
Licensing of Cellular Standards: Defining a Willing Licensee in FRAND Negotiations

*Andrés Caturla**

Abstract. The unprecedented increase in innovation in the information and communications technology (“ICT”) sector experienced in recent years is closely related to the development of cellular standards (2G to 5G). These cellular standards owe their success to the fact that the patented inventions necessary to implement the standards (standard essential patents or “SEPs”) are typically licensed on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions. Despite the undeniable success of these standards, some U.S. academics and antitrust-law authorities have expressed concerns over SEP owners potentially abusing their dominant position by threatening to use injunctions with the aim to extract excessive royalty rates. On the other hand, there is a growing consensus that injunctions should be granted against SEP users that are proven to be unwilling licensees. This Article will study the extensive insights on the concept of a willing licensee provided by European legal authorities and national courts, which have interpreted and applied the legal framework established by the Court of Justice of the EU (“CJEU”) in Huawei v. ZTE. Finally, this Article will explain how, to keep the innovation circle alive, U.S. courts should take a balanced approach as regards the granting of injunctions for SEPs.

* Andrés Caturla is an IP lawyer at Vidal-Quadras & Ramon, a law firm specialized in intellectual property and competition law. The author has produced this paper during his research activities at 4iP Council. The views expressed herein are those of the author and do not necessarily reflect the views of Vidal-Quadras & Ramon, 4iP Council or any of its supporters.

Introduction

In recent years, innovation in the information and communications technology (“ICT”) sector has increased at an unprecedented pace, creating and expanding a multitude of sectors in the innovation economy. In particular, the development of standardized technologies, such as 2G to 5G cellular telecommunication standards, has transformed the way we communicate with each other around the globe.¹ Individuals can now (or in the near future) enjoy the Internet of Things, connected vehicles, “intelligent transport systems” as well as “‘smart’-agriculture, -health solutions, and -cities,” to name a few examples.² In fact, some cities such as Los Angeles, New York, Washington, D.C., Boston, and San Francisco have already become “smarter.”³ Thanks to cellular standards, these cities can significantly reduce congestion and pollution by controlling traffic flow, monitoring water use, and reducing the use of energy. Additionally, cities can enhance public safety with early warning systems for earthquakes; software that uses security-camera footage to detect gunshots and capture criminals more quickly; systems that monitor air quality and atmospheric conditions; or, during COVID times, by enabling “contact-free essential public services” and “accelerated medical solutions”.⁴

This massive success of cellular standards is the result of intellectual-property rights (“IPR”) policies that balance the interests of those who create the patented inventions that comprise these communication technologies, known as standard essential patents (“SEPs”), and those who use these patented inventions.⁵ In this context, SEP owners typically commit to make their SEPs available on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions.⁶ Accordingly, SEP owners can obtain a fair

¹ Eleftheria Stefanaki, *The Internet of Bodies Could Save Many Lives but Risks Failing Without Standards*, IAM (Apr. 21, 2021), <https://perma.cc/MQP2-VZDH>.

² Julia Brito, *R&D, IPR and Innovation: The Virtuous Circle for a Competitive Brazil*, SSRN 3 (Nov. 18, 2021), <https://perma.cc/9XE2-HMH7>; see also Ali Zaidi, Yasir Hussain, Marie Hogan & Christian Kuhlins, *Cellular IoT Evolution for Industry Digitalization*, ERICSSON (Jan. 2019), <https://perma.cc/7KJ9-J34D>; *Connected Vehicles*, ERICSSON, <https://perma.cc/ZU3H-CP2Z>; *Smart Cities*, EUR. COMM’N, <https://perma.cc/KNB9-MACP>.

³ Jayna Locke, *Top 12 Smart Cities in the U.S. - Smart Cities Examples 2020*, DIGI (Oct. 9, 2020), <https://perma.cc/ZGX7-ZMH2>; TED ROSS, CITY OF L.A., *SMARTLA 2028: TECHNOLOGY FOR A BETTER LOS ANGELES* 5–6 (2020), <https://perma.cc/E6JC-JDML>.

⁴ See Locke, *supra* note 3; Ross, *supra* note 3, at 7, 19, 28.

⁵ See *infra* Part II.

⁶ While RAND is the preferred terminology in the United States, FRAND is typically used in Europe. See Bowman J. Heiden, *IPR Policy As Strategy – The Battle to Define the Meaning of Frand*, CPI ANTITRUST CHRON. (Mar. 24, 2020), <https://perma.cc/85JZ-CLZY>; Damien Geradin & Miguel Rato, *Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-Up, Royalty Stacking and the*

and adequate reward that incentivizes them to engage in the standardization process, while SEP users can access the standardized groundbreaking technology under reasonable terms.⁷

In the last few years, there have been extensive debates among scholars, global legal disputes, and investigations and enforcement actions by antitrust authorities concerning the right of SEP owners to receive an injunction in patent-infringement lawsuits. Some U.S. academics and antitrust-law authorities have expressed the concern that SEP owners may abuse their dominant position by threatening to use injunctions to extract excessive royalty rates.⁸ Consequently, U.S. courts have been reluctant to grant injunctions for SEPs, especially under the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*⁹ in which it crafted a four-part test for issuing injunctions in patent cases.¹⁰

Given these concerns, a consensus has started to emerge that an injunction may be awarded for an ongoing infringement of an SEP if the infringer has proven to be an unwilling licensee. For example, in a draft policy statement jointly released in December 2021, the U.S. Department of Justice ("DOJ"), the National Institute of Standards and Technology ("NIST"), and the U.S. Patent and Trademark Office ("USPTO") indicated that "[a]n injunction may be justified where an implementer is unwilling or unable to

Meaning of Frand, 3 EUR. COMPETITION J. 101, 121 (2007) ("[A] flexible system of fair, reasonable and non-discriminatory licensing of IPR essential to a standard . . . has allowed thousands of standard implementers and owners of IPR essential to the standard to reach mutually satisfactory agreements and SSOs to conduct valuable standardization activities in a number of vastly different fields.").

⁷ See EUR. TELECOMM. STANDARDS INST., ETSI DIRECTIVES: RULES OF PROCEDURE: ANNEX 6: ETSI INTELLECTUAL PROPERTY RIGHTS POLICY, § 3.1–.3 (June 22, 2022), <https://perma.cc/WG9C-9KEV>.

⁸ See, e.g., Carl Shapiro & Mark A. Lemley, *The Role of Antitrust in Preventing Patent Holdup*, 168 U. PA. L. REV. 2019, 2021 (2020) ("[A]ntitrust has a role to play in policing holdup, particularly in cases where the patent owner avoids its contractual commitments or uses a SEP to restrict competition on adjacent markets."); Written Submission on the Public Interest of Federal Trade Commission Chair Lina M. Khan and Commissioner Rebecca Kelly Slaughter at 1, Certain UMTS and LTE Cellular Commc'n Modules & Prods. Containing the Same, Inv. No. 337-TA-1240 (May 16, 2022), <https://perma.cc/3MB7-PTK9> ("An ITC-issued exclusion order involving FRAND-committed SEPs, where infringement is based on implementation of standardized technology, has the potential to cause substantial harm to U.S. competition, consumers, and innovation."); Rebecca Kelly Slaughter, Comm'r, Fed. Trade Comm'n, Remarks at ANSI World Standards Week: Intellectual Property Rights Policy Advisory Group Meeting: SEPs, Antitrust, and the FTC 6 (Oct. 29, 2021), <https://perma.cc/7KZZ-86SZ> ("When SEP holders undermine the competitive safeguards put into place by SDOs, and obtain or enhance monopoly power by voluntarily contributing their technology to standards, the FTC should investigate, and when appropriate, bring cases."); *In re Motorola Mobility LLC*, 156 F.T.C. 147, 165–68 (2013).

⁹ 547 U.S. 388 (2006).

¹⁰ *Id.* at 391.

enter into a [FRAND] license.”¹¹ Similarly, the Honorable Rebecca Kelly Slaughter of the Federal Trade Commission (“FTC”) remarked in October 2021, that the organizations that develop standards and create FRAND polices, known as standard development organizations (“SDOs”), should adopt policies that “eliminate the threat of exclusion against willing licensees.”¹² These U.S. authorities and officials have not defined what is or is not a willing license. But European courts have been addressing the issue of what constitutes a willing or unwilling licensee and have been issuing injunctions to SEP owners.¹³ These European court decisions provide useful insights that can guide policies at SDOs, as well as guide judges and antitrust authorities in determining when an infringer of an SEP is deemed to be unwilling, and therefore, the SEP owner may be entitled to an injunction, as provided for under patent law.¹⁴

This Article explains the elements identified by European legal authorities on what constitutes a willing licensee and thus when an injunction may or may not be issued for infringement of an SEP. Part I explains how cellular standards are developed by SDOs and the contractual obligation of FRAND licensing for patents that cover these standardized technologies like 4G or 5G. Part II explains how SDOs balance the interests amongst SEP owners and SEP users with their IP policies to avoid or at least mitigate the concerns expressed by Commissioner Slaughter and the DOJ/NIST/USPTO draft policy statement about SEP owners exercising undue market power over users of standardized technologies through injunctions. Part III explains the U.S. approach thus far to distinguishing between willing and unwilling licensees of SEPs and the effect this distinction has on the availability of injunctions as a remedy for infringement of these SEPs. Part IV explains the European approach to defining a willing or unwilling licensee in the last decade, with a focus on the landmark ruling of the Court of Justice of the EU (“CJEU”) in *Huawei v. ZTE*.¹⁵ Part V provides a general overview of how European courts’ have interpreted and applied the *Huawei v. ZTE* decision. This Article concludes by highlighting the need to consider the conduct of the parties involved in FRAND negotiations (not only the SEP owner but also the SEP user) to take a balanced approach that keeps the innovation circle in standardised technologies alive.

