Bills Committee on the Arbitration (Amendment) Bill 2016

Supplemental Paper on the Government's Response to the Issues Raised by the Bills Committee at the Meeting of 5 January 2017 - Views of the Competition Commission

Further to its paper CB(4)555/16-17(01) ("Government's First Paper"), the Government has now received the written views of the Hong Kong Competition Commission ("Commission"). A copy of the Competition Commission's letter dated 16 February 2017 ("Letter") is enclosed at **Annex** to this supplemental paper.

The Commission's Views

2. The Commission:

(a) shares the Government's view that the Bill and its implications for the arbitration process is "competition neutral" (para. 4 of the Letter);

(b) considers that the confidentiality of arbitration is unlikely by itself to be inconsistent with the Competition Ordinance (Cap. 619) ("CO"), and that, in particular, the Bill is consistent with the CO from an enforcement perspective (paras. 12 and 14(a) of the Letter). In this regard, the Commission's following views are noted:

(i) where parties agree *bona fide* to arbitration and to be bound by the arbitral award, the agreement to arbitrate of itself will unlikely contravene any of the Competition Rules[1] (para. 6 of the Letter);

(ii) from an enforcement perspective, the confidentiality process of arbitration will not in itself give rise to

1 i.e. the First Conduct Rule, the Second Conduct Rule and/or the Merger Rule for the purpose of the CO.

competition concerns. The Commission's powers of investigation and ability to bring enforcement action remain intact (paras. 5 and 6 of the Letter);

(c) considers from an enforcement perspective that the arbitration of most IPR issues is unlikely to cause any competition concerns (para. 7(a) of the Letter).

3. At the same time, the Commission notes that where the dispute goes to the "root" of the IPR, confidentiality of the arbitral award may in certain circumstances lead to competition concerns. The Commission cites the example of an arbitral award which finds a patent invalid. The Commission considers that confidentiality of the outcome of arbitration may result in asymmetry of information and costs between the successful challenger (who is no longer bound by the patent) and its competitors (who are still bound by the patent), especially a new market entrant. This may, depending on the legal and economic context of the case, weaken competition in the market (para. 7(b) to 9 and 14(b) of the Letter). The Commission also notes that the confidentiality of arbitral outcome may, in the exceptional cases of standard essential patents ("SEP"), have a bearing on the patent holder's discharge of its FRAND[2] obligations, if any (para. 11 of the Letter).

4. Separately, the Commission notes that there may be other "less intrusive" alternatives in enhancing transparency in the outcome of arbitration, such as requiring the arbitral award to be recorded with the relevant IPR registry before it may be enforced (similar to the case of US patents); or allowing competition issues to be determined as a preliminary issue and, where necessary, refer the determination to the court (para. 13 of the Letter).

The Government's Views

5. Having noted that the Commission considers the Bill to be consistent with the CO, the Government will now focus on the two issues

[2] i.e. "Fair, Reasonable and Non-discriminatory".

identified in paras. 3 and 4 above.

"Asymmetry of information and cost"

6. The Government acknowledges the possibility that asymmetry of information and costs may arise from a confidential arbitral finding concerning patent invalidity,[3] but does not consider that this causes systemic unfairness to third parties. As noted in the Government's First Paper,[4] arbitration is a private means to resolve private disputes between the parties, and an arbitral award has *inter partes* effect only. Each party choosing to resolve the dispute by arbitration has to incur time, costs and resources. It also bears the commercial and legal risks that the arbitrator may find against it. Meanwhile, a third party (e.g. another competitor or a new market entrant) is not bound by the award, regardless of its outcome. Such third party may still seek to challenge the IPR or the IPR owner on such grounds as it may wish to advance in court or before the Registrar. All these go to address the perceived asymmetry of information or costs which may arise in this context. As far as the exceptional case of licensing of SEPs is concerned, a patent holder has to honour its FRAND commitment, if any, having regard to its dealings with other licensees (which may include previous arbitral awards). Failure to do so may amount to a breach of the Second Conduct Rule depending on the circumstances.[5] In any event, the conduct of a patent holder is subject to the Commission's investigative powers and its ability to bring enforcement action.

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3 The Commission refers to *Ottung* in footnote 2 of the Letter. We wish to point out that when the European Court of Justice ("ECJ") in that case said that the clause in question "weakens the licensee's competitive position since it places the licensee at a disadvantage in relation to its competitors, who may freely manufacture the products concerned after the patent has expired", the ECJ was referring to the clause in the licensing agreement prohibiting manufacture and marketing of the products in question after termination of the agreement, rather than the clause which obliges the licensee to continue to pay royalties after the expiry of patent (see paras. [18]-[20] of the judgment). Indeed, in both *Ottung* and the subsequent case of *Genentech* (which affirmed *Ottung*), the ECJ held that the contractual obligation imposed on a licensee under a patent agreement to pay a royalty to use a patent for the duration of the agreement, even in the event of expiry of the patent, was compatible with Art. 101 TFEU (analogous to the First Conduct Rule under the CO), provided that the licensee was able freely to terminate that agreement by giving reasonable notice.

