

ACT | The App Association

Position Paper

On the Availability of SEP Licences for All Willing Licencees and the Assessment of Willingness in Licensing Negotiation**Introduction**

The following paper outlines ACT | The App Association's ("App Association") views on two key issues currently pending before the Court of Justice of the European Union regarding (i) the availability of licences for standard-essential patents (SEPs) to all willing licencees, and (ii) any conditions under which holders of standard-essential patents could be allowed to exclude other companies from the market through injunctions. This paper offers high-level views and is intended to supplement and support the detailed legal opinion annexed (see Annex I).¹

As representatives of small business innovators that rely on standardised technologies, the App Association seeks to preserve competition and transparency in the marketplace and the ability to licence standard-essential patents based on voluntary commitments to licence on 'fair, reasonable, and non-discriminatory' (FRAND) terms. It should always be kept in mind that small to mid-sized enterprises (SMEs) are the backbone of the European economy making up 99 percent of all businesses, employing around 100 million people, and account for more than half of Europe's GDP while playing a key role in adding value in every sector of the economy.²

The positions elaborated in this paper are informed by the App Association's longstanding and consistent advocacy for the licensing of standard-essential patents in line with the [All Things FRAND](#) principles. As regards, the availability of licences to all willing licencees of FRAND encumbered SEPs, All Things FRAND principles state, "A holder of an SEP subject to a FRAND commitment must licence such SEP on fair, reasonable, and non-discriminatory terms **to all companies, organizations, and individuals who implement or wish to implement the standard**" (emphasis added).³ This same principle is also included in *CWA 95000*, a guidance document for the licensing of SEPs developed by more than 50 stakeholders, that states: "a FRAND licence should be made available to anybody that wants one to implement the relevant standard."⁴ Further, the App Association believes that injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances, and certainly not before the SEP holder has made a truly FRAND license offer. This latter principle underscores the App Association's understanding of the requirements established under the previous Court of Justice of the European Union (CJEU) decision in the Case C170/13 *Huawei v. ZTE* ("*Huawei*").

¹ Add hyperlink to legal memo if needed

² https://ec.europa.eu/growth/smes_en

³ <https://allthingsfrand.com/about/>

⁴ CWA 95000, "Core Principle and Approaches for Licensing Standard Essential Patents", CEN-CENELEC (April 2019). Available at: <https://www.cenelec.eu/news/workshops/Pages/WS-2019-014.aspx>

Germany's Düsseldorf Regional Court referred a series of questions related to the licensing of standard-essential patents to the CJEU on 26 November 2020.⁵ The first set of questions relate to the availability of licences for willing licencees and whether the FRAND commitment and antitrust law require a SEP holder to offer licences to any willing licensee, or whether the SEP holder has the right to unilaterally refuse to offer licences. The second set of questions relate to, among other things, whether an injunction can be issued if a court has not first determined that a SEP holder has made an offer to licence on FRAND terms, as discussed above.

In light of the recent referral to the CJEU, the App Association feels that it is appropriate to elaborate further its views on the availability of licences to all willing licencees and the requirements arising from *Huawei* according to the applicable law and jurisprudence.

A. On the Availability of Licences to All Willing Licencees

A.1 The Internet of Things

In the coming decade, the convergence of computing and communication technologies will continue as a diverse array of industries come together to build the so-called 'internet of things' (IoT). IoT's seamless interconnectivity will be made possible by technological standards like Wi-Fi, LTE/5G, and Bluetooth, which bring an expanding value to consumers by promoting interoperability while enabling healthy competition between innovators. It is expected that thousands of businesses will for the first time begin to implement these standardized connectivity technologies into their products.

Unfortunately, some SEP owners who have voluntarily committed to licence their SEPs under FRAND terms are reneging on that commitment. These practices, including a refusal to offer licences to certain companies, are anticompetitive and jeopardize the potential of nascent IoT markets. These issues are important to the small business technology developer community the App Association represents as well as emerging industries around the globe, which prompted the App Association to launch the All Things FRAND initiative (<http://www.allthingsfrand.com/>).

