SEP holder to only licence Tier 1 suppliers irrespective of the specific circumstances of the case. Rather, the SEP holder should be obligated to grant licences to anyone in the supply chain seeking for a FRAND licence.

2. Does the prohibition of abuse under cartel law require that the supplier be granted its own, unrestricted licence for all types of use relevant under patent law on FRAND terms for products implementing the standard, so that that the distributors of the final product (and possibly the upstream purchasers) in turn no longer require their independent, separate licence from the SEP holder in order to avoid a patent infringement claim in the event of intended use of the supplied component?

This question addresses the arguments brought by Nokia that in any event the downstream supplier and the manufacturer of the end-products respectively may require a separate licence, due to worldwide distribution and potentially involved method claims, no exhaustion of the SEP rights would apply anyway.

The District Court of Düsseldorf, however, correctly holds that based on competition law considerations and the commitment made by the FRAND declaration, the SEP holder is obliged to convey *“to any interested party a licencing claim which is geographically unlimited and/or includes the exhaustion of process claims”*. This can be ensured by contractual arrangement that can also be made in licencing agreements with suppliers further upstream in the supply chain.

The App Association endorses the reasoning of the Düsseldorf District Court in this regard as stated in paragraphs 21 to 23 of the reasoning:

“(21) It cannot be argued against an own, full-fledged licence claim of the suppliers that even then there is still a need for the SEP holder to grant an own licence to the further manufacturers. It is true that even unlimited licencing 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 licenced supplier.”

“(22) It should be noted, however, that as a result of the confidence-building promise given by the SEP holder, licencing must take place on FRAND terms. This requires that provisions are made in the licence agreement which lead to the exhaustion of patent rights in the event that the licence 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 standardised 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 licencing 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 licence 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 licence from the SEP holder for his part (Kühnen, GRUR 2019, pages 665, 670 et seq..)."

"(23) The limitations of the exhaustion principle in substantive and territorial terms can therefore be overcome by including clauses in the licence agreement that lead to comprehensive exhaustion irrespective of territory and also with regard to any procedural claims. For example, the contractual granting of a limited right to sublicense can be useful. In view of the fact that the licenced TCUs and NADs are intended precisely to establish a mobile radio connection in accordance with the 2G to 4G standards, a SEP holder can therefore be expected to grant a licence that enables this intended use by both the supplier and its customer."

In this regard, the District Court, endorses the compelling arguments set forth in Judge Kühnen's article that is explicitly cited in the Court's rationale. Judge Kühnen not only argues that any company in the supply chain shall have the right to a FRAND licence, but also that, upon request by the licence seeker, the FRAND licence shall effectively lead to a worldwide exhaustion of patents rights. There is no room for a differentiation between territories and certain patent claims according to Judge Kühnen. Since the FRAND declaration is to be given on a worldwide basis, the same holds true for the FRAND licence that should allow the licence seeker to distribute its products globally (Kühnen, GRUR 2019, 665, 671 et seq.).

The App Association concurs with the Düsseldorf District Court and Judge Kühnen. It should, however, be noted that the need for worldwide patent exhaustion is even bigger in the field of IoT than with the automotive industry. Whereas it is common practice in the car industry that cars are being manufactured for and sold in selective market, e.g., in Europe or in the United States, there is no such common practice with much smaller IoT devices that are typically being produced and sold on a worldwide scale. Thus, if a FRAND licence would not come with worldwide exhaustion, this would endanger the business of most of the members of the App Association. In summary, there is a need for the FRAND licence to lead to worldwide exhaustion for products being sold by the supplier since, otherwise, the supplier's right to a FRAND licence

would be unduly restricted and the SEP holder be allowed to partly re-install a use-based licencing scheme according to which the royalties may be based on different aspects than the technical teaching of the SEP. The FRAND licence in the supply chain therefore needs to be contemplated by contractual obligations resulting in worldwide exhaustion for the supplier's products.

3. **If the question referred under no. 1 is answered in the negative: Does Art. 102 TFEU impose any particular qualitative, quantitative and/or other requirements on the criteria according to which the holder of a standard-essential patent can decide against which potential patent infringers at different levels of the same production and value chain to make a claim for a patent infringement suit for injunctive relief?**

This question is not further addressed in the reasoning of the Düsseldorf District Court that clearly answered the first question in the affirmative, a view that is shared by the App Association. Therefore, no further considerations shall be made in this regard.