4 Para. 1 of Annex A.

5 See paras. 5.22 and footnote 22 of the Guideline on the Second Conduct Rule issued by the Commission.

7. Further, differential treatment of licensees and asymmetry of information exists as part of commercial reality. IPRs are private property rights. With or without an arbitral award, the terms of IPR licences could be freely negotiated between individual parties (subject to certain exceptions and restrictions described in para. 9 below). In line with the intellectual property ("IP") laws of other jurisdictions, under Hong Kong law, an IPR owner may generally license its IPR freely and is not obliged to license its IPR to all persons on the same terms, or at all. In this sense, while there should be a "level playing field" in that market competition should be fair, this "level playing field" does not generally impose a "duty of candour" on an IPR owner such that it must disclose all information to all persons to the same extent. Nor does it impose a "duty of equal treatment" of all potential licensees and business partners.

8. Moreover, IP licensees or parties to IP transactions are generally business players who have knowledge of the market. They can be expected to investigate and/or conduct due diligence before entering into commercial transactions. They may seek to protect their interest by contractual arrangements (e.g. representations and warranties; indemnity and termination clauses).

9. In addition, the IP laws of Hong Kong contain certain provisions to protect the interests of third party users. For example:

(a) Under certain circumstances, a third party may apply to the court for a compulsory licence in respect of a standard patent which has been granted for three years or more e.g. where the patent owner refuses to grant a licence of the patent on reasonable terms, thus preventing the working of other patented invention which involves an important technical advance of economic significance, or causing unfair prejudice to the establishment or development of commercial or industrial activities[6]: section 64 of the

[6] The phrase "development of commercial or industrial activities" is construed broadly and it includes any increase in size of a business entity, e.g. growth in production volume or introduction of a new design of a product (*Kamborian's Patent* [1961] RPC 403).

Patents Ordinance (Cap. 514) (“PO”).[7]

(b) Certain unreasonable restrictions in a contract by the patent owner for the supply of a patented product or the grant of a licence to work a patented invention are rendered void e.g. a term that requires the purchaser or licensee to acquire from the patent owner, or prohibits the purchaser or licensee from acquiring from a third party any product other than the patented product: section 62 of the PO.

Other alternatives for addressing the lack of transparency in arbitration outcome

10. With respect to the alternative options, the Government agrees that competition issues may be considered in the context of arbitration, as follows:

(a) In the course of arbitration, the arbitrator may take competition law into consideration as part of the substantive law to be applied by him in determining the dispute.[8]

(b) Questions of law (including competition law issues) may be referred to the Court of First Instance (“Court”) if the arbitration parties have opted-in section 3 of Sch. 2[9] to the Arbitration Ordinance (“AO”).

(c) After issue of the arbitral award, appeal may be made against the arbitral award on question of law (including

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7 Likewise, a third party who is unable to obtain a licence under a copyright licensing scheme operated by a copyright licensing body, or is aggrieved by the terms of or royalties payable under the licence, may refer the dispute to the Copyright Tribunal: sections 155-160 of the Copyright Ordinance (Cap. 528).

8 Para. 4(d)(ii); and para. 26 of Annex A of the Government’s First Paper.

9 Section 3 of Sch. 2 (Decision of preliminary question of law by Court) provides that the Court (i.e. the Court of First Instance) may on application of an arbitration party decide any question of law arising in the course of the arbitral proceedings, provided the Court is satisfied that its decision on question of law might produce substantial savings in costs to the parties. The Court’s decision on question of law may be subject to appeal with the leave of the Court or the Court of Appeal.

competition law) *if* the parties have opted-in sections 5 to 7 of Sch. 2[10] to the AO.

(d) The Court may on application set aside[11] an arbitral award, or refuse to enforce[12] it, on the ground of public policy. "Public policy" considerations may include contravention of Hong Kong competition law.[13]

11. Besides, confidential documents relating to arbitral proceedings, including confidential arbitral awards, are not immune from discovery in court proceedings provided they are relevant to the issue before the court.[14] Section 18(2) of the AO also contains other exceptions allowing disclosure of information relating to arbitral proceedings and arbitral award.[15]

12. With respect to para. 15 of the Letter, apart from what has been stated in paras. 10 and 11 above, the Government also confirms that the Bill seeks to amend the AO to clarify the arbitrability of IPR disputes for the purposes of facilitating the conduct of IP arbitration and the enforcement of IPR awards. The Bill does not seek to alter the substantive legal rights of the parties or third parties, the position of competition law in Hong Kong, or the power of the courts or the competition authorities in relation to competition issues under the laws of Hong Kong. The Government would be prepared to include these clarifications in the speech to move the resumption of the second reading of the Bill if such clarifications are considered necessary or helpful.

