



Regional Court Düsseldorf

4c O 17/19

Decision of 26 November 2020

Decision

I. The proceedings are stayed.

II. the following questions are referred to the Court of Justice of the European Union for a preliminary ruling:

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

1. Can a company at a downstream stage of the supply chain oppose an action for injunctive relief brought by the holder of a patent essential to a standard regulated by a standardisation organisation (SEP), for which patent the holder has given an irrevocable undertaking to that organisation to grant a license to any third party on FRAND terms, by pleading abuse of a dominant position in the sense of Article 102 TFEU, if the standard for which the patent-in-suit is essential, or parts thereof, is already implemented in an intermediate product purchased by the infringing party whose supplier is willing to take its own unlimited license for all types of use relevant under patent law on FRAND terms for products implementing the standard but is refused such a license by the patent holder?
 - a) In particular, is this the case where it is customary in the relevant sector of the final product distributor's business for the intellectual property rights relating to the patents used by the supplied part to be clarified by means of licensing by the supply companies?
 - b) Is there a licensing priority with regards to suppliers at *any* stage of the supply chain or only regarding the supplier immediately upstream of the distributor of the final product at the end of the value chain? Are commercial practices decisive here too?



2. Does the prohibition of abuse under anti-trust law require that the supplier be granted its own unlimited license for all types of use relevant under patent law on FRAND terms for products implementing the standard, in the sense that the final distributors (and possibly the upstream buyers) in turn no longer require their own separate license from the SEP holder in order to avoid patent infringement if the supplied part in question is used in accordance with the intended purpose?
 3. If the answer to question 1 is in the negative, does Art. 102 TFEU impose specific qualitative, quantitative and/or other requirements on the criteria according to which the proprietor of a standard essential patent decides against which potential infringers at different levels of the same production and supply chain to bring an action for injunctive relief?
- B. Clarification of the requirements of the Court of Justice's ruling in the Huawei v. ZTE case (judgment of 16 July 2015, C- 170/13):
1. Irrespective of the fact that the obligations to be performed reciprocally by the SEP holder and the SEP implementer (notification of infringement, licensing request, FRAND license offer; license offer to the supplier to be licensed with priority) must be fulfilled *before legal proceedings are initiated*, is it possible to cure, in the course of legal proceedings, a failure to fulfil such obligations before legal proceedings were initiated?
 2. Can a sufficient licensing request by the patent implementer only be assumed if, on the basis of a comprehensive assessment of all circumstances of the case, there is a clear and unambiguous indication of the SEP user's willingness and readiness to conclude a license agreement with the SEP holder on FRAND conditions, whatever these FRAND conditions may be (which, in the absence of a license offer formulated at that time, could not at all be foreseen)?



- a) Does an infringer who remains silent for several months after the infringement notification regularly indicate that he is not interested in obtaining a license, with the result that – despite a verbal licensing request – there exists no licensing request, with the consequence that the SEP holder's request for injunctive relief must be granted?
- b) Can it be inferred from license terms which the SEP user has submitted with a counteroffer that there is a lack of willingness to take a license, with the consequence that the SEP holder's action for an injunction is subsequently granted without prior examination as to whether the SEP holder's own license offer (which preceded the SEP user's counter-offer) actually corresponds to FRAND conditions?
- c) Is such a conclusion precluded, in any event, if the licensing terms of the counteroffer, from which it is to be concluded that there is no willingness to take a license, are those for which it is neither obvious nor has it been established by a final instance decision that they are incompatible with FRAND terms?

Grounds

[...]

B.

- 15 However, the enforcement of the claim for injunctive relief could be prevented by the antitrust defence of compulsory licensing raised by the defendant and its interveners (suppliers) pursuant to § 242 BGB in conjunction with Art. 102 TFEU. This would be the case if the plaintiff's assertion of the cease-and-desist claim against the defendant were to be regarded as an abuse of its – undisputed – dominant position on the licensing market.



1.

16 In the case Huawei/ZTE (judgment of 16 July 2015, C-170/13; hereinafter: ECJ judgment), the Court of Justice has already ruled that the user of a standard-essential patent who is held liable for an injunction can defend itself with the antitrust defence of compulsory licensing, irrespective of whether the defendant disputes the use of the patent or not, and irrespective of the fact that the defendant has already started using the SEP before a licence has been granted.

2.