¹¹ U.S. PAT. & TRADEMARK OFF., NAT’L INST. OF STANDARDS & TECH. & U.S. DEP’T OF JUST., DRAFT POLICY STATEMENT ON LICENSING NEGOTIATIONS AND REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS 9 (2021).

¹² Slaughter, *supra* note 8, at 6.

¹³ See *infra* Part V.

¹⁴ E.g., 35 U.S.C. § 283 (providing for injunctions as an equitable remedy for infringement of a patent).

¹⁵ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477 (July 16, 2015).

I. Balance of Interests Between SEP Owners and SEP Users

Today's cellular standards are typically developed by different stakeholders, mostly companies that create cutting-edge technological solutions under the umbrella of the 3rd Generation Partnership Project ("3GPP").¹⁶ The 3GPP is a consortium of seven standard development organizations from around the globe.¹⁷ In the 3GPP, participants submit and evaluate technologies to be included as part of the global cellular standards used in mobile devices, such as the 5G technology used in our smartphones and tablets.¹⁸ The 3GPP ensures a level playing field for all parties involved in the creation and commercialization process by requiring adherence to agreed-upon principles, such as openness, transparency, consensus, and impartiality.¹⁹ These principles are followed in evaluating and developing these technological standards, as well as in the discussions related to IP Policy.

To attract cutting-edge technologies into the standards and broadly disseminate them, 3GPP aims to strike a balance between the interests of technology developers and those of implementers who use these technologies in its partnership project agreement.²⁰ Accordingly, the seven SDOs that comprise the 3GPP encourage their respective members who are creators of these technologies to declare their willingness to grant licenses (to their SEPs) on FRAND terms.²¹ This FRAND commitment is a balanced contractual commitment by all participants in the standard development process. On the one hand, it ensures that users of cellular technologies, such as smartphone manufacturers, have access to the SEPs necessary to produce and sell their mobile devices to consumers.²² On the other hand, the innovators who create and contribute their patented technologies to be

¹⁶ See *Introducing 3GPP*, 3GPP, <https://perma.cc/BS44-DQ45>.

¹⁷ See *id.* The seven SDOs in 3GPP are ARIB (Japan), ATIS (USA), CCSA (China), ETSI (Europe), TSDSI (India), TTA (Korea), and TTC (Japan). *Partners*, 3GPP, <https://perma.cc/FR4H-4L2F>.

¹⁸ See Justus Baron & Kirti Gupta, *Unpacking 3GPP Standards*, 27 J. ECON. & MGMT. STRATEGY 433, 438–39 (2018).

¹⁹ See *Principles for the Development of International Standards, Guides and Recommendations*, WORLD TRADE ORG., <https://perma.cc/JXN6-A4A9>.

²⁰ See 3GPP, THIRD GENERATION PARTNERSHIP PROJECT AGREEMENT § 3.1 (1998), <https://perma.cc/U6PA-XCAE>; David Lopez-Berzosa & Annabelle Gawer, *Innovation Policy Within Private Collectives: Evidence on 3GPP's Regulation Mechanisms to Facilitate Collective Innovation*, 34 TECHNOVATION 734, 740 (2014).

²¹ See EUR. TELECOMM. STANDARDS INST., *supra* note 7, § 6.1; Lopez-Berzosa & Gawer, *supra* note 20, at 740.

²² See *Standard Essential Patents*, EUR. COMM'N, <https://perma.cc/95J4-F5VP>; Juan Martinez, *FRAND as Access to All Versus License to All*, 14 J. INTEL. PROP. L. & PRAC. 642, 643 (2019); Richard Vary, *The Case for the Defence: Access for All v. License to All*, BIRD & BIRD (Apr. 23, 2020), <https://perma.cc/EZ7F-S3VJ>.

included in a technological standard like 5G are paid reasonable royalties by the companies using and profiting from their patented technologies.²³ This allows innovators, which have heavily invested in research and development (“R&D”),²⁴ to recoup their investments and encourages them to continue their development of future generations of cellular technologies, such as 6G.²⁵ Thus, the cycle of innovation continues to the benefit of innovators, implementers, and consumers who purchase and use these technologies.

For example, the European Telecommunications Standards Institute (“ETSI”) was responsible for creating 2G and is one of the seven 3GPP partners.²⁶ ETSI states the following in its “policy objectives”:

3. Policy Objectives

3.1 It is ETSI's objective to create STANDARDS and TECHNICAL SPECIFICATIONS that are based on solutions which best meet the technical objectives of the European telecommunications sector, as defined by the General Assembly. In order to further this objective the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS and TECHNICAL SPECIFICATIONS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD or TECHNICAL SPECIFICATION being unavailable. In achieving this objective, the ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs.

3.2 IPR holders whether members of ETSI and their AFFILIATES or third parties, should be adequately and fairly rewarded for the use of their IPRs in the implementation of STANDARDS and TECHNICAL SPECIFICATIONS.

3.3 ETSI shall take reasonable measures to ensure, as far as possible, that its activities which relate to the preparation, adoption and application of STANDARDS and TECHNICAL SPECIFICATIONS, enable STANDARDS and TECHNICAL SPECIFICATIONS to be available to potential users in accordance with the general principles of standardization.²⁷

In other words, to attract the best technology into the open standard, ETSI seeks to balance the interests of the SEP users and the SEP owners. This balance is achieved via the FRAND undertaking by (1) adequately and fairly rewarding SEP owners, and (2) making standards available to future potential users, preventing waste of resources for both sides.²⁸

FRAND terms are generally agreed upon in bilateral negotiations between an SEP owner and an SEP user, as they are best situated to address

²³ TIM POHLMANN, IPLYTICS, FACT FINDING STUDY ON PATENTS DECLARED TO THE 5G STANDARD 6 (Jan. 2020), <https://perma.cc/RL9L-X5XC>.

²⁴ Baron & Gupta, *supra* note 18, at 440.

²⁵ Vincent Angwenyi, *Hold-up, Hold-out and F/RAND: The Quest for Balance*, 12 J. INTELL. PROP. L. & PRAC. 1012, 1022 (2017).

²⁶ ETSI launched 2G in 1991 and later joined 3GPP with other standardization development organizations in developing 3G, 4G, and 5G. *See 2nd Generation (GERAN)*, EUR. TELECOMM. STANDARDS INST., <https://perma.cc/M49A-34V8>.

²⁷ EUR. TELECOMM. STANDARDS INST., *supra* note 7, § 3.1–.3.

²⁸ *See id.* § 3.2–.3.

the circumstances of each individual case within the FRAND framework.²⁹ However, for FRAND licensing negotiations to succeed, both parties must negotiate in good faith.³⁰ Otherwise, SEP owners risk not obtaining an injunction even after having proved the validity and infringement of their patents.³¹

On the other hand, prospective licensees are expected to act as willing licensees for the time until they have signed a FRAND agreement. In practice, the latter means that SEP users should engage constructively in negotiations when approached by an SEP owner. By doing so, SEP users can benefit from FRAND terms, and potentially avoid an injunction prohibiting the use of patented standardized technology, in those exceptional cases in which negotiations fail and parties resort to litigation.³² Understanding, therefore, what a willing licensee means is crucial not least from the angle of pending infringement proceedings.

FRAND licensing and the WTO principles have led to a highly successful standardized connectivity in terms of technological performance,³³ wide dissemination, as well as reasonable pricing.³⁴ Estimates are that cellular connectivity will contribute \$5 trillion to the global economy by 2024.³⁵ The automotive sector alone is expected to earn an additional 30% in revenue, or up to \$1.5 trillion by 2030 due to new automotive business models based on data collected thanks to cellular standards.³⁶

II. Hold-Up v. Hold-Out Concerns

Despite the overwhelming success of standardized technologies thanks to IP policies that balance the interests of SEP owners and SEP users via FRAND commitments,³⁷ some have raised the concern that the SEP owner is

²⁹ Luis Herranz & Claudia Tapia, *Good and Bad Practices in FRAND Licence Negotiation*, in *RESOLVING IP DISPUTES: A SELECTION OF CONTEMPORARY ISSUES* 49, 52–53 (Gerold Zeiler & Alexander Zojer eds., 2018).