A.2 The FRAND Commitment

The voluntary commitment to licence patents essential to the implementation of a standard on 'fair, reasonable, and non-discriminatory terms' (FRAND) is an irrevocable agreement between the SEP holder and the standard development organization (SDO) which any third party is entitled to benefit from.⁶ As a member of the 3GPP, the European Telecommunications Standards Institute (ETSI) intellectual property rights (IPR) policy should conform to the requirements of 3GPP which publicly states that "all such policies are broadly similar (...) and require IPR holders to make licences **available to all third parties**, whether or not they are 3GPP Individual Members, under fair, reasonable and non-discriminatory (FRAND) terms" (emphasis added). The irrevocable voluntary commitment to licence on FRAND terms creates "legitimate expectations" on the part of third parties that those licences

⁵ Landgericht Düsseldorf, 4c O 17/19. Available at: https://www.justiz.nrw.de/nrwe/lgs/duesseldorf/lg_duesseldorf/j2020/4c_O_17_19_Beschluss_20201126.html

⁶ For example, under the terms of the ETSI IPR policy, one of the most prevalent SDOs for the development of telecommunications standards, third parties benefit under French contract law from a *stipulation pour autrui*. *C.f., Unwired Planet v. Huawei* (2020: UKSC 37) para 8.

will in fact be made available.⁷ The refusal to offer a licence on those terms “may, in principle, constitute an abuse within the meaning of Article 102 TFEU”.⁸

It would be important to note the objective of standardisation and the role of the respective IPR policy of the SDO in attaining that objective. On the one hand, standards can promote the wide adoption of technology, allow for interoperability of devices, and lower output and sales costs.⁹ A FRAND IPR policy supports this goal by offering certainty to standards implementers that the licences required to use those standards will be available on FRAND terms. It is also recognised, however, that in certain circumstances standards can have restrictive effects on competition by potentially restricting price competition and limiting or controlling production, markets, innovation, or technical development.¹⁰ The market power that a standard commands comes as a result of eliminating competing options from the marketplace, in turn compelling standards implementers to commit to a single technological solution which they invest significant sums to incorporate into their products. With firms locked into a standard, patent holders with essential patents are placed in a powerful bargaining position to the licensee which, absent a FRAND commitment, would lead to patent hold up. Here too, a FRAND IPR policy is designed to avoid this situation. As the CJEU recognizes in *Huawei v. ZTE*, a balance must be struck between maintaining free competition and the requirement to safeguard intellectual property rights.¹¹ Thus, the FRAND commitment to licence on FRAND terms is simultaneously (i) an antitrust tool to address concerns that patents contributed to standards can lead to anticompetitive effects in the marketplace, and (ii) a mechanism to promote the widest adoption and dispersion of technology, while (iii) allowing patents holders a fair return for their patents.

However, a refusal to offer licences to willing licensees is indicative of anticompetitive behaviour. If patent holders were free to pick and choose whom to licence their SEP portfolios to despite their voluntary FRAND commitments, this would allow SEP holders to exert anticompetitive controls and restrictions on competitors and in downstream markets. Hence, it follows from a plain reading of the non-discrimination prong of the FRAND commitment that licences should be available to all entities willing to accept a licence on FRAND terms.¹² This conclusion follows from the objective of FRAND in the context of standardisation to promote standardised technology.

A.3 Principles

The App Association believes that the following principles should be observed when licensing to all willing licensees.

⁷ Case C-170/13, *Huawei v. ZTE*, ECLI:EU:C:2015:477 para 53.

⁸ *Ibid.*

⁹ Communication from the Commission: Guidelines on the applicability of Article 101 on the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011 O.C.J. 14.1.12011, para. 263.

¹⁰ *Ibid.*, para. 264.

¹¹ *Op cit.*, *Huawei v. ZTE* para. 42.

¹² *Federal Trade Commission v. Qualcomm Inc.* (“Order Granting FTC’s Motion For Partial Summary Judgment”), Case No. 17-CV-00220-LHK p. 25 (“Qualcomm argues that its FRAND obligations for SEPs extend only to device suppliers and not modem chip suppliers because only device suppliers “practice” or “implement” standards. However, that distinction not only violates the non-discrimination obligation, but also makes little sense.”)