13. Given that the AO only sets out a procedural framework for the conduct of arbitration, and the "competition-neutral" nature of the arbitration process; given Hong Kong's policy to maintain and enhance

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[10] Section 5 of Sch. 2 (Appeal against arbitral award on question of law) allows an arbitration party to appeal to the Court on a question of law arising out of the arbitral award. Section 6 of Sch. 2 concerns application for leave to appeal against arbitral award on question of law. Section 7 of Sch. 2 sets out the supplementary provisions on challenge to or appeal against arbitral award.
[11] Section 81(1) of the AO.
[12] Sections 86(2)(b), 89(3)(b), 95(3)(b) and 98D(3)(b) of the AO.
[13] Para. 4(d)(iii); and paras. 27-28 of Annex A to the Government's First Paper.
[14] Para. 36 of Annex A to the Government's First Paper.
[15] Para. 35 of Annex A to the Government's First Paper.

its status as a leading international arbitration centre, and the special importance of confidentiality to Hong Kong's arbitration regime; and having regard to the findings of our comparative study[16] which shows that the majority of the surveyed jurisdictions do not require the compulsory disclosure of IPR arbitral awards or their recordal with the IPR registries (all of these jurisdictions having their own competition law and competition regulators), and in view of the existence of safeguards to address competition issues in the context of arbitration, the Government, having balanced the various policy considerations (including the case for transparency of arbitration outcome), considers that there are no sufficient or good reasons to make IPR arbitral awards an exception to the general rule that arbitral awards are confidential.[17] This is especially when the Commission also considers that, from an enforcement perspective, the confidential process of arbitration will not, in itself, give rise to competition concerns, and the arbitration of most IPR disputes is unlikely to give rise to competition concerns.

14. Looking forward, the Government will continue to keep the arbitration regime under view after passage of the Bill, and will review the position in light of any serious concerns which may arise in future.

Department of Justice
Intellectual Property Department
February 2017

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[16] Annex B to the Government's First Paper.

[17] Insofar as patent validity is concerned, our research shows that the global trend is towards adopting a more liberal approach of allowing it to be arbitrated with *inter partes* effect only: see, e.g., Therese Jansson, "Arbitrability regarding Patent Law – An International Study," *Juridisk Publikation* 1/2011.

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Annex

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16 February 2017

(By Email (sklee@doj.gov.hk) and By Hand)

Miss LEE Sau Kong
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Department of Justice
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Dear Miss Lee,

Arbitration (Amendment) Bill 2016 (the "Bill")

1. Thank you for your letter dated 3 February 2017 and for arranging the meetings with the representatives of the Department of Justice (the "**DoJ**") and the Intellectual Property Department (the "**IPD**") on 8 February 2017 and 10 February 2017.

2. The Competition Commission (the "**Commission**") understands that the DoJ seeks our view on whether the Bill may pose possible competition concerns in the context of the Competition Ordinance (Cap. 619) (the "**CO**") and in particular:

   (a) Whether the confidentiality protections afforded by the Arbitration Ordinance (Cap. 609) (the "**AO**") and the Bill to Intellectual Property Rights ("**IPR**") disputes (including IPR awards with a finding that is inconsistent with the particulars recorded in the relevant IPR registers ("**Contrary Findings**")) may be inconsistent with the First Conduct Rule, the Second Conduct Rule and/or the Merger Rule (the "**Competition Rules**"); and

(b) Whether disclosure of IPR arbitral awards with a Contrary Finding, such as compulsory recordal of such awards with the Registrar of the relevant IPR, is necessary to ensure compliance with the CO.

The Commission's views

3. Under section 130 of the CO, in addition to enforcing the provisions of the CO, it is also the Commission's function to advise the Government on the policy aspects of competition matters in Hong Kong. The Commission has therefore approached your queries from both an enforcement and a policy perspective.

A. Whether the Confidentiality Protection under the AO will be consistent with the Competition Rules

4. As a starting point, the Commission agrees with Government's view that the Bill and its implications for the arbitration process is "competition neutral". However, competition concerns may arise from the lack of transparency in the outcome of the process.

5. The Bill seeks to clarify the means by which IPR disputes may be settled as opposed to dictating the actual substance of potential settlements and arbitral awards. It remains the case that where an actual arbitral award or settlement contravenes the Competition Rules, Commission's powers of investigation or ability to bring enforcement action remains intact.

6. Consequently, from an enforcement perspective, the Commission does not consider that the confidential process of arbitration will, in itself, give rise to competition concerns. Where both parties to an agreement agree *bona fide* to arbitration and to be bound by the award, the agreement to arbitrate of itself will be unlikely to contravene any of the Competition Rules.

7. From a competition policy perspective however, with regards to the confidentiality of the outcome of arbitration (especially where there are Contrary Findings), the Commission's position is as follows:

(a) The arbitration of most IPR issues (e.g. to determine the extent of unpaid royalty) is unlikely to cause any competition concerns;

(b) Where the IPR issues in dispute go to the very "root" of the IPR (e.g. issues on ownership and validity), the lack of transparency of outcome when compared to situations where the IPR dispute is litigated in open court may, in certain circumstances, lead to competition concerns. This is because, unlike a private contract case, findings that go to the very "root" of an IPR may have the potential to affect other market incumbents or potential new entrants.