³⁰ *See id.*

³¹ *See id.* at 53–57.

³² Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶¶ 65–68 (July 16, 2015).

³³ *See supra* notes 1–4 and accompanying text.

³⁴ *See* GSM ASSOC., *THE MOBILE ECONOMY 2020*, at 3 (2020), <https://perma.cc/LMA3-NMFY>; Wolfgang Bock, François Candelon, Steve Chai, Ethan Choi, John Corwin, Sebastian DiGrande, Rishab Gulshan, David Michael & Antonio Varas, *The Mobile Revolution: How Mobile Technologies Drive a Trillion-Dollar Impact*, BOS. CONSULTING GRP. (Jan. 15, 2015), <https://perma.cc/8BWW-LDKG>.

³⁵ GSM ASSOC., *supra* note 34, at 3.

³⁶ Paul Gao, Hans-Werner Kaas, Detlev Mohr & Dominik Wee, *Automotive Revolution – Perspective Towards 2030*, MCKINSEY & CO. (Jan. 1, 2016), <https://perma.cc/X7DD-D5RL>.

³⁷ *See* Bowman Heiden, Jorge Padilla & Ruud Peters, *The Value of Standard Essential Patents and the Level of Licensing*, 49 AM. INTELL. PROP. L. ASS'N Q.J. 1, 1–5 (2021); Bock et al., *supra* note 34; Keith Mallinson, *Analyst Angle: Massive Growth in IoT Leveraged by Fulcrum of 4G and 5G Technologies*, ENTER.

in the position to “hold-up” the SEP user by threatening to obtain an injunction—the hold-up theory.³⁸ In this scenario, the SEP user, which has made “heavy” investments when incorporating the standard in its products or services, is then “forced” to pay excessive royalty rates (above FRAND).³⁹ On the other hand, “hold-out” occurs when patent infringers apply delaying tactics or refuse to engage in good faith negotiations in order to force an SEP owner to accept royalties below FRAND.⁴⁰ This behavior is usually exacerbated by the denial of injunctions for SEPs, as the worst consequence that an unwilling licensee faces in such a scenario is to pay the same FRAND terms it would have paid in a good faith licensing negotiation.⁴¹

There are diverging views amongst antitrust agencies (even within the same agency) on whether hold-up or hold-out poses a greater risk from an antitrust perspective. For example, Makan Delrahim, former Assistant Attorney General of the DOJ, expressed doubts that patent hold-up can be considered a significant problem, since it is devoid of empirical support.⁴² Delrahim acknowledged that hold-out, a real threat to innovation outweighs hold-up, a non-evidence-based phenomenon.⁴³ Similarly, Maureen K. Ohlhausen, former Acting Chair of the FTC, warned that the patent system is becoming tilted in favor of patent users, while referring to the dilution of IP rights as a problem to be solved.⁴⁴ One example of what Olhausen

IoT INSIGHTS (May 17, 2017), <https://perma.cc/Z64R-QZM4>; Keith Mallinson, *Don't Fix What Isn't Broken: The Extraordinary Record of Innovation and Success in the Cellular Industry Under Existing Licensing Practices*, 23 GEO. MASON L. REV. 967, 968–79 (2016).

³⁸ On the lack of evidence of hold-up theory, see Anne Layne-Farrar, *Patent Holdup and Royalty Stacking Theory and Evidence: Where Do We Stand After 15 Years of History?*, at 7, DAF/COMP/WD(2014)84 (Nov. 18, 2014), <https://perma.cc/K2F4-YQV4>.

³⁹ Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1993 (2007); Daniel G. Swanson & William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power*, 73 ANTITRUST L.J. 1, 19–20 (2005); Philippe Chappatte, *FRAND Commitments—The Case for Antitrust Intervention*, 5 EUR. COMPETITION J. 319, 326 (2009). Jonathan Putnam, on the other hand, explains that the FRAND undertaking and the ETSI disclosure system prevents such opportunistic behavior. See Jonathan D. Putnam, *Economic Determinations in “FRAND Rate”-Setting: A Guide for the Perplexed*, 41 FORDHAM INT’L L.J. 953, 963–65 (2018).

⁴⁰ Angwenyi, *supra* note 25, at 1019.

⁴¹ See Richard A. Epstein, F. Scott Kieff & Daniel F. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 1, 26–27 (2012); Edward J. Egan & David J. Teece, *Untangling the Patent Thicket Literature* 13 (Tusher Ctr. for the Mgmt. of Intell. Cap., Working Paper No. 7, 2015), <https://perma.cc/6GGV-7TRQ>; Geradin & Rato, *supra* note 6, at 119.

⁴² Makan Delrahim, Assistant Att’y Gen., U.S. Dep’t of Just., Remarks at University of Pennsylvania Law School: The “New Madison” Approach to Antitrust and Intellectual Property Law 8–9 (Mar. 16, 2018), <https://perma.cc/AY9A-BTGB>.

⁴³ *Id.*

⁴⁴ See Maureen K. Ohlhausen, *Patent Rights in a Climate of Intellectual Property Rights Skepticism*, 30 HARV. J.L. & TECH. 103, 107–08 (2016). Ohlhausen notes that some influential jurisdictions use antitrust law “not to protect competition, but to regulate the price of patent rights.” *Id.* at 106. It should be noted

considers to be a signal of such dilution is prohibiting SEP owners from seeking prohibitory injunctions.⁴⁵

In contrast, FTC Commissioner Rebecca Kelly Slaughter in her statements of October 2021, identified hold-up as potentially harmful to competition and to consumers.⁴⁶ She also expressed her concern for small- and medium-enterprise implementers suffering from anticompetitive distortions concerning FRAND royalties, which could discourage them from investing in innovation.⁴⁷ In the Commissioner's view, the threat of exclusionary remedies allows SEP owners to abuse their market power against implementers in licensing negotiations.⁴⁸ Theoretically, she argued, the threat of exclusion could allow a SEP owner to obtain royalties that exceed what a FRAND royalty would be.⁴⁹ The Commissioner encouraged SDOs to implement FRAND policies that "eliminate the threat of exclusion against willing licensees."⁵⁰ As an alternative option, antitrust agencies' intervention was proposed.⁵¹

Without delving into the discussion concerning whether hold-up or hold-out is potentially more harmful to competition, most would agree that

that, in her view, dilution of IP rights is an international issue present in jurisdictions such as China, India, Korea, and Japan. *Id.* at 107.

⁴⁵ *See id.* at 107–08.

⁴⁶ Slaughter, *supra* note 8, at 6.

⁴⁷ *Id.* at 7.

⁴⁸ *Id.* at 4.

⁴⁹ *Id.*

⁵⁰ *Id.* at 6.

⁵¹ As former FTC Commissioner Joshua D. Wright pointed out, others also advocated in favor of antitrust law to discourage hold-up "[wrongly] presuming contractual incompleteness in SSO contracts is sufficient to demonstrate inefficiency that requires legal regime change or other solutions." Joshua D. Wright, Comm'r, Fed. Trade Comm'n, Remarks at the Center for the Protection of Intellectual Property Inaugural Academic Conference: The Commercial Function of Patents in Today's Innovation Economy, 11–12 (Sept. 12, 2013), <https://perma.cc/L79Q-EG8E>. In Wright's view, such presumptions are "problematic" as "perfectly complete or comprehensive contracts are observed only on blackboards in graduate economics departments and the occasional textbook." *Id.* at 12. Some examples of those promoting the use of antitrust to deter holdup cited were George S. Cary, Mark W. Nelson, Steven J. Kaiser & Alex R. Sistla, *The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting*, 77 ANTITRUST L.J. 913, 913 (2011) ("While other areas of law may prove capable of addressing certain abuses of standard-setting processes, they are an incomplete solution, as only antitrust law can ensure that private parties and government enforcement authorities can seek redress where the underlying abuse harms competition."); George S. Cary, Larry C. Work-Dembowski & Paul S. Hayes, *Antitrust Implications of Abuse of Standard-Setting*, 15 GEO. MASON L. REV. 1241, 1262 (2008) ("Antitrust law has an important role to play in governing both collusive and unilateral conduct in the standard-setting process."); Thomas F. Cotter, *Patent Holdup, Patent Remedies, and Antitrust Responses*, 34 J. CORP. L. 1151, 1205 (2009)) (in Wright's words: "suggesting that SSO agreements aimed at controlling the price paid for patented technology should be subjected to the same antitrust scrutiny as any other horizontal agreement among competitors"). Wright, *supra*, at 9 & n.15.

innovation would benefit from avoiding both. Therefore, an appropriate use of injunctions is key to avoiding hold-up and hold-out while, at the same time, achieving a balance of interests between innovators ("SEP holders") and implementers ("SEP users").⁵² To accomplish this objective, the proper use of injunctions is crucial; otherwise, court decisions could tilt the balance in favor of hold-up or hold-out. Consequently, it is indispensable to understand the requirements for SEP users to be considered unwilling licensees and the role this plays in the determination of whether to grant an injunction.