Part B. Clarification of the requirements set forth by the [European] Court of Justice in the case of Huawei v. ZTE (judgment of 16 July 2015, C170/13):

1. **Irrespective of the fact that the reciprocal duties of conduct to be met by the SEP holder and the SEP implementer (alert of infringement, request for licence, FRAND licencing offer; licencing offer to the preferentially licenced supplier) must be met prior to litigation, is it possible to make up without prejudice for obligations to act that were missed in the pre-litigation phase in the course of the litigation?**

The App Association also appreciates the rationale of the Düsseldorf District Court as to this question. The Düsseldorf District Court provides compelling arguments to allow for making up for FRAND obligations during litigation, e.g., after the filing of the complaint. Ultimately, this confirms the prevailing view of the most relevant courts and authorities. The Düsseldorf District Court reasoned in paras 31 and 32 of its rationale:

“(32) The Court of Justice thus makes it clear that the steps described - infringement notification, licencing request and submission of a FRAND-compliant licencing 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 up for it during the ongoing legal dispute. [...]"

"(33) In the Chamber's view, making up is in principle possible in the course of the proceedings, which will be justified in more detail for the necessity of a FRAND-compliant licence offer. The question of whether a licence offer is FRAND in an individual case (which the Chamber understands in the sense of freedom from exploitation and discrimination in accordance with Article 102 TFEU) often raises difficult and largely unresolved questions of assessment, the treatment of which is practically impossible for the parties to predict by the court. Without an SEP holder being reproached, it often only becomes apparent in the legal dispute whether and for what reason the previous offer is inadequate. Insofar as the SEP holder is prepared to make improvements, the relevant discussion should sensibly take place in the ongoing litigation. The situation is similar if the patent proprietor has fulfilled its pre-court obligation to give notice of infringement and, after waiting for a reasonable period of time for the infringer to provide explanations without result, has filed an action. If the infringer then declares its willingness to licence in the lawsuit and if making up were denied, this would have the consequence that the court would have to order the infringer to cease and desist, which would make it practically impossible for the infringer (under the pressure of an enforceable cease and desist order) to conduct fair FRAND negotiations with the SEP holder."

It should be noted that the making up for obligations after the filing of the complaint is particularly important for the implementer that, from the outset, is in a weaker position. The SEP holder, once found to violate the FRAND commitment, could easily withdraw the complaint, make up for the obligations and re-file. This would at least be admissible under German procedural law. The situation would be different with the implementer. If the implementer's conduct were to be found non-FRAND in the course of the litigation, the SEP holder could further pursue its claims for injunctive relief and may then demand excessive royalty fees, whereas the implementer—different to the SEP holder—would not have a chance to fix potential shortcomings in the view of the court. Rather, the implementer would be put in a situation of either taking the non-FRAND offer or leaving the market as a consequence of injunctive relief being granted by the court. Thus, there would be an imbalance from the outset.

In Germany, the making up for obligations has been confirmed by the Higher Regional Court of Düsseldorf in the first place with other German courts following this approach. It should be mentioned that the District Court of Mannheim deviated from this principle in some judgments that were issued in 2016. However, said deviating case law of the Mannheim Court was later set aside in the second instance before the Higher Regional Court of Karlsruhe in its judgment of 30 October 2019 (6 U 183/16, published in GRUR 2020, 166 et seq.) in the case *Wiko v. Philips* for compelling reasons, in particular to avoid the abovementioned imbalance disadvantaging the implementer. The Higher Regional Court of Karlsruhe stated in its rationale that the CJEU in *Huawei v. ZTE* by no means excluded the making up for obligations during litigation. Rather, the “bringing an action” as referred to by the CJEU is to be seen as a connecting factor of the allegation of abuse of the dominant position by abusive legal action. The obligation to grant a licence on FRAND terms exists independently of a patent infringement dispute. Furthermore, the Higher Regional Court of Karlsruhe correctly held the CJEU has therefore by no means precluded an assessment of the factual situation after the bringing of the action. Rather, the CJEU held that whether an abuse of a dominant position objectively exists is to be assessed by the national courts in each individual case on the basis of an overall assessment that takes due account of the legal and factual circumstances of the specific case (see CJEU, *Huawei v. ZTE*, paras 42, 56, 70). For Germany, this also complies with the procedural law according to which the decisive date for the court’s assessment is the hearing date, not the filing date of the action. Any other perception would also be contrary to the principle of proportionality, as it is also recognized as an element of Union law (cf. Art. 5 TEU, Art. 6 TEU in conjunction with Art. 52 I 2 CFR).