Principle One: The licensing of standard-essential patents is most efficiently achieved when transaction costs are decreased. If a single point were to be determined to licence a portfolio of SEPs, in many, if not most instances, the most efficient point would be at the subsystem or component level. This helps to ensure that licence negotiations occur on a level playing field with less of an asymmetry of information, that the patents are licenced at the level at which they are infringed, and that downstream innovators are able to more efficiently focus investments into product development.

Principle Two: The component or subsystem manufacturer is likely the most appropriate party to assess patent assertion claims by SEP holders, and willingly seek licences on FRAND terms. Manufacturers, including subsystem manufacturers, are best placed to determine which standards, and which parts of standards, their products comply with, and therefore, a better understanding of the underlying patented technology than the original equipment manufacturers (OEMs).

Principle Three: The level of licensing and the valuation of the patented technology should be independent of one another. With that said, a patent holder should *only* lay claim to royalties encompassing the patent itself.¹³ Since most of the inventive aspects of a SEP's claims relate to the subsystem implementing the standard, it is only appropriate that the licence reflect this and not capture the value of other downstream innovators' contributions or the strategic value of the SEP being included in a standard. In practice, this means that SEP holders should not discriminate by offering differing licensing rates for the same technology at different levels of the supply chain. Such a practice is tantamount to taking value unattributed to the patented invention and passing this to the SEP holder.¹⁴

For the App Association's SME members these principles encapsulate a fundamental concern: the ability to purchase components and subsystems free of third-party right. Since many of our members are small OEMs in industries utilizing connectivity standards for the first time, it is unreasonable to expect SMEs with no legal department to negotiate complex patent licensing agreements while there exist component and subsystem suppliers willing to take FRAND licences.

A.4 Effects of Refusal to License

Refusing to offer SEP licences on FRAND terms has two detrimental effects for SMEs: (i) harm to **innovation**, and (ii) harm to **competition**. As SMEs, App Association members are at the forefront of innovation and utilize connectivity standards as a baseline for further innovation. This is in line with the goals of standardisation to promote the diffusion of technologies, enhancing innovation and competition in the downstream markets. The result are increased network externalities from interoperability enhancement. Standardisation also helps SMEs to lower costs of production by achieving the economies of scale through innovation of production

¹³ *Windsurfing International Inc. v. Commission of the European Communities*, Case 193/83, at *36 ("The clauses contained in the licensing agreements, in so far as they relate to parts of the sailboard not covered by the German patent or include the complete sailboard within their terms of reference, can therefore find no justification on grounds of the protection of an industrial property right").

¹⁴ "The Pricing and Valuation of Standard-Essential Patents", ACT | The App Association, April 2020, available at: [add hyperlink](#) . pp. 2-5; CWA 95000, "Core Principle and Approaches for Licensing Standard Essential Patents", CEN-CENELEC (April 2019). Available at: <https://www.cenelec.eu/news/workshops/Pages/WS-2019-014.aspx>, pp. 14-16.

processes and the expansion of markets. But these benefits are reduced when willing licencees are unable to procure components and subsystems on FRAND terms.

Refusing to offer licences to willing licencees harms competition. An unrestricted right to refuse a licence essentially grants the patent holder the right to pick and choose which companies can compete in the downstream market. When that patent holder is also vertically integrated into supply chains, such as chipset manufacturing, this practice is particularly troubling since they can squeeze competitors from the market by leveraging (abusing) a dominant market position as a result of their SEP portfolio. We must also recall that implementing standards in products is oftentimes now a prerequisite to competing in the market. Simply put, devices lacking certain functionalities are not attractive to consumers. Standardised technologies are also increasingly required by law.¹⁵ For the IoT market, component manufacturers should certify that their products adhere to specific standards intended for IoT use cases such as NB-IoT or the LTE-M standards.