III. U.S. Approach to "Willing Licensees"

In the United States, there is limited jurisprudence on the concept of willing licensees. While the possibility of SEP injunctive relief is recognized in U.S. case law, a detailed framework addressing the conduct of the parties in FRAND licensing negotiations has yet to be developed.⁵³

In *eBay Inc. v. MercExchange, L.L.C.*, the U.S. Supreme Court established certain requirements for patent owners, for both essential and nonessential patents,⁵⁴ known as the "four-factor test" which must be passed in order for patent owners to be granted injunctive relief for patent infringement in federal courts.⁵⁵ Many U.S. legal scholars, especially those who specialize in remedies law, recognize that the *eBay* 4-factor test introduced a new test in patent law.⁵⁶

According to the *eBay* decision, in order to obtain an injunction, the patent owner must demonstrate

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the [patent holder] and the [infringer], a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.⁵⁷

Therefore, if the above conditions are met, injunctive relief for SEPs should, in principle, be granted. For instance, in *Apple Inc. v. Motorola, Inc.*,⁵⁸ the U.S. Court of Appeals for the Federal Circuit indicated that, "an

⁵² Vincent Angwenyi, *Smokescreen Strategies: What Lies Behind the Hold-up Argument?*, 67 GRUR INT'L 204 (2018).

⁵³ Spyros Makris & Haris Tsilikas, *Standard Essential Patents and Injunctions: The Key Role of Good Faith in Major Jurisdictions*, IEEE COMM'NS STANDARDS MAG., Dec. 2021, at 127.

⁵⁴ See *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331–32 (Fed. Cir. 2014).

⁵⁵ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

⁵⁶ See Adam Mossoff, *The Injunction Function: How and Why Courts Secure Property Rights in Patents*, 96 NOTRE DAME L. REV. 1581, 1586–87 (2021).

⁵⁷ *eBay*, 547 U.S. at 391.

⁵⁸ 757 F.3d 1286 (Fed. Cir. 2014).

injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”⁵⁹

To properly assess whether injunctions should be granted, however, it is critical to further detail what constitutes an unwilling licensee. Even though the possibility of SEP owners leveraging potential injunctions in their favor should be considered, without any guidelines on interpreting unwillingness, courts may feel discouraged to grant injunctions for SEPs, involuntarily encouraging hold-out behavior and posing a serious threat to innovation.⁶⁰ In fact, this is not a theoretical scenario; studies show that U.S. courts are highly reluctant to grant injunctions for SEPs.⁶¹

IV. European Perspective of a Willing Licensee

In contrast to U.S. case law, European courts have developed a framework on good-faith FRAND licensing negotiations. Such a framework may serve as guidance for U.S. courts when dealing with SEP cases, particularly regarding the willingness aspect.

The European FRAND negotiation framework is rooted in the 2015 landmark CJEU ruling in *Huawei Technologies Co. v. ZTE Corp.*⁶² The *Huawei* decision represented a clarification in the EU’s approach in the determination of remedies for infringement of an SEP. The court corrected the previous asymmetry in prior decisions and statements that did not account for the facts of both hold-up and hold-out risks.⁶³

Between 2011 and 2015, the European Commission (“EC”) was solely and improperly focused on hold-up as the only commercial fact that should be accounted for in evaluating the proper remedy for infringement of an SEP.⁶⁴ In *Huawei*, however, the court clarified that the risks of hold-up and hold-out existed equally on both sides of a license negotiation in which both contracting parties could engage in strategic behavior.⁶⁵ Thus, the referring

⁵⁹ *Id.* at 1332.

⁶⁰ See Richard A. Epstein & Kayvan B. Noroozi, *Why Incentives for “Patent Holdout” Threaten to Dismantle FRAND, and Why It Matters*, 32 BERKELEY TECH. L.J. 1381, 1404 (2017) (“[A]bsent the backstop of the injunction threat, implementers will have powerful incentives to breach their end of the FRAND contract and pursue their own ex post strategy of ‘patent holdout’ or ‘efficient infringement.’ That conduct could lead to suboptimal returns from playing the FRAND game, and thus an eventual breakdown of the FRAND-enabled innovation marketplace.”).

⁶¹ See, e.g., Kirti Gupta & Mark Snyder, *Smart Phone Litigation and Standard Essential Patents 4*, 13–14 (Hoover Inst. Working Grp. on Intell. Prop., Innovation, & Prosperity, Working Paper No. 14006, 2014).

⁶² Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477 (July 16, 2015).

⁶³ See *id.* ¶¶ 46–50.

⁶⁴ See *infra* Section IV.A.

⁶⁵ See Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶ 69 (July 16, 2015).

court explained that “the positions of the proprietor of an SEP and of the infringer ought not to make it possible for them to obtain excessively high royalties (a ‘hold-up’ situation) or excessively low royalties (a ‘reverse hold-up’ situation), respectively.”⁶⁶ Consequently, the court provided a framework for FRAND licensing negotiations that takes this fundamental idea of a willing licensee into consideration and, in case litigation occurs, guides courts in their decision to either grant an injunction or not.⁶⁷ Following *Huawei*, the EC evolved into a more balanced position, recognizing the need to protect against hold-up as well as hold-out conduct.

A. EC Approach Prior to Huawei

In 2011, the EC Guidelines on horizontal cooperation agreements clarified that:

[S]tandardisation may lead to anti-competitive results by preventing certain companies from obtaining effective access to the results of the standard-setting process (that is to say, the specification and/or the essential IPR for implementing the standard). If a company is either completely prevented from obtaining access to the result of the standard, or is only granted⁶⁸ access on prohibitive or discriminatory terms, there is a risk of an anti-competitive effect.

The EC also claimed that SEP owners could hold-up users after adopting the standard “by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard.”⁶⁹ The Guidelines contained no reference to hold-out conduct and its corresponding antitrust risks.⁷⁰

In 2012, the EC expressed concern over the possibility of hold-up in the context of the Google acquisition of Motorola.⁷¹ However, the EC accepted that seeking an injunction against a potential licensee not willing to

⁶⁶ *Id.* ¶ 38 (ultimately adopting this position).

⁶⁷ See *The Focus in Europe Moves from Patent Hold-up to Hold-out*, IAM (Jan. 24, 2020), <https://perma.cc/Q9LT-P78R>.

⁶⁸ Communication from the Commission of Jan. 14, 2011, Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the European Union to Horizontal Co-operation Agreements, 2011 O.J. (C 11) 1, 57.

⁶⁹ *Id.* at 58 (footnote omitted). The EC also clarified that:

[E]ven if the establishment of a standard can create or increase the market power of IPR owners possessing IPR essential to the standard, there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power. The question of market power can only be assessed on a case by case basis.

Id.

⁷⁰ See *id.*

⁷¹ *The Focus in Europe Moves from Patent Hold-up to Hold-out*, *supra* note 67.

negotiate on FRAND terms could be justified.⁷² Even though the EC implicitly recognized hold-out behavior by bad-faith licensees, this was not further analyzed.⁷³

The EC concern on hold-up was also present in the decisions in two antitrust investigations. Both cases involved injunctions being sought on the basis of SEPs, where Apple was the patent user and Motorola and Samsung the respective patent owners.⁷⁴

On April 29, 2014, the EC launched a press release communicating its decision in the *Motorola v. Apple* case.⁷⁵ The EC considered that Motorola, the SEP owner, was abusing its dominant position against Apple, the implementer, by seeking an injunction as remedy for infringement.⁷⁶ The EC held that seeking an injunction may constitute an abuse of dominant position within the meaning of Article 102 of the Treaty on the Functioning of the European Union (“TFEU”),⁷⁷ if the implementer is “willing to enter into a license agreement on . . . FRAND terms.”⁷⁸ Although the requirements needed for a licensee to be willing were not set forth clearly, declaring its willingness to take a license appeared sufficient for the licensee to avoid an injunction, independently of whether the licensee was actually willing to conclude the licensing agreement.

Also on April 29, 2014, Samsung publicly committed not to seek an injunction against any company willing to enter a licensing agreement “[t]o address the Commission’s concerns.”⁷⁹ Indeed, such commitments followed the preliminary view of the EC made in December 2012, that “[w]hile

⁷² *Id.*

⁷³ *Id.*

⁷⁴ See European Commission Press Release IP/14/489, Antitrust: Commission Finds That Motorola Mobility Infringed EU Competition Rules by Misusing Standard Essential Patents (Apr. 29, 2014); European Commission Press Release IP/14/490, Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunctions (Apr. 29, 2014).