8. For example, when a patent infringement is litigated in open court and the claim is defended on the grounds of invalidity, a judgment of invalidity has the "knock on effect" of not only benefiting the respondent to the proceedings but also to other third parties that are currently using the patent (e.g. other licensees) or potential market entrants who are contemplating such use.[1]

9. On the other hand, where a finding of invalidity following arbitration is protected by confidentiality, this may result in asymmetry of information and costs between:

(a) The respondent (no longer bound by the patent) and his competitors who are using the same patented invention (still bound by the patent); and

(b) The respondent (no longer bound by the patent) and a potential market entrant who wishes to use the patent invention (who will perceive the cost of securing a licensee with the patent holder or

[1] Either because there is a corresponding counterclaim for revocation, or that the judgment of invalidity is made public.

the risk of infringement action for unlicensed use, as a barrier to entry);

which may, depending on the legal and economic circumstances of the case, lead to a competition concern.[2]

10. While, as pointed out by the DoJ, where an arbitrator makes a Contrary Finding, he/she may order an assignment or surrender of the IPR as part of the relief granted in the arbitral award, the power to do so is subject to the parties' contrary agreement. In this respect, it is difficult to see why, in an arbitration where validity of an IPR is being challenged, either the claimant or respondent would opt for such an order, as keeping the finding of invalidity confidential will stand to benefit both the claimant patent holder (who may continue demanding royalty from other licensees or new entrants) and the respondent (who benefits from leaving the claimant's monopoly intact for his competitors or potential new entrants).[3]

11. Finally, in exceptional circumstances where the patent is held to be essential to a technical standard (i.e. standard essential patents), there is generally a corresponding obligation on the patent holder to commit to licensing the patent on Fair, Reasonable, and Non-Discriminatory ("**FRAND**") terms. While the Commission notes that the precise practices surrounding FRAND obligations are still developing in overseas jurisdictions, the non-discriminatory nature of the obligation in effect imposes an obligation on the patent holder to treat each individual licensee in a similar manner in order to maintain a level playing field amongst incumbents and potential new entrants. In these circumstances, notwithstanding the confidentiality of outcome in arbitrations involving

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[2] See: *Ottung v Klee & Weilbach A/S* [1990] 4 C.M.L.R. 915 at 928 [18] where, in the context of a licensing agreement imposing a continuing obligation on a licensee to pay royalty even upon the termination of the agreement, the European Court of Justice ("**ECJ**") noted that such a clause *"weakens the licensee's competitive position since it places the licensee at a disadvantage in relation to its competitors, who may freely manufacture the products concerned after the patent has expired. To that extent the clause in question may, depending on the legal and economic context in which the agreement was conducted, restrict competition within the meaning of Article 85(1)."*; and *Genetech Inc v GmbH* [2016] 5 C.M.L.R. 9,

[3] See: M.A. Smith et al., *Arbitration of Patent Infringement and Validity Issues Worldwide* 19 Harv. J. L. & Tech 299 307-313 (*"B. Policy Arguments for Restriction on the Objective Arbitrability of Patent Disputes"*).

the determination of FRAND terms,[4] it is incumbent that holders of standard essential patents take into account (if not actually disclose) previous arbitral settlements when discharging its FRAND obligations with other parties.

B. Whether disclosure of Contrary Findings is necessary to ensure compliance with the CO

12. From an enforcement perspective, noting that:

(a) The Bill merely seeks to clarify the legal position already in place;

(b) The Bill does not (and cannot) purport to take away any of the Commission's powers to requisition any document or information relating to an arbitration;[5] and

(c) An arbitral award may be set aside, or enforcement may be refused, if it is contrary to public policy (which the Commission considers to include considerations of competition law and policy of Hong Kong);

the Commission considers the Bill to be consistent with the CO.

13. As for the policy concern arising from the lack of transparency of the outcome, while a mandatory obligation to disclose Contrary Findings may address this issue, the Commission notes that there are other (less "intrusive") options including:

(a) Requiring the arbitral award to be registered with the relevant IPR registry before it may be enforced (similar to the requirement in the United States for awards concerning US patents - referred to at pg.

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[4] There is, in this regard, nothing objectionable in parties agreeing to submit the question as to what the FRAND terms in any given case should be. Referral of such questions to "civil courts or arbitration tribunals" was in fact expressly recommended by the Advocate General in *Huawai Technologies Co Ltd v ZTE Corp.* [2015] 5 C.M.L.R. 14, whereas the ECJ instead simply recommended (at [68]) referring the matter to an "independent third party".

[5] See. Sections 41 and 42 of the CO.

5 of Annex B to Annex II of your letter of 3 February 2017); and/or

(b) Where the parties or the arbitrator perceives there to be a potential conflict between the subject matter of arbitration and the competition law and policy in Hong Kong, to allow the matter to be determined as a preliminary issue and, where necessary, refer the determination to court.

Conclusion

14. In summary therefore, the Commission takes the view that:

(a) The confidentiality of arbitration is unlikely by itself to be inconsistent with the CO. As stated earlier, the Commission's concern is not with the arbitration process but with the possible effect it has on competition as regards the lack of transparency of the outcome of an arbitral award; and

(b) Competition concerns will only likely arise in cases where the confidentiality of arbitral outcome, when compared to open judgments, leads to a degree of asymmetry of cost and information between competitors and/or new entrants such that competition is weakened in the relevant market.

15. Given that the purpose of the present Bill is for the avoidance of doubt only, the Commission hopes that the DoJ may expressly confirm that:

(a) The Bill only seeks to clarify the existing legal framework and does not purport to create any new legal obligations on the parties concerned or change the substance of the law in anyway;

(b) Where proceedings involve questions of (1) arbitrability; (2) law; and (3) the setting aside or refusal to enforce an arbitral award, insofar as questions of public interest and policy may be relevant, the courts and the arbitration tribunal will take into account the CO and competition policy; and

(c) The parties' obligations to disclose documents relating to arbitration in other court proceedings (where such documents are relevant) remain unchanged.