17 In the present case, it is necessary to apply the principles of the Court of Justice in a case which is characterised by the fact that the technical teaching of the SEP is already fully realised in such components (semiconductor chips, NADs, TCUs) which are supplied in a multi-stage chain to the distributor of the end product (passenger car), who is confronted with the SEP proprietor's action for injunctive relief. The question thus arises whether, and if so under what circumstances and with what legal consequences, the SEP holder abuses its dominant position within the meaning of Article 102 TFEU if it brings an action for injunctive relief for patent infringement against the distributor of the end product without first having complied with the licensing request of its patent-using suppliers. This is the subject of the questions referred under II. part A. of the above decision.

18 The referring court takes the following view on the questions raised:

a)

19 Since, apart from the expressed wish of the licence seeker, the FRAND declaration does not contain any restrictive conditions, it imposes an obligation on the SEP holder vis-à-vis anyone to grant a licence on FRAND terms. The granting of the licence must not merely grant any access to the standardised market but must grant the licence seeker participation in the standardised technology to such an extent as to enable him to compete freely in all product markets the licence seeker considers now and in the future.



- 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 which are still developing. The choice of the party to whom the SEP holder offers a licence to its SEP portfolio determines who can participate in the competition on the product markets downstream of the technology market. The licensing practice of an SEP holder is therefore an essential shaping factor for the level at which a free market on competitive terms can emerge in a production chain. 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 able to independently and legally develop, manufacture and distribute TCUs and the necessary components for them to any car manufacturer. Only with this licence the suppliers can further develop the patented technology for uses outside the automotive industry and open up new markets. If they were only entitled to a limited right that is derived from the car manufacturers, this would decisively hinder the research, development and distribution of the TCUs and their components. This is because with derived rights the suppliers can only manufacture TCUs and their components within the framework of the instructions given to them by third parties and sell them to the contractually intended buyers. They would be denied their own market presence independent of the respective buyer, which would result in an unjustified restriction of their economic activity.
- 21 It cannot be argued against a separate, fully-fledged licence claim by the suppliers that even then there is still a need for the SEP holder to grant the other manufacturers their own licence. It is true that even unrestricted licensing does not result in exhaustion outside the EU and of process claims, and exhaustion does not occur even if the claim has device features that are not yet present in the component distributed by the licensed supplier.
- 22 It should be noted, however, that because of the confidence-building promise given by the SEP holder, licensing must take place on FRAND terms. This requires that provisions are made in the licence agreement that 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 licensing



claim that is geographically unlimited and/or includes the exhaustion of process claims. Accordingly, the manufacturer of patent-using precursors 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 in turn (Kühnen, GRUR 2019, 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. The contractual granting of a limited right to sub-license can be useful. In view of the fact that the licensed TCUs and NADs are intended precisely to establish a mobile radio connection in accordance with the 2G to 4G standards, an SEP holder is therefore to be expected to grant a licence which makes this intended use possible both by the supplier and its customer.

24 This applies even more when the practices in the industry served by the exploitation chain are included in the consideration. In the automotive industry it is common practice for car manufacturers to receive their products from suppliers free of third-party rights. This takes into account the fact that each level is responsible for the legal conformity of that technical solution which it develops itself and therefore knows best. Since up to 30,000 components are installed in a car, it would mean a considerable effort for a car manufacturer to check whether the technical solutions installed in his car and supplied by third parties make use of third parties' property rights. The problem becomes even more acute the more complex the supplier part is and the further away the respective technology is from the actual field of activity of the car manufacturer, as is the case with the TCUs and NADs in question here. The supplier who chooses a certain technical solution within the tiered supply chain is in the best position to check whether this solution infringes third party IP rights. In addition, the suppliers invest considerable expenditure in the research and development of new innovations and are in this respect independent of the end product buyers in their activities and need the economic and legal freedom for these activities that can only be guaranteed with an unrestricted licence in their favour.

25 There are no efficiency reasons against an obligation to grant priority licensing to suppliers. In principle, it is recognised 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 production or distribution are to be regarded as an efficiency advantage as an indispensable conduct (cf. Communication from the Commission on the EU's approach to standard-essential patents of 29 November 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 licensing is made easier for the applicant because it can more easily identify the end product manufacturers than their suppliers is not true from a factual point of view, because the number of suppliers is far smaller than that of the car manufacturers. From the point of view of efficiency, only licensing of the baseband chip producers would make sense, of which there are no more than ten worldwide. Apart from this, a possible simplification of licensing 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 licensed subject matter also do not stand in the way of an obligation to license suppliers on a priority basis. Both can be reliably countered by contractual arrangements.