⁷⁵ European Commission Press Release IP/14/489, *supra* note 74.

⁷⁶ *Id.*

⁷⁷ Article 102 of the TFUE establishes the following: “Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.” Consolidated Version of the Treaty on the Functioning of the European Union art. 102, June 7, 2016, 2016 O.J. (C 202) 89.

⁷⁸ European Commission Press Release IP/14/489, *supra* note 74.

⁷⁹ European Commission Press Release IP/14/490, *supra* note 74 (“Samsung has for a period of five years committed not to seek any injunctions in the European Economic Area (EEA) on the basis of any of its SEPs, present and future, that relate to technologies implemented in smartphones and tablets against any company that agrees to a particular framework for licensing the relevant SEPs.”). In principle, Samsung’s commitments were limited to the proceedings concerning their own patented technology. However, they were regarded by the Commission as legally binding as well as a “safe harbour” for all potential licensees. *Id.*

recourse to injunctions is a possible remedy for patent infringements, such conduct may be abusive where SEPs are concerned and the potential licensee is willing to negotiate a license on Fair, Reasonable and Non-Discriminatory (so-called 'FRAND') terms."⁸⁰ In its 2014 press release, the EC also stated that "the seeking of an injunction based on SEPs may constitute an abuse of a dominant position if an SEP holder has given a voluntary commitment to license its SEPs on FRAND terms and where the company against which an injunction is sought is willing to enter into a license agreement on such FRAND terms."⁸¹

B. *German Courts' Approach Prior to Huawei*

The views expressed by the EC in the *Motorola* and *Samsung* investigations seemed to contradict the previous position held by the German Bundesgerichtshof ("Federal Court of Justice") in its judgment of May 6, 2009, in the *Orange-Book-Standard* case.⁸² The Federal Court of Justice considered that seeking a prohibitory injunction should only be regarded as an abuse of dominant position under the following conditions: (1) the implementer must have made an unconditional offer to conclude a licensing agreement which could only be refused by acting in a discriminatory manner; and (2) if the implementer was already using the patented technology, it must have complied with the obligations ordinarily imposed if a license were concluded.⁸³ In particular, the implementer must render accounts of its past use and satisfy the resulting payment obligations.⁸⁴

In view of this conflict, the Düsseldorf Regional Court, in a case involving two Chinese companies (Huawei and ZTE) where an injunction was sought regarding an SEP for which a FRAND commitment was made, stayed its proceedings and submitted a reference for a preliminary ruling under Article 267 of the TFEU to the CJEU.⁸⁵ The decisions of the court are binding on the EC as well as on the national courts of the European Union.⁸⁶

⁸⁰ European Commission Press Release IP/12/1448, Antitrust: Commission Sends Statement of Objections to Samsung on Potential Misuse of Mobile Phone Standard-Essential Patents (Dec. 21, 2012).

⁸¹ European Commission Press Release IP/14/490, *supra* note 74.

⁸² Bundesgerichtshof [BGH] [Federal Court of Justice] May 6, 2009, KZR 39/06, juris (Ger.), <https://perma.cc/DTQ9-33B5>.

⁸³ *Id.* ¶ 29.

⁸⁴ *Id.*

⁸⁵ Landgericht Düsseldorf [LG] [Düsseldorf Regional Court] Mar. 21, 2013, 4b O 104/12, justiz-online (Ger.) <https://perma.cc/6ZC4-UEGP>.

⁸⁶ See Alberta M. Sbragia, *The European Community: A Balancing Act*, 23 *PUBLIUS* 23, 29–35 (1993).

Apart from questions regarding the requirements for establishing abuse of market dominant position,⁸⁷ the Düsseldorf Regional Court sought clarification on the requirements (or lack thereof) enunciated by Article 102 of the TFEU on willingness to negotiate.⁸⁸ Particularly, it asked whether an oral statement of willingness is enough, or some further action from the infringer is required.⁸⁹

C. Advocate General Opinion

Against this background, the Advocate General delivered an opinion in *Huawei v. ZTE*, pondering on the questions posed for preliminary ruling by the Düsseldorf Regional Court.⁹⁰ The Advocate General considered the commission's interpretation of willingness in the *Motorola* and *Samsung* cases as lacking in precision. In his view, merely requiring the infringer to be willing to negotiate should not be sufficient to preclude an SEP owner from seeking an injunction.⁹¹ In fact, the Advocate General argued that to be regarded as a willing licensee, an infringer must be "objectively ready, willing and able to conclude . . . a licensing agreement."⁹²

According to the Advocate General's understanding, neither the *Orange-Book-Standard* approach, nor the one taken in the *Motorola* and *Samsung* cases were optimal. While the former would over-protect the SEP owner to the detriment of the implementer, the latter would under-protect the SEP owner in favor of the infringing user of the SEP.⁹³ As the Advocate General explained:

[P]lacing reliance only on the alleged infringer's mere "willingness to negotiate" would result in pricing which falls well below the true economic value of the SEP. Conversely, placing reliance on the case-law established by the Bundesgerichtshof in *Orange-Book-Standard* would create the opposite problem, in that the license royalties imposed would be very high (though not so high as to constitute a refusal to conclude a contract, in breach of Article 102 TFEU).⁹⁴

⁸⁷ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶ 39 (July 16, 2015).

⁸⁸ *Id.*

⁸⁹ In particular, it asked whether the infringer "must . . . already have entered into negotiations by, for example, submitting specific conditions upon which it is prepared to conclude a licensing agreement." *Id.*

⁹⁰ Opinion of Advocate General Wathelet, Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2014:2391, ¶¶ 40–46 (Nov. 20, 2014).

⁹¹ *Id.* ¶ 50.

⁹² *Id.* ¶ 98. As a way of showing itself to be ready to conclude a license, the infringer may need to provide a bank guarantee or a deposit for the payment of future and past royalties. *Id.*

⁹³ See *id.* ¶ 51.

⁹⁴ *Id.* ¶ 51 n.19.

Therefore, the Advocate General advocated for finding “a middle path.”⁹⁵ He also suggested the establishment of a “framework of ‘rules of good conduct’” to determine whether parties negotiating FRAND licenses are willing or not.⁹⁶ Subsequently, the CJEU followed the Advocate General’s suggestion in the *Huawei v. ZTE* judgment.⁹⁷

D. *The CJEU Position*

The *Huawei* judgment is a landmark decision in SEP litigation, modifying the way courts and the EC approach the matter by striking a fair balance between the SEP owner and the implementer’s opposing interests.⁹⁸ In its decision, the CJEU clarified that an SEP owner who has made a FRAND commitment might abuse its dominant position, within the meaning of Article 102 of the TFEU, by bringing an action for infringement seeking an injunction in some circumstances.⁹⁹ However, it also emphasized that “in principle, the [SEP] proprietor may not be deprived of the right to have recourse to legal proceedings to ensure effective enforcement of his exclusive rights.”¹⁰⁰

One of the most important contributions of the *Huawei* judgment is the establishment of a framework for SEP owners and implementers to show they are acting in good faith. Not adhering to the introduced guidelines may result in either the grant or refusal of a prohibitive injunction in favor of the SEP owner and against the implementer.¹⁰¹ However, courts have rightly understood said guidelines as establishing a “safe harbor” for the parties involved in negotiations, rather than as strict rules.¹⁰²

An SEP owner behaving in good faith, and thus, preserving the possibility to access injunctive relief, should: (1) notify the alleged infringer of the infringement, specifying the SEP and how it was infringed; and (2) once the alleged infringer has expressed its willingness to conclude a FRAND agreement, submit a written and specific offer that stipulates the royalty amount and the way it is to be calculated.¹⁰³

⁹⁵ *Id.* ¶ 52.

⁹⁶ *Id.* ¶ 11.

⁹⁷ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶ 71 (July 16, 2015).

⁹⁸ See Stephan Waldheim, *Huawei v. ZTE Five Years After—Luxembourg Locuta Causa Finita?*, 11 J. EUR. COMPETITION. L. & PRAC. 181, 187 (2020).

⁹⁹ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶ 53 (July 16, 2015).

¹⁰⁰ *Id.* ¶ 58.

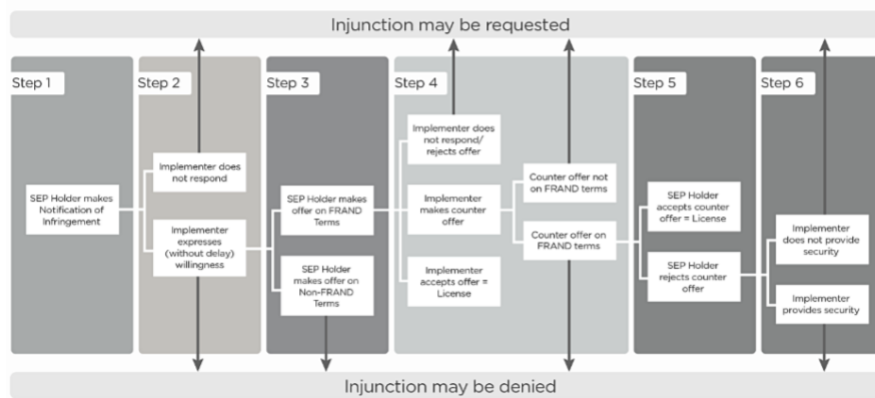
¹⁰¹ Herranz & Tapia, *supra* note 29, at 55–57.