Component and subsystem manufacturers must have access to SEP licences on FRAND terms in order to efficiently allocate their research and development (R&D) and investments. Inherent to the freedom to conduct a business (EU Charter of Fundamental Rights - CFR Art. 16) and free competition (TFEU Art. 119) is this basic notion that one should have control over one's own affairs. When a SEP holder refuses to licence, this has a tangible impact on the ability of those refused companies to invest and innovate. Moreover, since companies operate within a complex network of suppliers, they should not be beholden or otherwise reliant on their customers (or, for that matter, their customers' customers) to guarantee they will not face a suit for patent infringement. Furthermore, in the absence of a clear rule on where to licence, just because licences are granted to the OEM level by one patent-holder, or a group of patent holders, this does not preclude other SEP holders, particularly privateers and non-practicing entities from suing component manufacturers. Afterall, the component is where the standard is most fully implemented.

Finally, a right to refuse licences to willing licencees places the SME ecosystem in danger by reducing the attractiveness of the latest technology standards, meaning that only the largest corporations can afford to implement these technologies placing larger corporations at a further competitive advantage to SMEs. Not only does this do harm to SMEs, it also decreases competition in the downstream market and deprives consumers of the benefits of technology.

In sum, the procompetitive effects of standardisation are jeopardized when patent holders refuse to offer licences to willing licencees. When the FRAND commitment is adhered to by all participants it improves consumer welfare through price reduction, innovation encouragement, and quality enhancement through increased competition in the downstream market and decreased consumer switching and transaction costs.

A.5 Efficiency of Licensing for All Stakeholders

¹⁵ See for example the legal requirements for eCall set out in: Regulation (EU) 2015/ concerning type-approval requirements for the deployment of the eCall in-vehicle system; Decision No 585/2014/EU on the deployment of the interoperable EU-wide eCall service.

The availability of SEP licences for all willing licencees is far more efficient than licensing exclusively at the OEM level through providing certainty between and amongst all in a supply chain. Some SEP holders erroneously claim that licensing at the OEM level is the most efficient mechanism for the market because it allows the SEP holder to collect (what they deem) a fair royalty for the SEP portfolio while ensuring that the entire portfolio is licenced. Suppliers in the relevant markets have “access” to the standards via so-called “have-made” rights.

However, this argument neglects the simple fact that there are far fewer chipset and component manufacturers than there are OEM manufacturers. In this scenario, instead of negotiating comprehensive licences with a few component manufacturers, SEP holders wish to negotiate licences piecemeal with hundreds, if not, thousands of firms in the various IoT markets. Moreover, it should also be stated unequivocally that a “have made” right is not a substitute to a full licence for both competition concerns (as stated above) and freedom to operate reasons.

In the vast majority of cases, however, an exhaustive licence encompassing the entire SEP portfolio taken at the chipset level will ensure that others in the supply chain can benefit from patent exhaustion. As many have pointed out, the single point in the value chain where a licence is taken is, or should be, entirely divorced from the valuation calculation.¹⁶ If the concern is to ensure that licensing occurs efficiently at a single point in a value chain, then the most efficient point to licence is the point where the standard is first most fully implemented which is almost invariably at the chipset level.

Licensing practices in comparable technology markets such as LoRa, Wi-Fi and Bluetooth, where licences are available at the chipset level, palpably demonstrates the above efficiency arguments. The practice means that innovation and competition in the downstream markets thrive. Indeed, even a cursory glance at these markets supports this conclusion. Both Wi-Fi (22.2 billion devices projected in 2021)¹⁷ and Bluetooth (5 billion shipments projected in 2021 alone)¹⁸ devices are far more ubiquitous than cellular technologies (3.63 billion connections worldwide).¹⁹ The Wi-Fi and Bluetooth standards are wildly successful in part due to the fact that device manufacturers are able to procure the necessary components free of third-party rights. It is only for cellular connectivity standards where FRAND licensing terms are more opaque that SEP owners insist on OEM licensing with the goal of extracting higher rents than would otherwise be possible.

In summary, the availability of SEP licences for all willing licencees is far more efficient than licensing exclusively at the OEM level. SEP holders stand to profit lucratively if they choose to licence on FRAND terms to all willing licencees.