27 An SEP holder's interest in committing to a particular licensing programme must therefore not be without consideration of the antitrust obligations of an SEP holder. It follows that while an SEP holder may preferentially solicit end-manufacturers of a particular product to take a licence, it may not ignore or reject legitimate licence requests/offers from a supplier. If any interested third party is to be granted a licence on FRAND terms, this then includes those suppliers who require a licence for their business operations. Moreover, a corresponding licensing programme on the part of the plaintiff, with which end-product manufacturers have been licensed, cannot be ascertained. In the past, the applicant concluded a contract with an automobile manufacturer, which no longer exists today. Furthermore, there is a licence agreement with intervener X and another car manufacturer which does not relate to the present 4G patent portfolio. Patent Pool X, of which the applicant is a member, has so far concluded licence agreements with three car manufacturers and refuses to license the suppliers. In contrast, X, also a member of the Avanci pool, recently concluded an unrestricted licence agreement with the Tier2 supplier X, which to a considerable extent resulted in the withdrawal of a claim by X against the defendant here. Subsequently, the defendant also entered into a licence agreement with X. Other X pool members are in licensing contract negotiations with different Tier1 and Tier2 suppliers.



28 A licensing obligation of a supplier seeking a licence does not lead to a disadvantage of the SEP holder in terms of remuneration for the use of the invention. This is because the licence fee is not linked to the profit that the respective licensee actually generates with the licensed invention, but only the profit that appears to be achievable from the point of view of the parties with the use of the invention is decisive. In this respect - irrespective of the level of licensing - the SEP holder is to participate appropriately in the profit generated at the end of the chain of exploitation based on the division of labour with the sale of the patented end product via the FRAND licence. This means that if the SEP holder is obliged to license the supplier, the licence that corresponds to the economic value of the SEP is also due at the upstream exploitation stage. The manufacturer must therefore accept the licence that the SEP holder could otherwise claim from the distributor of the end product without any abuse of exploitation. In this respect, the orientation towards the third-party exploitation profit may contradict the handling in normal cases of licensing. However, this is characterised by the fact that it is at the free discretion of the patent proprietor at which stage of exploitation of the use of the invention he grants a right of use. The SEP holder is not in such a situation, since he is legally obliged to grant a licence to anyone who requests one. However, this coercion must not have the effect that he is excluded from sharing in the proceeds of the use of the invention at the final stage of value creation or that his participation is unduly impeded (Kühnen, GRUR 2019, 665, 670 et seq.).

29 The right of every supplier to demand an unrestricted FRAND licence for itself exists in principle and unconditionally, 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, which can be invoked both by the infringer at the end of the exploitation chain who is the subject of the claim and by the supplier seeking the licence.

b)

30 If such an abuse is to be denied and if the defendant is therefore justifiably sued by the plaintiff in the present case, further questions arise that are relevant for the decision.

31 According to the case law of the Court of Justice in Huawei v. ZTE, before the proprietor of an SEP asserts his right to an injunction or a recall, he must, as a first step, point out the patent infringement to the alleged infringer (Guidelines and para. 61 of the ECJ judgment). In response to this infringement notice, the patent user must then ask for a licence at the second



stage. If this is done, the SEP proprietor must make him a concrete written offer to license the SEP on fair, reasonable and non-discriminatory terms and conditions, also setting out the way in which the requested royalties are calculated (para. 63 of the ECJ judgment). In the fourth stage, the infringer must respond to this offer in good faith and in particular without delaying tactics (para. 65 of the ECJ judgment). If the infringer does not accept the SEP holder's offer, he must submit a counter-licence offer within a short period of time, which complies with the FRAND requirements (para. 66 of the ECJ judgment). If the SEP holder rejects this counter-offer, the infringer must account for the use of the SEP from that point onwards and provide security for the payment of royalties, which also applies to past use (para. 67 of the ECJ judgment).

32 The Court of Justice thus makes it clear that the steps described - notification of infringement, request for licensing and submission of a FRAND-compliant licensing offer - must take place before the injunctive relief is sought in court. Therefore, the question arises - which is predominantly answered in the affirmative in German case law - whether it is possible to catch up during the ongoing litigation. The issue is of importance in the dispute against the background that the plaintiff did not make various contract offers to the Tier 1 suppliers until well after the action had been filed. In this context, the board is aware that the contract offers did not concern the defendant itself, but its interveners. However, the enforcement of an injunction has the same consequences for the interveners as for the defendant: both are no longer able to distribute their products. If the defendant can no longer sell cars, the suppliers are also no longer able to sell their products to the defendant. In this respect, it cannot make any difference whether the steps set out in *Huawei v. ZTE* were not complied with vis-à-vis the defendant or vis-à-vis the interveners.