16. For your ease of reference, we enclose the following authorities and article referred to above:

(a) *Ottung v Klee & Weilbach A/S* [1990] 4 C.M.L.R. 915 (on the question of when a continuing obligation to pay royalty even upon the expiry of a licensing agreement may lead to a competition concern);

(b) *Genetech Inc v GmbH* [2016] 5 C.M.L.R. 9 (on the same issue as above);

(c) *Huawai Technologies Co Ltd v ZTE Corp.* [2015] 5 C.M.L.R. 14 (on the nature and extent of FRAND obligations); and

(d) Extracts from *Arbitration of Patent Infringement and Validity Issues Worldwide* 19 Harv. J. L. & Tech 299 307-313 (on the public policy arguments on whether it is desirable to determine patent validity in arbitral proceedings).

17. As discussed at our meetings, the Commission would be pleased to continue to liaise with the DoJ and the IPD on these issues and to answer any further query you may have.

Yours sincerely,

Rose Webb

Rose Webb
Chief Executive Officer
Competition Commission

KAI OTTUNG *v*. KLEE & WEILBACH A/S AND THOMAS SCHMIDT A/S (Case 320/87)

BEFORE THE COURT OF JUSTICE OF THE EUROPEAN COMMUNITIES (6th CHAMBER)

(*Presiding*, Koopmans P.C.; O'Higgins, Mancini, Kakouris and Schockweiler JJ.)
Sig. Giuseppe Tesauro, *Advocate General*.

12 May 1989
[Gaz:320/87]

Reference from Denmark by the Sø-og Handelsret (Maritime and Commercial Court), Copenhagen, under **Article 177** EEC.

Restrictive practices. Patents. Community law and national law. Restrictions which are imposed by the proprietor of a patent upon the reproduction, use or exploitation of a patented invention otherwise than under a licence granted for that purpose and which derive from the application of national legislation intended to protect industrial property rights cannot in themselves be regarded as preventing, restricting or distorting competition within the Common Market. [10]

Restrictive practices. Patents. Licensing agreements. A patent licensing agreement which does not grant the licensee the right to terminate the agreement by giving reasonable notice or seeks to restrict the licensee's freedom of action after termination, and thereby obliges him to continue to pay royalties after expiry of the patent, might restrict competition within the meaning of **Article 85(1)** EEC depending on the economic and legal context. [13]

Restrictive practices. Patents. Licensing agreements. Where a licensee may freely terminate a patent licensing agreement by giving reasonable notice an obligation to pay a royalty throughout the validity of the agreement cannot come within the prohibition contained in **Article 85(1)**. [13]

Restrictive practices. Patents. Licensing agreements. A clause in a licensing agreement prohibiting the manufacture and marketing of the products in question after termination of the agreement weakens the licensee's competitive position since it places the licensee at a disadvantage in relation to its competitors, who

1989 — *Ottung v. Klee & Weilbach A/S* — European Court of Justice — *Opinion* (Tesauro A.G.)

may freely manufacture the products after the patent has expired. To that extent such a clause may, depending on the legal and economic context in which the agreement was concluded, restrict competition within the meaning of **Article 85(1)** EEC. [18].

The Court *interpreted* **Article 85(1)** EEC *in the context of* a patent licensing agreement *to the effect that* although an obligation to pay royalties indefinitely, and thus after expiry of the patent, did not in itself restrict competition within the meaning of **Article 85(1)** it might do so if the licensee did not have the right to terminate the agreement on reasonable notice *and that* a prohibition on manufacturing and marketing patented products after termination of the agreement, and expiry of the patents, could be caught by **Article 85(1)** provided that inter-State trade was liable to be affected, which was a matter for the national court to decide from the economic and legal context in which the agreement was concluded.

S. Lassen, of the Copenhagen Bar, for the defendant companies.
H.R.L. Purse, Treasury Solicitor, for the United Kingdom as *amicus curiae*.
Anthony McClellan, Legal Advisor to the E.C. Commission, and *I. Langermann*, of the Legal Department of the E.C. Commission, for the Commission as *amicus curiae*.

The following cases were referred to by the Advocate General:

1. MERCK & CO. INC. v. STEPHAR BV (187/80), 14 July 1981: [1981] E.C.R. 2063, [1981] 3 C.M.L.R. 463. Gaz: 187/80
2. WINDSURFING INTERNATIONAL INC. v. E.C. COMMISSION (193/83), 25 February 1986: [1986] E.C.R. 611, [1986] 3 C.M.L.R. 489, Gaz:193/83

Table of Proceedings

Language of the proceedings: Danish

Opinion of the Advocate General (Sig. Giuseppe Tesauro)

The questions submitted for a preliminary ruling in Case 320/87 come from the Sø-og Handelsret (Maritime and Commercial Court), Copenhagen, and are contained in an order which, as the Commission rightly pointed out in its observations, should be slightly amended in order to improve the logical sequence of the issues and the answers to be suggested.

The essential purpose of the questions is to determine whether the clauses of a licensing contract for the commercial exploitation of a patented product may be relied upon by one of the parties even after the patent itself has expired, where those clauses lay down certain obligations for an indeterminate period or, at least, for a period exceeding the validity of the patent.