A.6 Summary Remarks With Regards to the Availability of Licenses to All Willing Licensees

¹⁶ For a full account of the App Association’s views on valuation see: “The Pricing and Valuation of Standard-Essential Patents” April 2020: add link

¹⁷ Number of wireless local area network (WLAN) connected devices worldwide from 2016 to 2021. Available at : <https://www.statista.com/statistics/802706/world-wlan-connected-device/>

¹⁸ Bluetooth Market Update 2018. p. 11 available at: https://www.bluetooth.com/wp-content/uploads/2019/03/Bluetooth_Market_Update_2018.pdf

¹⁹ Number of 4G LTE connections worldwide from 2012 to 2020. Available at: <https://www.statista.com/statistics/736022/4g-lte-connections-worldwide/>

The refusal to licence to willing licencees is the antithesis of the FRAND principles and harms competition and innovation in IoT markets. For the reasons stated above, the App Association believes that FRAND licences for SEPs must be available to all willing licencees to allow a free and fair competitive market to thrive.

B. On the Availability of Injunctions: Clarification of the requirements set forth by the Court of Justice of the European Union in the case of C170/13, *Huawei v. ZTE*

B.1 Introduction

The second set of questions the referring court makes to the CJEU relates to further clarifications of the requirements which arise from the FRAND licensing framework established by the CJEU's previous decision in C170/13 *Huawei v. ZTE*, which limited the use of injunctions with regard to SEPs. The App Association takes the view that clarifications of *Huawei* must further recognize the disproportionate effect the threat of an injunction has on the negotiation process and to protect good faith prospective licencees from abusive licensing terms which do not reflect the value of the patented technology. SEP holders should not be allowed to exclude or threaten to exclude licencees from the market by using the mechanism of an injunction, ultimately aiming to force licencees to accept unfair terms. Among other things, SEP holders should be clearly required to first establish that their licensing offer is actually FRAND, and courts should not institute prohibitive orders unless that court determines that the licensee's counteroffer is not FRAND.

The basis for the App Association's opinion on this topic stems from the second principle of **All Things FRAND** which states that "injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances". Further, the App Association endorses Core Principle One of CWA 95000 which state: "A FRAND SEP holder must not threaten, seek or enforce an injunction (or similar de facto exclusion processes) except in exceptional circumstances and only where FRAND compensation cannot be addressed via adjudication, e.g., lack of jurisdiction or bankruptcy. Parties should seek to negotiate FRAND terms without any unfair 'hold up' leverage associated with injunctions or other de facto market exclusion processes".²⁰ To the extent the above principle relates to the question at hand, it should be recalled that *Huawei v. ZTE* relates specifically to the circumstances in which injunctive relief may be granted in cases involving standard-essential patents.

B.2 Background

The *Huawei* framework established for the first time, contrary to the Bundesgerichtshof's previous *Orange-Book Standard* (Az. KZR 39/06), that a FRAND licensing negotiation must take into account the interests, and therefore, the behaviours of *both* the patent holder and the prospective licensee.²¹ As such the CJEU emphasizes the need for a balance of interests. The referring court's questions to the CJEU in essence seek clarifications on the nature of this balance.

To recap, the steps established under the *Huawei* framework are as follows:

²⁰ CWA 95000, "Core Principle and Approaches for Licensing Standard Essential Patents", CEN-CENELEC (April 2019). Available at: <https://www.cenelec.eu/news/workshops/Pages/WS-2019-014.aspx>

²¹ The *Orange-Book Standard* was a case involving SEPs for CD-R. The Bundesgerichtshof held that in principle a "compulsory licence objection under anti-trust law" can successfully be raised provided that the patent user complies with certain prerequisites. The requirements which the Bundesgerichtshof set out placed all of the onus on the party seeking a licence.