The UK courts endorsed the German reception of the *Huawei v. ZTE* judgment in the *Unwired Planet v. Huawei* case. The High Court of England and Wales, with its 2017 judgment, set out that also the SEP holder’s conduct after bringing the action is to be considered and may become abusive:

“vi) Nor does it follow that if the patentee complies with the scheme such that bringing the action is not per se abusive, the patentee can behave with impunity after issue. Again, the scheme sets out standards of behaviour against which both parties’ behaviour can be measured to decide if an abuse has taken place.

vii) If the patentee does abuse its dominant position in bringing the claim or in its conduct after issue, that affords a defence to the claim for an injunction. In other words, the proper remedy is likely to be refusal of an injunction even

though a patent has been found to be valid and infringed and the implementer has no licence.”

The England and Wales Court of Appeal confirmed said findings with its judgment of 23 October 2018, [2018] EWCA Civ 2344) and held in paragraph 256 that “if the SEP owner complies with the scheme its *subsequent* behaviour may nevertheless amount to an abuse of a dominant position”. Furthermore, in paragraph 272, the Court of Appeal made clear that “a SEP owner which is holding-up should not be able to use the threat of an injunction to coerce an alleged infringer which is prepared to take a licence on FRAND terms into paying exorbitant licence fees.” The Court of Appeal went on to discuss the German judgments in this regard and eventually endorsed the German reception when setting out in paragraph 279 of its judgment that

“The German courts have not applied the reasoning of the CJEU in Huawei v ZTE in a formulaic way, and they have instead considered any special features of the cases before them and have prepared to take into account the behaviour of the parties up to the end of the oral hearings.”

Against this background, it appears that the making up for obligations is unanimously being considered admissible by the courts in Europe.

In addition, the App Association would like to point out that it endorses the further characterization of the CJEU approach of the Higher Regional Court of Karlsruhe in the above-mentioned judgment. That court states once the SEP holder or and implementer have made up for their obligations in the course of the litigation, it must be taken into account that the concept of the CJEU is characterised by the underlying principle that licence negotiations shall not be conducted under the pressure of pending litigation. Doing so avoids forcing the implementer to agree to unfavourable licence terms due to this pressure. The Higher Regional Court of Karlsruhe, differing to the Düsseldorf District Court, sets out the further requirement in this regard that infringement proceedings, in such a situation, shall be stayed to allow negotiations without undue pressure.

The App Association shares the view that seeking for an injunction in the course of negotiations about a FRAND licence shall be a violation of Article 102 TFEU.

- 2. Should a licencing request by the implementer only be considered relevant if, based on a comprehensive assessment of all concomitant circumstances, the willingness**

and readiness of the SEP implementer to conclude a licence agreement with the SEP holder under FRAND terms is clear and unambiguous, irrespective of what these FRAND terms may be (which at that time due to the lack of a licence offer formulated, were not foreseeable yet)?

The App Association also concurs with the rationale of the Düsseldorf District Court in this regard. The Düsseldorf District Court makes clear that to answer this question in the affirmative would put the cart before the horse and should not be followed accordingly.

First of all, according to the scheme set out by the CJEU, it is the SEP holder that has to make the first step and to provide a FRAND offer including explanations as to the way the royalty rate was calculated in order to put the implementer into a situation to assess whether or not the offer may be FRAND. In the absence of any such information, the implementer may by no means commit to any unknown conditions and make any specific statements.

Rather, the Düsseldorf District Court, in a convincing manner, differentiates between a general declaration of willingness at the beginning of the negotiations and a concrete willingness to licence that may only be assessed at a later stage.