In that regard, the national court seeks a ruling on two distinct problems: whether, once the patent has entered the public domain, it is possible to continue to require the payment of a royalty on the basis of a licensing agreement remaining in force and whether, in those circumstances, a contractual clause may be relied upon to prevent a licensee who has terminated the agreement from manufacturing and selling the product which is no longer covered by a patent.

Of those two problems, which are set out in the first and fourth questions respectively, it is appropriate first to consider the second, which appears more important as regards the important repercussions which the prohibition of manufacturing and marketing a product may have on freedom of competition.

As may be inferred from the order for reference, the prohibition in question is not incompatible with the Danish legislation, according to which, in the exercise of their contractual freedom, parties may undertake to provide certain things or behave in a particular way even after the expiry of a patent. Although the Sø-og Handelsret expressly makes that finding only with regard to the payment of the royalty, stating that there are no 'mandatory rules of Danish law (whereby) the payment of royalty (is to) cease upon the expiry of the patent,' the very fact that it raised the question concerning the prohibition of manufacture and marketing leads me to think that the Danish court reached similar conclusions regarding that prohibition as well.

At first sight, a clause which prohibits the licensee from manufacturing and marketing a product, in the event of his withdrawing from the licensing agreement after the patent has entered the public domain, does not seem to be justified by the requirement of protecting the intellectual property right of the inventor in order to enable the latter to receive a fair reward for the commercial exploitation of his patent by others.

During the validity of a patent a fair reward for the inventor can be guaranteed, as the Court has emphasised in previous decisions (cf. judgment of 14 July 1981 in Case 187/80, MERCK & CO. INC. *v.* STEPHAR AND EXLER[1]) only by ensuring that no-one can manufacture or market the product without the consent of the proprietor of the patent. Conversely, after the expiry of the patent there is no longer any justification for such a prohibition and an inventor who forearms himself against that inevitable development by including a prohibitory clause in the licence contract is in fact exploiting the protection available for an intellectual property right to secure a further reward which is no longer due to him, and is therefore creating an unjustified restriction of competition.

[1] [1981] E.C.R. 2063, [1981] 3 C.M.L.R. 463.

1989 — *Ottung v. Klee & Weilbach A/S* — European Court of Justice — *Opinion* (Tesauro A.G.)

Admittedly, the right to prohibit manufacture and marketing is essential in order to guarantee the inventor a fair reward for his endeavours, since in the absence of such a prohibition no-one would feel constrained to pay a royalty for the right to exploit the patent product commercially.

Nevertheless, it cannot be said that such considerations apply after the patent has expired. If third parties are entitled freely to manufacture and market the product, there is no longer any reason for maintaining a prohibition against the licensee alone—in those circumstances the latter would be placed at a disadvantage in competition with other manufacturers for no reason other than the fact that, at an earlier stage, he had entered into a licensing agreement.

Even though, as we shall see shortly, the possibility cannot be ruled out that an obligation to pay a royalty may persist in certain circumstances even after the patent has expired, it is nevertheless certain that such an obligation can only arise in such a case in implementation of a pre-existing contractual requirement and therefore has nothing to do with determination of the fair reward due in respect of the patent, whereas a prohibition of manufacture and marketing may be solely and specifically designed to secure for the inventor the possibility of granting a licence for the exploitation of his patent in return for a fair reward. Breach of the obligation to pay undertaken by the licensee can be penalised, both during the validity of the patent and after the patent has expired, only by means of the normal remedies available for that purpose. Therefore, any attempt to forearm oneself against the risk of default after the patent has expired by means of a prohibition of manufacture and marketing must in my opinion be regarded as an unjustified restriction of competition and an infringement of **Article 85(1)**.

However, it is not out of place to bear in mind that the solution which I have just proposed applies only if it has first been established that in the case under review all the preconditions for the application of **Article 85(1)** have been fulfilled.

The defendants in the main proceedings assume that the national court has already ascertained that that is the case before submitting the questions for a preliminary ruling.

However, whilst recognising that there is in this case an agreement between undertakings, the Commission is not sure that the clauses in issue are liable to affect trade between member-States or to distort competition within the Common Market. It wonders whether the agreement, entered into between two undertakings in one member-State, one of which without doubt has a rather small turnover, may in fact be one of those agreements of minor importance which, according to the Commission notice of 3 September 1986[2] are not caught by the prohibition contained in **Article 85(1)**. It would be

[2] [1986] O.J. C231/2.

necessary to establish, in that connection, whether the agreement relates to products which, together with similar products of the contracting companies, account within the Common Market or a substantial part thereof for more than 5 per cent. of the total of such products in the area affected by the agreement and whether the aggregate annual turnover of those companies exceeds 200 million ECUs.

The figures provided at the hearing by counsel for the defendants in the main proceedings, to the effect that 90 per cent. of the products manufactured by his clients are exported, do not in themselves carry any evidential weight unless at the same time it is clearly established what percentage of the total quantity of similar products is accounted for by those products in a substantial part of the Common Market.

However, I do not intend to add to these brief observations for fear of undertaking an investigation of the facts, which is a matter exclusively for the national court.