- The SEP holder issues a notification of infringement²²
- The potential licensee diligently and in a timely manner responds with a declaration that it is willing to take a FRAND licence.²³
- The SEP holder makes a FRAND offer.²⁴
- The potential licensee either accepts the FRAND offer or reject the offer with a counteroffer.²⁵
- The patent holder either accepts the FRAND counteroffer or rejects it and seek a third-party determination of FRAND terms.²⁶
- The potential licensee places money in escrow as security.²⁷

The basis for the questions from the referring court arise from recent German case law (particularly from Mannheim and Munich) where courts have focused their attention on the licensee's conduct without following the above steps established by the CJEU, including assessing whether the licensor has made a FRAND offer. In *Sisvel v. Haier*, the Bundesgerichtshof departed from *Huawei* in favour of its own previous case law in the *Orange-Book Standard*.²⁸ This troubling trend threatens to upend the balance between licensors and licensees, placing a disproportionality high threshold for licensees to demonstrate their willingness and therefore making is easier for a patent holder to obtain injunctive relief and to engage in patent hold-up.

B.3 Patent Hold-up

Patent hold-up is a practice aimed toward leveraging the threat of an injunction to extract higher rents than what the patented technology is worth. The issue of patent hold-up has long been recognized by academia,²⁹ courts,³⁰ and government policy,³¹ and contrary to what some claim, the most recent research from Love *et al.* strongly suggests that patent hold-up is pervasive and endemic within the patent system.³²

B.4 How the Huawei Framework Mitigates Patent Holdup

²² *Op cit.*, *Huawei v. ZTE*. para. 61, 65.

²³ *Ibid.*, para. 63

²⁴ *Ibid.*, para. 63

²⁵ *Ibid.*, para. 66

²⁶ *Ibid.*, para. 68

²⁷ *Ibid.*, para. 67

²⁸ *Orange-Book-Standard* (Az. KZR 39/06). Available at: <http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&nr=48134&pos=0&anz=1>

²⁹ Lemley, Mark A. and Shapiro, Carl, 'Patent Holdup and Royalty Stacking'. 85 *Texas Law Review* 1991 (2007), Stanford Law and Economics Olin Working Paper No. 324, Available at SSRN: <https://ssrn.com/abstract=923468>; Shapiro, Carl and Lemley, Mark A., 'The Role of Antitrust in Preventing Patent Holdup' (August 3, 2020). Stanford Law and Economics Olin Working Paper #554, Available at SSRN: <https://ssrn.com/abstract=3666211> or <http://dx.doi.org/10.2139/ssrn.3666211>

³⁰ Commission Decision of 29 April 2014 at para. 280, Case COMP/AT-39985-Motorola- Enforcement of GPRS standard essential patents (determining that "Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak GPRS SEP amounts to an abuse of a dominant position under Article 102 TFEU"), https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf.

³¹ COM(2017) 712 final 'Setting out the EU approach to Standard Essential Patents' p. 6 ("Licensing terms have to bear a clear relationship to the economic value of the patented technology. That value primarily needs to focus on the technology itself...")

³² Love, Brian J., Yassine Lefouili, and Christian Helmers. "Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from US District Court Dockets." Evidence from US District Court Dockets (November 8, 2020) (2020).

The wisdom of the CJEU's decision in *Huawei* is the implicit recognition that a FRAND negotiation should not be conducted under the shadow of a threat of an injunction, since this threat commands a disproportionate effect on the ensuing negotiations, compelling a prospective licensee to agree licensing terms that are unfair, unreasonable and discriminatory.³³ It follows logically from the court's judgement that the proprietor of a SEP abuses its dominant position by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent, if it does not first make efforts to enter good faith negotiations starting with a notification alerting the alleged infringer of the infringement, and, most importantly, an offer to licence on FRAND terms.³⁴ In short, a FRAND licensing negotiation between two willing parties should be conducted without the threat of an injunction, because such a threat would otherwise compel the prospective licensee to agree terms they would otherwise never agree to.