The Court differentiates *“between the infringer's fundamental (general) willingness to take a FRAND licence and his willingness to enter into concrete licence terms that have been found to be FRAND (concrete willingness to licence). At the level of the licence request, only his general will to become a licensee is significant and must be verified. In contrast, his concrete willingness to licence is only at issue once the patent proprietor's licence offer has been identified as FRAND.”*

The App Association endorses this approach. At the stage of a mere infringement notification by the SEP holder, i.e., before an actual and complete licencing offer has been made, the implementer cannot be expected to make any specific commitments. Thus, it should indeed be sufficient to make a general statement expressing the willingness to take a licence under FRAND conditions. The App Association therefore supports the following reasoning given by the Düsseldorf District Court:

“(34) The Chamber is of the opinion that no excessive requirements are to be placed on the request for licencing. The request for licencing can be made in a blanket manner as well as informally and thus also implicitly, whereby the

conduct in question must clearly indicate to the opponent the willingness to take up the licence. Statements on the content of the licence are not required; on the contrary, they can be harmful if they give the SEP holder the impression that a licence can only be taken under certain conditions which are not FRAND and to which the SEP holder therefore does not have to agree. Whether the licence seeker subsequently shows himself to be willing to take a licence is not relevant for the assessment of the existence of a request for licencing at the time of its expression. Rather, the further conduct of the licence seeker is to be assessed only when evaluating the SEP holder's offer after it has been made."

"(35) According to a view in the literature (Kühnen, Handbook of Patent Infringement, 13th ed., Chap. E Rdn. 393 f.), the request for a licence demanded from the infringer is only intended to ensure that the SEP holder only undergoes the trouble of a substantiated FRAND licence offer where the infringer has requested it. Any elaborations on the content of the licence are not required. They can only be detrimental if they must give the patentee the impression, on reasonable assessment, that a willingness to take a licence, despite a verbal request, exists conclusively and immovably only on very specific, non-negotiable conditions, which are obviously not FRAND and to which the IP right holder therefore obviously does not have to agree. Under such circumstances, the verbal request to grant a licence actually contains the serious and final refusal to enter into a use agreement on FRAND terms, which renders any FRAND licence offer by the patent proprietor superfluous from the outset (because it would be futile)."

"(36) Since the more detailed licence conditions have not yet been formulated at this point in time, because they are only to be specified in the next step by the SEP holder with its licence offer, the assumption that the infringer verbally expresses a licence request, but is in fact finally not at all prepared to take a licence, is subject to strict requirements. In fact, by such behaviour the infringer waives the submission of a licence offer owed by the SEP holder, which - as always in the case of a waiver of a legal position favorable to the declaring party - can only be assumed under very special circumstances. Caution is required, above all, if the circumstances on which the assumption of a willingness to take up a licence, which in reality does not exist in contradiction to the submitted declaration, is to be based are those whose justification has not yet been clarified in case law and on which, therefore, different opinions are possible in principle."

“(38) Thus, a distinction must be made between the infringer’s fundamental (general) willingness to take a FRAND licence and his willingness to enter into concrete licence terms that have been found to be FRAND (concrete willingness to licence). At the level of the licence request, only his general will to become a licensee is significant and must be verified. In contrast, his concrete willingness to licence is only at issue once the patent proprietor’s licence offer has been identified as FRAND.”

The Düsseldorf District Court’s rationale provides a balanced system in this regard that takes into consideration the information gap of the implementer at the beginning of the negotiations. It is for good reason that the CJEU in the *Huawei* judgment deviated from the previous German case law, resulting from the so-called “Orange Book Standard” which stated the implementer should be obliged to provide the first offer. Correctly, as pointed out above, the CJEU held that the obligation to make a FRAND offer is up to the SEP holder that has to make a specific, written offer for a licence on FRAND terms, including the royalty rate and explanations as to the way the royalty rate was calculated. It is the SEP holder alone that has the information necessary for the purpose of complying with said obligation, particularly if licences have already been granted to third parties. Placing that burden on the implementer would be a return to the “Orange Book” jurisprudence that was rightly objected to by the CJEU.