¹⁰² Hof’s-Gravenhage 2 juli 2019, 2020, ECLI:NL:GHDHA:2019:3613, ¶ 4.14 (Koninklijke Philips N.V./Wiko SAS) (Neth.), <https://perma.cc/VXT4-EFVL>; Landgericht München [LG] [Munich Regional Court] Sept. 10, 2020, 7 O 8818/19, ¶ 144, *gesetze-bayern* (Ger.), <https://perma.cc/TS8R-NYF7>.

¹⁰³ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶¶ 61–63 (July 16, 2015).

For alleged infringers to be regarded as willing and avoid injunctions, they should: (1) express their willingness to conclude a licensing agreement on FRAND terms once they have been notified of the infringement; (2) diligently respond to the offer made by the SEP owner, in accordance with commercial practice, in good faith, and refraining from delaying tactics; (3) in the event they do not agree with the patent owner's offer, submit promptly and in writing a specific FRAND counter-offer; and (4) if the counter-offer is rejected, provide appropriate security in accordance with commercial practice, for example, by providing a bank guarantee or a deposit.¹⁰⁴

Huawei v ZTE process



Source: 4iP Council, National Courts Guidance¹⁰⁵

In *Huawei*, the commercial practice aspect plays a key role as it is the lens through which parties' conduct is assessed. In particular, the steps set by the CJEU encourage alleged infringers to behave "in accordance with recognised commercial practices."¹⁰⁶ On the other hand, national courts

¹⁰⁴ *Id.* ¶¶ 65–67.

¹⁰⁵ *National Courts Guidance*, 4iPCOUNCIL, <https://perma.cc/TJP7-ZUQZ>.

¹⁰⁶ Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2015:477, ¶ 65 (July 16, 2015).

have interpreted *Huawei* by considering that SEP owners' conduct should also be examined in the light of recognized commercial practices.¹⁰⁷

By establishing such a well-balanced framework, the *Huawei* judgment successfully found the middle path suggested by the Advocate General between the contrasting positions held in the *Motorola*, *Samsung* cases and the *Orange-Book-Standard*. The *Huawei* judgment embodies the European view on willingness and has led to a harmonized and balanced treatment of injunctions for SEPs.

E. *The EC's New Position Following Huawei v. ZTE*

Following the CJEU ruling in *Huawei v. ZTE*, the European political institutions gradually changed from a focus on hold-up to a more balanced position that recognized the symmetrical threat of strategic behavior by both SEP owners and implementers. In 2016, the EC released a communication entitled "ICT Standardisation Priorities for the Digital Single Market," in which it identified the need for "a balanced IPR policy, based on FRAND licensing terms."¹⁰⁸ In the EC's view, a beneficial licensing approach to SEPs would be one that guarantees a fair reward for SEP owners in return for their innovative efforts, while simultaneously ensuring fair access to SEPs for implementers.¹⁰⁹ In the same year, the European Parliament emphasized the importance of SEPs and FRAND "to preserve R&D and standardisation incentives, foster innovation and ensure fair licensing conditions."¹¹⁰ Also, the Council of the European Union acknowledged the importance of a balanced licensing system to ensure "a fair return on investment for SEPs holders as well as a fair access to SEPs for all players."¹¹¹

As a follow-up to the EC communication on ICT standardization, the EC launched a roadmap for an initiative aiming to tackle some perceived problems concerning SEPs and the European digitalized economy.¹¹² One of the risks sought to be addressed was uncertainty in SEP enforcement, which

¹⁰⁷ See *National Courts Guidance*, *supra* note 105.

¹⁰⁸ *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, ICT Standardisation Priorities for the Digital Single Market*, at 13, COM (2016) 176 final (Apr. 19, 2016).

¹⁰⁹ See *id.*

¹¹⁰ Resolution of 26 May 2016 on the Single Market Strategy, EUR. PARL. DOC. 2015/2354(INI), 2018 O.J. (C 76) 112, 120.

¹¹¹ Draft Council Conclusions on the "Digital Single Market Technologies and Public Services Modernisation" Package 8735/16 ¶ 9 (May 17, 2016), <https://perma.cc/ZH4G-G9Q2>.

¹¹² Commission Roadmap of Initiative "Standard Essential Patents for a European Digitalised Economy," Ares(2017)1906931 (Apr. 10, 2017), <https://perma.cc/9WPB-QAEG>.

could allow for “aggressive licensing practices,” including the use of delaying tactics by implementers to undermine SEP holders’ rights.¹¹³

On November 29, 2017, the EC released a communication entitled “Setting out the EU approach to Standard Essential Patents.”¹¹⁴ In its communication, the EC made recommendations concerning the enforcement of SEPs based on the framework established in *Huawei v. ZTE* and the further guidance provided by national courts.¹¹⁵ By considering the *Huawei* judgment as the reference for courts to enforce SEPs, the EC recognized the reciprocal obligations of parties involved in FRAND licensing.¹¹⁶ Coherently, the EC addressed hold-out risks too by stating that the amount of security to be provided by the SEP user should be set “at a level that discourages patent hold-out strategies.”¹¹⁷ A balanced approach was also taken regarding injunctions. The EC referred to injunctive relief as a means of protecting SEP owners against unwilling infringers, while stressing the need for safeguards against the threat of an injunction potentially driving SEP users to accept royalties that are not FRAND.¹¹⁸

V. European Courts’ Application of the CJEU Ruling Regarding Willing Licenses

Following the *Huawei* judgment, national courts have interpreted the CJEU framework for “rules of good conduct,” which has provided stakeholders with further guidance on the topic of willingness.¹¹⁹ To present a clear picture of the European courts’ view on willing licensees, their most relevant decisions are explained below. First, a general overview of the guidelines to assess willingness is given. Second, the particular elements concerning said guidelines are discussed.

¹¹³ *Id.*

¹¹⁴ See *Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, Setting out the EU Approach to Standard Essential Patents*, COM (2017) 712 final (Nov. 29, 2017) [hereinafter *Setting out the EU Approach to Standard Essential Patents*].

¹¹⁵ See *id.* at 9–10.

¹¹⁶ Spyros Makris, *The European Commission’s Communication on Standard Essential Patents: A Step Forward Towards the Digital Single Market and the Internet of Things?* 10 GEO. MASON J. INT’L COM. L., no. 2, 2019, at 1, 17–18.

¹¹⁷ *Setting out the EU Approach to Standard Essential Patents*, *supra* note 114, at 10.

¹¹⁸ See *id.* at 9.

¹¹⁹ For a comprehensive guide regarding the decisions provided after the *Huawei* judgement, 4iP Council, a European non-profit organization focused on high quality academic insight and empirical evidence on intellectual property and innovation, provides an exhaustive compilation of case law. See *Case Law Post CJEU Ruling Huawei v. ZTE*, 4iPCOUNCIL, <https://perma.cc/4K44-9FJW>.

A. General Guidelines on Willing Licensees

Even though there is no commonly agreed standard amongst European courts to assess willingness, courts have developed some general guidelines on the matter. In this respect, the High Court of Justice in England (“EWHC”) provided one of the most relevant contributions in *Unwired Planet International Ltd. v. Huawei Technologies Co.*¹²⁰ According to the EWHC, “a willing licensee must be one willing to take a FRAND license on whatever terms are in fact FRAND.”¹²¹

Following this principle, the Federal Court of Justice in Germany¹²² requires a willing licensee to: (1) “clearly” and “unambiguously” declare its willingness to conclude a FRAND agreement and (2) engage in licensing negotiations in a “target-oriented” manner.¹²³

One key aspect highlighted by the Federal Court of Justice and adopted by the subsequent case law in Germany is that a holistic perspective regarding the assessment of willingness is needed. In the words of the Regional Court of Munich in the *Conversant v. Daimler* case,¹²⁴ “the assessment of willingness requires a comprehensive analysis of all facts until the end of the oral hearings in the infringement proceedings.”¹²⁵ In particular, it is not enough to focus only on the behavior of the alleged infringer directly after receiving a notification of infringement.¹²⁶ Instead, the implementer’s entire conduct should be considered, including during licensing negotiations, if any, while court proceedings are pending.¹²⁷

German courts have found that the behavior of the licensee after being sued is also relevant in assessing willingness since there is still a possibility

¹²⁰ [2017] EWHC (Pat) 711 (Eng.).

¹²¹ *Id.* at [708].