33 In the Chamber's view, it is in principle possible to make up for this at trial, which is to be justified in more detail for the necessity of a FRAND-compliant licence offer. The question of whether a licence offer in an individual case is FRAND (which the Board understands in the sense of freedom from exploitation and discrimination under 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 rectify the situation, the relevant discussion should sensibly take place in the ongoing litigation. The situation is similar if the



patentee has fulfilled its pre-litigation duty to give notice of infringement and, after waiting for a reasonable period of time for the infringer to provide explanations, has filed an action. If the infringer then declares its willingness to take a license in the course of the proceedings and if catching up would be denied, this would have the consequence that the court would have to order the infringer to cease and desist, which would make fair FRAND negotiations with the SEP proprietor practically impossible for the infringer (under the pressure of an enforceable cease and desist order).

34 Furthermore, the requirements to be met by the licence request or the behaviour of the licence seeker after the infringement notice of the SEP holder are relevant for the present dispute. The board is of the opinion that no excessive requirements are to be placed on the request for licensing. The request for licensing can be made in a general and informal manner and thus also impliedly, whereby the conduct in question must clearly show the opponent's intention to take a licence. Statements on the content of the licence are not necessary; 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 licensing 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 one view expressed in the literature (Kühnen, Handbuch der Patentverletzung, 13th ed., chap. E, para. 393 f.), the request for a licence demanded of the infringer is merely intended to ensure that the SEP holder only goes to the trouble of making a substantiated FRAND licence offer where the infringer has requested it. Any explanations of the content of the licence are not required. They can only be harmful 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 terms which are obviously not FRAND and to which the IP right holder therefore obviously does not have to agree. In such circumstances, the verbal request for the grant of a licence in fact contains a 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 stage, because they are only to be specified in the next step by the SEP proprietor with his licence offer, the assumption that the infringer verbally expresses a licence request but is in fact ultimately not at all prepared to take a licence is subject to strict requirements. In fact, by such conduct 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 favourable to the declarant - 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 a licence that does not in fact exist in contradiction to the declaration made are to be based are those whose justification has not yet been clarified in case law and on which different opinions are therefore possible in principle.

37 If the patent proprietor has actually taken the expressed licence request, even if it may have been "insufficient" in the sense mentioned, as an opportunity 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 take a license then arises again only with regard to the infringer's reaction to the licence offer: If it is un-FRAND, there is no need for a willingness to take a license. If, on the other hand, the licence offer is FRAND, the infringer's willingness to take a licence is relevant to the decision. It is missing if (and only if) the infringer rejects the patent proprietor's FRAND-compliant licence offer 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 by the infringer, this - and only this! - is the touchstone for determining whether the infringer is willing to take a licence or not. It is the patent proprietor who must honour his confidence-building FRAND promise by a licence offer corresponding to these conditions, whereas the infringer has to prove his willingness to take a licence by accepting such an offer or by formulating other FRAND conditions.

38 A distinction must therefore be made between the infringer's fundamental (general) willingness to take a FRAND licence and its willingness to enter into concrete licence conditions that have been shown to be FRAND (concrete willingness to licence). At the level of the request for a licence, only his general willingness to become a licensee is significant and must be verified. In contrast, his concrete willingness to take a licence is only at issue once the patent proprietor's licence offer has been identified as FRAND.



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

III.

40 The Board is aware that it is not obliged to make a reference under Article 267(3) TFEU. However, in exercising its discretion under Article 267(2) TFEU, the Board took into account in particular that Article 102 TFEU allows for several interpretations that are equally reasonably possible for a knowledgeable lawyer and that the questions relevant to the decision had not already been subject to an interpretation by the Court of Justice, in particular that they had not been conclusively answered by the "Huawei/ZTE" decision.

41 Moreover, the answer to the questions submitted has far-reaching significance. In Europe, and especially in Germany, a large number of patent infringement actions are currently being brought on the basis of standard-essential patents, in which a more or less complex value 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, especially to what extent or to whom he must grant FRAND licences, are currently disputed. The European Commission has also issued requests and demands for information to the parties involved following complaints by the defendant and some suppliers. Only a decision by the Court of Justice can bring final clarity. The submission of the questions on the interpretation of Art. 102 TFEU already by a court of first instance leads to a timely clarification by the Court of Justice, which is in the interest of all parties involved.