The CJEU did therefore not raise any particular requirements as to the declaration of willingness before the SEP holder has made a respective offer. Any other interpretation would also not only conflict with the CJEU’s finding in the *Huawei v. ZTE* judgment and Article 102 TFEU accordingly, but also with the voluntary FRAND commitment of the SEP holder vis-à-vis the SDO that also particularly requires the SEP holder to make a FRAND offer in the first place. There is no valid basis for requiring the potential licensee to clearly and unambiguously agree to unknown terms that have not even been suggested by the respective SEP holder.

The App Association appreciates that the District Court of Düsseldorf—once again—gives the CJEU the opportunity to confirm said principles.

- a) Does an infringer who remains silent for several months upon receiving an infringement alert regularly indicate that there is no interest in taking a licence, so that despite a verbally formulated request for a licence, such request shall**

be considered not existing, with the consequence that the SEP holder's claim for injunctive relief must be granted?

In view of the App Association, the clear answer to this question is no. Although the Düsseldorf District Court did not also directly address this sub-question, it already follows from the other observations of the Court that the CJEU shall also object to any such strict regime.

The CJEU, in paragraphs 60 to 68 of the *Huawei v. ZTE* judgment, provided a consecutive scheme of obligations for the SEP holder and the potential licensee in its *Huawei* decision. Said scheme did not provide for any formal requirements for a declaration of willingness. Thus, a verbal request for a licence meets the willingness criteria. Said declaration of willingness then triggers the obligation of the SEP holder to provide and substantiate the alleged FRAND offer and for the licensee – in turn – to make a counteroffer if it does not agree with the suggested terms.

If, for example, the SEP holder does not provide an offer following on the verbal request, the ball certainly is in the SEP holder's court. If the SEP holder is nonresponsive in this regard, there shall not be any obligation with the potential licensee to continuously ask the SEP holder to provide the requested offer. This situation may particularly arise in scenarios—at stake here—in which the SEP holder seeks a licence at one or more different levels of the value chain and may therefore be silent on licence requests by certain non-preferred licensees.

It should furthermore be clear from the above observations that, once a SEP holder files a patent infringement action against a potential licensee for an allegedly insufficient declaration of willingness, the licensee may also make up for said obligation in the course of the litigation. Thus, by no means may an allegedly insufficient declaration of willingness directly result in injunctive relief, particularly in scenarios in which the SEP holder has not even provided a licence offer on FRAND terms.

On the contrary, if the SEP holder has in fact provided an offer upon request, the SEP holder shall not be heard in court with a strategic argument in the subsequent course of the proceedings based on an allegedly insufficient declaration of willingness that should not have triggered the obligation to make an offer at all. Rather, in those scenarios, it should be assumed that there was a valid declaration of willingness and the FRAND compliance of the offer of the SEP holder be assessed accordingly.

Finally, it should be noted that a lot of members of the App Association, particularly those in the field of IoT, do not have legal departments capable of dealing with (potentially several) infringement alerts within a short period of time. Rather, they would have to engage outside counsels and seek advice based on the information provided by the SEP holder that would then need to be analyzed. There are various factors that might prevent potential licencees from answering at short notice and the lesser information is provided by the SEP holder, the higher the uncertainty on the side of implementing companies. It would be an undue limitation to provide for specific deadlines in this regard. Rather, an overall assessment taken into consideration the specifics of the individual case should apply.

- b) Can it be inferred from licence terms proposed by the SEP-implementer in a counter-offer that there is unwillingness to take a licence, with the consequence that the SEP holder's claim for injunctive relief is subsequently granted without prior analysis as to whether the SEP holder's own licence offer (which preceded the SEP implementer's counter-offer) actually corresponds to FRAND terms?**

The answer to this question must also clearly be no. It would again put the cart before the horse to answer this question in the affirmative. Likewise, this would run against the entire regime as set out by the CJEU in *Huawei*. There is no justification whatsoever for the grant of injunctive relief to a SEP holder that has itself not provided a FRAND-compliant offer.