As already noted, the *Huawei* framework is a series of steps that parties must follow in order to demonstrate that they are willing to engage in good faith negotiations with one another - starting from an initial notification and offer of a FRAND licence, through to the acceptance (or not) of the licensing terms. The CJEU is clear that the evaluation of the willingness of a licensee to negotiate is limited: the licensee need only indicate a willingness to negotiate only after it receives a notice of infringement, such that the SEP holder knows it should prepare a FRAND licence offer. Thus, contrary to how some courts have interpreted *Huawei*, scrutiny must start with the patent holder's initial notification and FRAND offer, and not with the prospective licensee's response. To be clear, this does not equate to saying that a prospective licensee's behaviour should be ignored, rather that the focus must first start with the patent holder before focusing on the prospective licensee. Moreover, where a potential licensee responds with a counteroffer, the *Huawei* steps make clear that an injunction should not issue unless a court finds that the counteroffer is actually not FRAND.

B.5 The Effects of Unbalanced Scrutiny

A focus only on the prospective licensee has primary negative consequences:

- It places a disproportionate level of expectation on the prospective licensee
- It assumes that the patent holder's prior behaviour was FRAND

Scrutiny focused only on the prospective licensee unduly disadvantages licensees in the negotiation process and places an unreasonably high threshold for demonstrating 'willingness' than the patent holder. When entering a licensing negotiation for a FRAND licence, a prospective licensee already faces an asymmetry of information that places them at an disadvantage in the negotiations. This asymmetry is only compounded for SMEs that lack the necessary resources to adequately account for the situation. Focusing initially on the licensee's behaviour compounds the disadvantage, for not only does the licensee lack information of the alleged infringement they must also agree to something they have no knowledge of. It would be like agreeing to pick a package of goods not knowing what is in the package nor the price but already agreeing upfront to paying for whatever is in the box at whatever price is demanded.

³³ This is especially in light of the fact that SEPs are indispensable to manufacture and marketing of products implementing standardized technology, distinguishing them from patent that not essential to a standard, see: *Op cit., Huawei v. ZTE*. para. 50 ("That feature distinguishes SEPs from patents that are not essential to a standard and which normally allow third parties to manufacture competing products without recourse to the patent concerned and without compromising the essential functions of the product in question.")

³⁴ *Ibid.*, para. 71

Furthermore, focusing only on the prospective licensee wrongly assumes that the licensor's behaviour is FRAND. It is entirely plausible, as we have seen in the case before the CJEU, that a patent holder may offer terms that are unfair, unreasonable, and discriminatory to certain parties (Tier I and II), who are otherwise willing to take a licence, with the goal of letting those negotiations fail. This would allow the patent holder to thereafter seek an injunction, putting pressure on that supplier, which in turn places pressure on the OEM manufacturer. As such, without scrutinizing the initial notification and behaviour of the patent holder, licensees would risk being found to be 'unwilling' even when presented with terms that are not FRAND.

B.6 Summary Remarks with Regards to Further Clarifications on the Requirements Set Forth by the Court of Justice of the European Union in the Case of C170/13, *Huawei v. ZTE*

In summary, the App Association believes that clarifications to *Huawei* must further recognize the disproportionate effect the threat of injunction has on licensing negotiations. While this principle is built into the *Huawei* decision, clarifications should underscore that a FRAND licensing negotiation must reflect the balance and interests of both parties. A framework of good-faith licensing negotiations starts with a focus on the behaviour of the licensor. Thresholds for demonstrating willingness as a licensee must also take into consideration the asymmetrical power differentiation which licensees, and especially SMEs, face when entering licensing negotiations. Therefore, the App Association is of the opinion that requirements for demonstrating 'willingness' should not be such that the burden rests entirely on the prospective licensee. At a minimum, the threshold for a demonstration of willingness must be proportionate and commensurate the accuracy and availability of information which the patent holder proffers in its notification and initial FRAND offer.

Conclusions

The App Association supports free and open markets that promote innovation and consumer welfare. The members of the App Association are at the forefront of market innovation and product development, and their continued success depends on strong markets. The FRAND commitment is a pro-competitive tool that should promote the diffusion of technology. However, certain practices by patent holders such as the refusing to offer licences on FRAND terms to willing licensees and the threat of an injunction during licensing negotiations are the antithesis of what FRAND entails. In light of the case before the CJEU, there exists now an opportunity to offer clarity and certainty to the market that in accordance with FRAND principles, licences are available to all willing licensees and that injunctions should not be available except under unusual circumstances.