¹²² Even though the requirement of a “clear” and “unambiguous” declaration was first introduced by the Federal Court of Justice in Germany, other European Courts have also made similar statements. See Hof’s-Gravenhage 2 juli 2019, 2020, ECLI:NL:GHDHA:2019:3613, ¶ 4.13 (Koninklijke Philips N.V./Wiko SAS) (Neth.), <https://perma.cc/VXT4-EFVL>; Landgericht München [LG] [Munich Regional Court] Sept. 10, 2020, 7 O 8818/19, ¶ 125, *gesetze-bayern* (Ger.), <https://perma.cc/TS8R-NYF7>.

¹²³ Bundesgerichtshof [BGH] [Federal Court of Justice] May 5, 2020, KZR 36/17, ¶ 83, *juris* (Ger.), <https://perma.cc/S3MZ-DXQS>; Landgericht Mannheim [LG] [Mannheim Regional Court] Aug. 18, 2020, 2 O 34/19, 49 (Ger.), <https://perma.cc/R9Y9-3TMH>; Landgericht München [LG] [Munich Regional Court] Sept. 10, 2020, 7 O 8818/19, ¶ 125, *gesetze-bayern* (Ger.), <https://perma.cc/SW55-2YGZ>; Landgericht München [LG] [Munich Regional Court] Oct. 23, 2020, 21 O 11384/19, ¶ 149, *gesetze-bayern* (Ger.), <https://perma.cc/PDW7-QVMX>; Bundesgerichtshof [BGH] [Federal Court of Justice] Nov. 24, 2020, KZR 35/17, ¶ 57, *juris* (Ger.), <https://perma.cc/H65X-LJ3T>.

¹²⁴ 21 O 11384/19.

¹²⁵ *Conversant v. Daimler, Regional Court (Landgericht) of Munich I*, 4IPCOUNCIL, <https://perma.cc/KH2L-MHWL>; 21 O 11384/19, ¶¶ 150–153.

¹²⁶ See 7 O 8818/19, ¶¶ 95, 131; KZR 35/17, ¶ 77.

¹²⁷ See KZR 35/17, ¶¶ 102–104.

to remedy flaws at this stage, for example, to rectify an initial lack of willingness. In fact, the Higher Regional Court of Karlsruhe, in a case between IP Bridge and HTC, almost solely considered the parties behavior after the end of the first instance trial and during the appeal proceedings.¹²⁸ However, as the trial progresses, the conditions to show willingness become increasingly more strict.¹²⁹ In this regard, the Regional Court of Munich determined, for instance, that counteroffers made during infringement proceedings should, under certain conditions, not be considered in assessing willingness.¹³⁰ Otherwise, implementers would be allowed to negotiate “pro forma” without actually being willing, and then pull the “emergency brake counter-offer” to avoid being held liable in trial.¹³¹

Similarly, the Hague Court of Appeal did not consider a counteroffer made by the implementer after the start of the proceedings.¹³² In the court’s view, a counteroffer not made with due diligence and speed should not prevent the SEP owner from seeking an injunction.¹³³

B. *The Unwilling Licensee as Defined in the Case Law*

Overall, the different actions by implementers taken into account by European courts in the assessment of willingness refer either to “formal” elements of the declaration of willingness (“clear” and “unambiguous”) or the subsequent engagement of the implementer in licensing negotiations (“target-oriented”).¹³⁴

1. “Clear” and “Unambiguous” Declaration

For a declaration of willingness to be considered “clear” and “unambiguous” when responding to a notification of infringement, it is not sufficient to (i) merely demonstrate willingness to consider signing a license or (ii) enter into negotiations about whether and under which conditions

¹²⁸ Oberlandesgericht Karlsruhe [OLG] [Higher Regional Court of Karlsruhe] Nov. 25, 2020, 6 U 104/18, ¶¶ 118–119, *dejure* (Ger.) <https://perma.cc/7EAV-Q5R3>.

¹²⁹ See 7 O 8818/19, ¶ 95.

¹³⁰ *Id.* ¶ 131.

¹³¹ Landgericht München [LG] [Munich Regional Court] Oct. 23, 2020, 21 O 11384/19, ¶ 151, *gesetze-bayern* (Ger.), <https://perma.cc/PDW7-QVMX>.

¹³² Hof’s-Gravenhage 2 juli 2019, 2020, ECLI:NL:GHDHA:2019:3613, ¶ 4.20–.21 (Koninklijke Philips N.V./Wiko SAS) (Neth.), <https://perma.cc/VXT4-EFVL>.

¹³³ *Id.*

¹³⁴ See *infra* Sections V.B.1 and V.B.2, respectively.

taking a license would come into question.¹³⁵ Instead, the implementer should declare its willingness to actually conclude a FRAND license.

Furthermore, such a declaration cannot be made subject to any condition.¹³⁶ For example, in the *Sisvel v. Haier* case, the Federal Court of Justice in Germany considered the declaration of willingness made by Haier, the implementer, to be insufficient because the signing of the license was made subject to the prior confirmation of the validity and infringement of the patent in suit by German courts.¹³⁷ Similarly, the Regional Court of Düsseldorf, in the *Conversant v. Huawei*¹³⁸ case, considered it an indication of the implementer's "unwillingness" that the signing of a license was made subject to the outcome of two other infringement proceedings in which the SEP owner was involved in the United States against third parties.¹³⁹

Moreover, in *Optis v. Apple*,¹⁴⁰ the EWHC concluded that not committing to take the FRAND license determined by the court is a signal of unwilling behavior.¹⁴¹ In this case, even though the court had established that the patent in suit was valid and infringed, the infringer did not commit beforehand to take whatever license the EWHC would eventually consider to be FRAND.¹⁴² Therefore, a "clear" and "unambiguous" declaration of willingness to conclude a license "on whatever terms are in fact FRAND" was missing.¹⁴³

Another relevant factor of willingness is the timing of the declaration of willingness by the SEP user following the notification of infringement made by the SEP owner. In this sense, the appropriate timing, according to European jurisprudence, is to be assessed on a case-by-case basis. For example, the German Federal Court of Justice pointed out that taking several months to respond to a notification of infringement typically signals a lack

¹³⁵ Landgericht Mannheim [LG] [Mannheim Regional Court] Aug. 18, 2020, 2 O 34/19, 49, (Ger.), <https://perma.cc/R9Y9-3TMH>.

¹³⁶ Bundesgerichtshof [BGH] [Federal Court of Justice] May 5, 2020, KZR 36/17, ¶ 96, juris (Ger.), <https://perma.cc/S3MZ-DXQS>.

¹³⁷ *Id.* The implementer preserves, though, the right to contest the validity of the patents at any time before, during, or after the proceedings.

¹³⁸ Landgericht Düsseldorf [LG] [Düsseldorf Regional Court] Aug. 27, 2020, 4b O 30/18, d-prax (Ger.), <https://perma.cc/XKV6-GL7C>.

¹³⁹ *Id.* ¶¶ 239–241.

¹⁴⁰ [2021] EWHC (Pat) 2564 (Eng.), <https://perma.cc/9ZGH-7AJB>.

¹⁴¹ *Id.* ¶ 17.

¹⁴² *Id.* ¶¶ 6, 17.

¹⁴³ *Id.* ¶ 115 (quoting *Unwired Planet Int'l Ltd. v. Huawei Techs. Co.*, [2017] EWHC (Pat) 711 [708] (Eng.)).

of interest in taking a license.¹⁴⁴ In *Saint Lawrence v. Vodafone*,¹⁴⁵ the court understood waiting five months to respond to the SEP owner's notification of infringement as a delaying tactic.¹⁴⁶ In *Saint Lawrence v. Deutsche Telekom*,¹⁴⁷ the court even considered a period of over three months to request a license from the SEP owner to be too long.¹⁴⁸ In *Philips v. Wiko*,¹⁴⁹ the Higher Regional Court of Karlsruhe declared that the time taken by the implementer to respond should, in that case, not exceed two months after receiving a notification of infringement.¹⁵⁰ In this context, one relevant factor courts consider is the information included in the infringement notification. The more detailed it is, courts have assessed, the less time the (willing) implementer requires to respond.¹⁵¹ Similarly, the more equipped an implementer is to understand the notification letter, the shorter the period to respond should be.¹⁵²

2. Target-Oriented Engagement in Licensing Negotiations

For the licensee to be considered willing, it must engage in negotiations in a "target-oriented" manner, that is, with the goal of concluding a FRAND license.¹⁵³ The Higher Regional Court of Karlsruhe recently made clear that, in principle, the implementer's duty to negotiate exists even when the SEP owner's offer is not perfectly FRAND.¹⁵⁴ Only exceptionally, in cases when the SEP owner's offer could not be objectively considered to be "seriously meant," the SEP user may not be obliged to react.¹⁵⁵ This target-oriented

¹⁴⁴ Bundesgerichtshof [BGH] [Federal Court of Justice] May 5, 2020, KZR 36/17, ¶ 92, juris (Ger.), <https://perma.cc/S3MZ-DXQS>; Bundesgerichtshof [BGH] [Federal Court of Justice] Nov. 24, 2020, KZR 35/17, ¶ 87, juris (Ger.), <https://perma.cc/H65X-LJ3T>.