I shall therefore return to my review of the questions submitted to the Court and address the first question (in the order adopted by the national court), concerning the compatibility with **Article 85(1)** of the contractual clause requiring payment of a royalty even after the expiry of the patent for the licensed product.

It seems to me that it can be said without any particular difficulty that under such a clause the obligation to pay the royalty is, as a rule, connected with the period of validity of the patent. On the other hand, although the royalty must be paid to ensure that the inventor receives his reward, the detailed arrangements for making the payment may nevertheless differ considerably.

As regards the period over which the payments are to be made, it may easily be imagined that, for various reasons, the total sum payable to the inventor might be divided into a large number of periodic instalments, some of which might therefore fall due after the expiry of the patent, or that rather than receiving a high percentage of the sale price of the product an inventor might prefer a lower percentage over a longer period of years. It is also possible that an extension of the payment period might be intended to reward the inventor for exploitation of the product in the period between the filing of the patent application and the grant of the patent.

Notwithstanding the fact that they restrict competition, such stipulations do not therefore necessarily represent a misuse of the patent right and may therefore be removed from the scope of **Article 85(1)**, as was expressly noted by the Commission in Regulation 2349/84 of 23 July 1984 on the application of **Article 85(3)** of the Treaty to certain categories of patent licensing agreements.[3] According to the second part of Article 3(4), the first part of that paragraph, pursuant to which the charging of royalties on products

[3] [1984] O.J. L219 15, [1984] 1 *Commercial Laws of Europe* 389.

1989 — *Ottung v. Klee & Weilbach A/S* — European Court of Justice — *Opinion* (Tesauro A.G.)

which are not patented is not to be exempt from the application of **Article 85(1)** is 'without prejudice to arrangements whereby, in order to facilitate payment by the licensee, the royalty payments for the use of a licensed invention are spread over a period extending beyond the life of the licensed patents or the entry of the know-how into the public domain'.

In the cases just mentioned the payment of the royalty during the period beyond the validity of the patent thus does not represent consideration for the manufacture or marketing of the product after the expiry of the patent but, rather, represents a part of the remuneration granted to the inventor for the exploitation of the patent during its period of validity, and does not therefore constitute infringement of **Article 85(1)**.

It is not, however, so simple to establish that such a situation actually exists, and it is wholly natural that the extension of payments beyond the expiry date of the patent may give rise to suspicion of an agreement contrary to the Community competition rules.

It will therefore be for the national court, after carefully considering all the information before it, to determine whether the payment of the royalty beyond the expiry of the patent constitutes, in the case before it, a special arrangement for discharging the obligation to pay the reward due to the inventor or a supplementary payment to which the inventor is not entitled after the entry of the patent into the public domain. It is clear, however, that when the extension of the obligation to pay the royalty is for an indeterminate period, as in this case, it will be difficult to rebut the strong presumption that the clause is unlawfully restrictive and that the exemption does not therefore apply. In that connection it is significant that Article 3(4) of Regulation 2349/84 refers expressly to the extension of payments beyond the expiry of the patent as a case for which the exemption is not available, except where the payments are spread 'over a period', that is to say over a *fixed* period.

In the second question, to be answered if the answer to the first is in the affirmative, the national court asks essentially whether **Article 85(1)** is infringed by a contractual clause under which a licensee of an unpatented product is required to make a payment specifically in respect of such a product for an indeterminate period even after the patent for the other products included in the licence has expired, where the unpatented product is complementary, from the commercial point of view, to the patented product.

The way in which that question is framed is somewhat peculiar: it would be expected that the problem would arise in the event of the first question being answered in the negative, in other words if it were concluded that the obligation to pay the royalty even after the expiry of the patent was not incompatible with **Article 85(1)**.

By contrast, in the event of an affirmative answer, the incompatibility of the payment of a royalty for a patented product would *a* *fortiori* entail the incompatibility of a similar payment for an unpatented product except where, for the sake of argument, the licensing agreement for an unpatented product was entered into wholly separately from the licence in respect of the patented products. It seems to me, however, that the case envisaged by the national court is precisely that of a close connection between patented and unpatented products covered by a single licence, for which reason we need not inquire further. And in view of the fact that the solution suggested for the first question is only partially in the affirmative, it seems to me to be permissible to regard the second question as being designed to determine whether, in the event that payment of the royalty after the expiry of the patent should not appear to be contrary to Community law, such a conclusion might also extend to the payment of a royalty for the unpatented products covered by the licence agreement.

Important guidance for the answer to be given is provided by Article 3(4) of Commission Regulation 2349/84, cited earlier, from which it appears that the block exemption does not apply to an agreement under which 'the licensee is charged royalties on products which are not entirely or partially patented or manufactured by means of a patented process, or for the use of know-how which has entered into the public domain, otherwise than by the fault of the licensee or an undertaking connected with him . . .'

This clearly relates to the practice known in English as 'tying in', one form of which consists precisely in arbitrarily making the permission to exploit commercially a patented product conditional upon a commitment by the other party to enter into a licence agreement and to pay a royalty also for an unpatented product whose use is unnecessary for the exploitation of the patented product. This constitutes an abusive exploitation of the inventor's intellectual property right and consequently an infringement of **Article 85(1)**.