Following the regime set forth by the CJEU, after the infringement alert and the declaration of willingness, the SEP holder has to make a FRAND offer. This requires an assessment whether or not the offer actually is FRAND. Only if this is confirmed, the licence seeker will have to make a FRAND counteroffer. If, however, the licence offer by the SEP holder is not FRAND, there is already no obligation for the licence seeker to provide a counteroffer at all and the FRAND defence is to be granted accordingly. The intention that can be derived from the *Huawei* decision is that the CJEU wanted to prevent a situation in which the non-FRAND acting SEP holder is granted injunctive relief which would be true if the offer does not meet FRAND criteria. Furthermore, given the information gap, it is unclear as to how the counteroffer can be assessed if there is no valid starting point for an assessment

whether the counteroffer is FRAND, in particular since FRAND is to be considered a range.

Against this background, the App Associates highly appreciated that the Düsseldorf District Court emphasizes these aspects in its rationale and, at the same time, dismisses deviating opinions of German courts that were issued recently. The rationale is set forth in paragraphs 37 and 39 of the rationale that read as follows:

“(37) If the patent proprietor has actually taken the expressed licence request, even if it may have been "insufficient" in the sense mentioned, as a reason to make a licence offer to the infringer, the licence request has fulfilled its intended purpose, and it must be examined - progressively in the usual procedure - whether the licence offer of the patent proprietor corresponds to the FRAND conditions promised and owed by him. The question of the infringer's willingness to licence then arises again only with regard to the infringer's reaction to the licence offer: If it is un-FRAND, the willingness to licence is irrelevant. If, on the other hand, the licence offer is FRAND, the infringer's willingness to licence is relevant to the decision. It is missing if (and only if) the infringer rejects the FRAND-compliant licence offer of the patent proprietor or if he does not counter such an offer with a counter-offer that meets FRAND requirements. If the patent proprietor makes a FRAND licence offer in response to an expressed licence request of the infringer, this offer - and only this offer! - is the touchstone for determining whether the infringer is willing to accept the licence or not. It is the patent proprietor who has to honor his confidence-building FRAND promise by a licence offer corresponding to these conditions, whereas the infringer has to prove his willingness to licence only by accepting such an offer or by formulating other FRAND conditions.”

As set forth in para 38 (cited above), a distinction must be made between the general willingness to take a FRAND licence and the concrete willingness that is only at issue once the SEP holder's licence offer has been identified as FRAND. The Düsseldorf District Court makes clear that there is no legal basis whatsoever to not assess the offer the SEP holder when, at the same time, the counteroffer is used as an indication of willingness of the licence seeker. Consequently, the Chamber dismisses deviating opinions of the District Courts of Munich and Mannheim:

“(39) The Chamber therefore does not follow the opinion (LG München, judgment of September 10, 2020, 7 O 8818/19; LG Mannheim, judgment of August 18, 2020, 2 O 34/19) that, in the context of the examination of the willingness of the patent infringer to conclude a licence agreement on FRAND terms, the counter-offer must also be taken into account and, in particular, the licence fee offered therein must be used as a measure of the licence seeker's willingness to licence.”

The App Association fully endorses the compelling arguments of the Düsseldorf District Court. It is most important for the members of the App Association that there is clarity whether or not the offer of the SEP holder is FRAND.

- c) Is the above conclusion unwarranted at least if the licence terms of the counter-offer, from which it is to be concluded that there is no request for a licence, are terms for which it is neither obvious nor clarified by case law of the highest court that they are not in compliance with FRAND terms?**

The App Association refers to the above considerations according to which it has to be assessed whether or not the offer of the SEP holder is FRAND. Only in the case of a FRAND-compliant offer does an obligation to make a counteroffer exist. If it is neither obvious nor clarified by the pertinent case law whether the counteroffer is to be considered FRAND compliant, this should preclude any finding of unwillingness on the side of the licence seeker. Rather, the national courts should issue indicative orders that allow the parties to move ahead in the negotiations or to appoint a third party or ask the court for the determination of a FRAND rate. This approach has also been advocated by the presiding judge at the Higher Regional Court of Düsseldorf, Kühnen, in his often-cited “Handbook of Patent Litigation Proceedings”. The Patent Senate that he chairs has also issued court orders in FRAND proceedings providing guidance for the parties and the court’s view on certain FRAND issues.

The small and medium-sized members of the App Association, many of which are active in creating and providing IoT solutions across consumer and enterprise verticals, need clarity on the above FRAND-related questions consistent with the above. It is said guidance that also the Düsseldorf District Court is looking for by means of this referral.