¹⁴⁵ Landgericht Düsseldorf [LG] [Düsseldorf Regional Court] Mar. 31, 2016, 4a O 73/14, justiz (Ger.), <https://perma.cc/YD3S-9EFY>.

¹⁴⁶ *Id.* ¶ 271.

¹⁴⁷ Landgericht Mannheim [LG] [Mannheim Regional Court] Nov. 27, 2015, 2 O 106/14, juris (Ger.), <https://perma.cc/BDS9-NWBP>.

¹⁴⁸ *Id.* ¶ 214.

¹⁴⁹ Oberlandesgericht Karlsruhe [OLG] [Higher Regional Court of Karlsruhe] Oct. 30, 2019, 6 U 183/16, juris (Ger.), <https://perma.cc/LV8B-4DRT>.

¹⁵⁰ *Id.* ¶ 115.

¹⁵¹ Landgericht Düsseldorf [LG] [Düsseldorf Regional Court] Mar. 31, 2016, 4a O 73/14, ¶ 258, justiz (Ger.), <https://perma.cc/YD3S-9EFY>.

¹⁵² *See* 2 O 106/14, ¶ 214.

¹⁵³ 6 U 149/20, ¶ 187.

¹⁵⁴ *Id.* ¶ 193.

¹⁵⁵ *Id.* ¶¶ 194–195.

engagement is considered by courts to be incompatible with delaying tactics.¹⁵⁶

European courts have analyzed implementers' conduct to identify delaying tactics. Although they may adopt different forms, each of these delaying tactics shares a common goal of stalling negotiations.

For example, in *Sharp v. Daimler*,¹⁵⁷ after being approached for a licensing negotiation, the SEP user referred the SEP owner (Sharp) to Daimler's suppliers.¹⁵⁸ The Regional Court of Munich noted that by doing so, Daimler had failed to negotiate in a "target-oriented" manner.¹⁵⁹ Daimler's defense was based on the fact that in the automotive sector it is common for suppliers, rather than automotive manufacturers, to obtain licenses for car components.¹⁶⁰ However, the court clarified that the SEP owner was not obliged to accept such a practice.¹⁶¹ Rather, because Daimler's products increasingly use wireless telecommunications technology, the company should accept the prevailing commercial practice in that field, that is, to license at the end-user level, which in this case was Daimler.¹⁶² Accordingly, the court granted an injunction against Daimler and also ordered the company to pay damages.¹⁶³

Another factor to consider in assessing the willingness of SEP users is their attitude towards nondisclosure agreements ("NDAs").¹⁶⁴ In *VoiceAge v. HMD*,¹⁶⁵ the Regional Court of Munich considered that taking eight months to provide input on a draft NDA was a delaying tactic. According to the court, a willing licensee would have proposed amendments to the draft, if any, much earlier.¹⁶⁶ In *Conversant v. Huawei*, the District Court of Düsseldorf interpreted as a sign of unwillingness by the SEP user the fact that it made

¹⁵⁶ *Id.* ¶¶ 187, 190.

¹⁵⁷ Landgericht München [LG] [Munich Regional Court] Sept. 10, 2020, 7 O 8818/19, *gesetze-bayern* (Ger.), <https://perma.cc/5W55-2YGZ>.

¹⁵⁸ *Id.* ¶¶ 136–139.

¹⁵⁹ *Id.* ¶ 140.

¹⁶⁰ *See id.* ¶¶ 163–164.

¹⁶¹ *Id.* ¶ 164.

¹⁶² *Id.*

¹⁶³ 7 O 8818/19, ¶¶ 96–99, 115–120.

¹⁶⁴ In principle, refusing to sign an NDA is not per se a sign of unwillingness. However, if the SEP user chooses to do so, the SEP owner is no longer obliged to provide a detailed FRAND offer that goes beyond its confidentiality interests. Oberlandesgericht Düsseldorf [OLG] [Higher Regional Court of Düsseldorf] July 18, 2017, I-2 U 23/17, ¶ 33, *justiz* (Ger.), <https://perma.cc/2ESF-BCBV>.

¹⁶⁵ Landgericht München [LG] [Munich Regional Court] Sept. 9, 2021, 7 O 15350/19, *gesetze-bayern* (Ger.), <https://perma.cc/3PFW-VBB3>.

¹⁶⁶ *Id.* ¶ 142.

the continuation of the license negotiations dependent on the conclusion of an NDA around three years after the start of the contract negotiations.¹⁶⁷

German courts have also discussed the filing of an antisuit injunction (“ASI”) in connection with the assessment of an implementer’s willingness. An ASI is an order issued by a court in one jurisdiction that restrains a party from initiating or continuing proceedings in other jurisdictions.¹⁶⁸ By issuing an ASI, courts may force SEP owners not to bring any foreign patent infringement claim until the issuing jurisdiction has resolved the FRAND dispute.¹⁶⁹ As a consequence, German courts explained, SEP owners’ “property-like” rights would be impaired even further than the past and present acts of infringement.¹⁷⁰ In this respect, the Regional Court of Munich declared in two separate cases that an implementer that files an ASI, or even threatens to do so, cannot be regarded as a willing licensee.¹⁷¹ According to the court, an implementer truly willing to conclude a license would not try to undermine the SEP owner’s rights.¹⁷²

Conclusion

Courts can heavily impact the future of innovation when deciding whether to grant injunctions related to patented technologies essential to a standard. If courts automatically grant injunctions for SEPs, they would tilt the balance in favor of patent owners, who would get overcompensated. This in turn may disincentive investment in the implementation of the standard or lead to higher costs for consumers. On the other hand, should courts deny injunctions without previously considering the conduct of the parties (not only the SEP owner but also the SEP user), the incentives for companies to share their cutting-edge technologies with others, and to have those technologies included within standards would be drastically reduced. This in turn would lead to lower-quality open standards, and to fewer compatible products or services for consumers in the medium term.

While courts should not grant injunctions against willing licensees and SDOs should not encourage it, it is equally necessarily that courts be encouraged to grant injunctions against unwilling licensees and that SDOs’

¹⁶⁷ Landgericht Düsseldorf [LG] [Düsseldorf Regional Court] Aug. 27, 2020, 4b O 30/18, ¶¶ 251–257, d-prax (Ger.), <https://perma.cc/SJ7R-N6WU>.

¹⁶⁸ IGOR NIKOLIC, LICENSING STANDARD ESSENTIAL PATENTS: FRAND AND THE INTERNET OF THINGS 217 (2021).

¹⁶⁹ Haris Tsilikas, *Anti-Suit Injunctions for Standard-Essential Patents: The Emerging Gap in International Patent Enforcement*, 16 J. INTELL. PROP. L. & PRAC. 729, 730 (2021).

¹⁷⁰ Landgericht München [LG] [Munich Regional Court] Feb. 25, 2021, 7 O 14276/20, ¶ 68, gesetz-bayern (Ger.), <https://perma.cc/9F3E-2CBU>; Landgericht München [LG] [Munich Regional Court] June 24, 2021, 7 O 36/21, ¶ 25, gesetz-bayern (Ger.), <https://perma.cc/HV6Z-7G6D>.

¹⁷¹ 7 O 14276/20, ¶ 94; 7 O 36/21, ¶ 37.

¹⁷² 7 O 36/21, ¶ 37.

policies recognize such a conduct as incompatible with the FRAND principles. As shown by the vast case law presented in this Article, without the possibility of an injunction being granted, SEP users would have no incentives to engage in a good-faith licensing negotiation. Instead, they would in all probability engage in delaying tactics until they force the SEP owner to accept a royalty rate “which falls well below the true economic value of the SEP.”¹⁷³ As a result, SEP owners would have less revenues to reinvest in the next generation of the standard.

To continue the circle of innovation in standardization, companies must be willing to share the patented technology resulting from their investment of billions in research and development. They will not do so if they cannot protect their investments (lacking the possibility of injunctions), and risk facing unwilling licensees and long and costly litigation, to then be undercompensated. In this interconnected world where digitalization is key for the economic success of a country, the United States cannot afford to get it wrong.

This Article has shown the need for a balanced approach versus the granting of injunctions, as well as for guidelines for U.S. courts, legislators and SDOs on what constitutes a willing licensee based on European jurisprudence, which has rendered many insights on this topic. Following these suggestions, nothing stands in the way of U.S. cities getting smarter by the day.

¹⁷³ Opinion of Advocate General Wathelet, Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, ECLI:EU:C:2014:2391, ¶ 51 n.19 (Nov. 20, 2014).