It does not seem to me that the judgment of 25 February 1986 in Case 193/83, WINDSURFING,[4] to which the Commission refers in its observations, provides grounds for any different conclusion, although it does enable certain cases to be identified in which the 'tie-in' is only apparent.

In paragraph [66] of that judgment the following statement appears with respect to calculation of the royalty by reference to the price of a complete sailboard: 'Nevertheless it must also be pointed out that the royalty levied on the sale of rigs on the basis of that calculation proves not to have been higher than that laid down for the sale of separate rigs in the new agreements, since the licensees acknowledged that it would be equitable to accept a higher rate of royalty once the licensor's remuneration was to be calculated on the price of the rig alone. It follows that that method of calculation did not have as its

[4] [1986] E.C.R. 611, [1986] 3 C.M.L.R. 489.

1989 — *Ottung v. Klee & Weilbach A/S* — European Court of Justice — *Opinion* (Tesauro A.G.)

object or effect a restriction of competition in the sale of separate rigs'.

It is clearly apparent from that passage that there are two distinct logical steps: first, determination of the reward due to the inventor for the patented product; secondly and necessarily at a later stage, at least from the conceptual point of view, determination of the method of payment of that reward.

Notwithstanding the difficulties experienced in identifying them clearly, those two steps must be kept quite separate from each other, since their characteristics are, in my opinion, of fundamental importance in determining whether or not in a specific case there is an infringement of **Article 85(1).**

If the *quantum* of the inventor's reward is determined by reference not only to a percentage of the price of the patented product but also to a percentage of the price of an unpatented product which complements it and in respect of which neither any other intellectual property rights nor any know-how capable of protection exist, it is somewhat difficult to deny the existence of a 'tie-in'. If, for example, the inventor's reward had been determined in that way in the present case, no grounds for taking a different view would be provided by the nature of the unpatented product which, as is apparent from the documents before the Court, is not in any way necessary to enable the patented product to be used.

The situation is different where the parties initially fix an amount which they consider to be a fair reward for the inventor in respect of the patented product and thereafter determine the method of payment, agreeing for example that part of the sum may derive from a percentage of the sale price of an unpatented product. That seems to me to be the position in the circumstances considered in the WINDSURFING judgment: if my interpretation is correct, the contracting parties first decided that a particular payment would be fair, calculating it for reasons of convenience as a relatively low percentage of the sale price of a complete sailboard; subsequently they recognised that, as it was preferable to abandon that system because it was then opposed by the Commission, a fair payment, to be calculated thereafter *on the basis of* the sale price of the sail rig alone, could only be obtained by increasing the percentage accruing to the proprietor of the patent.

The answer to the second question must therefore be coupled with the one suggested for the questions already considered, to the effect that the making of a payment in respect of an unpatented product constitutes an infringement of **Article 85(1)**, except where there is reason to believe that that payment is merely a factor in the calculation of the amount already decided upon for the patented product.

The third question, raised by the national court in the event of the first question being answered in the affirmative, seeks to ascertain the compatibility with **Article 85(1)** of a contractual clause which imposes the obligation to pay for the use of a model (design) which is protected by copyright or by provisions of domestic law which prohibit slavish imitation, even after the patent for the product in question has expired.

It will be for the national court to determine whether the licensing agreement was concluded also to facilitate commercial exploitation of the ornamental design of the patented apparatus or of the know-how relating to its manufacture and use, which the defendants vigorously deny.

If it is accepted that in this case the inventor enjoys other intellectual property rights or rights connected with the existence of know-how, there is no difficulty in applying here the reasoning which I have expounded.

If a link is found to exist between the patent and the other rights, for example in the sense that those other rights, considered in isolation, appear insignificant or in the sense that the know-how in question is of no use except in connection with the patent, in as much as it is necessary for exploitation of the patented product, it must be concluded that the proprietor of the patent has abused his intellectual property right in order to secure benefits to which he is not entitled.

The position is different, however, where the other rights or know-how can be dissociated from the patent. In such a case, those rights, rather than the patent, constitute the point of reference for evaluation of the payment obligation.

The solutions I have proposed still apply, in my opinion, if the licensing agreement was entered into in the interval between the filing of the application and the grant of the patent. The inventor's position is the same in both situations, subject only to the fact that in the first case the patent may possibly not be granted to him. However, that does not prevent the inventor from taking advantage of the prospect that a patent will be granted and from concluding, subject to reservations, of course, licensing agreements on the same terms as those which he could conclude once the patent was obtained.

In conclusion, I propose therefore that the following answers should be given to the questions submitted to the Court by the Sø-og Handelsret, Copenhagen:

1. A clause in a licensing agreement whereby the licensee is not entitled to manufacture or sell the product in question after the termination of the agreement constitutes, where the licence relates to a patented product and the patent has expired, a restriction of competition prohibited by **Article 85(1)** of the Treaty.
2. A clause in a licensing agreement whereby a licensee of a patented invention is required to make payments for an indeterminate period in respect thereof even after the expiry of the patent constitutes a restriction of competition as referred

to in **Article 85(1)**, except where the extension of the payments after the expiry of the patent is merely a method of payment of the inventor's fair reward.

3. A contractual clause whereby a licensee of an unpatented product is obliged to make payments for an indeterminate period specifically in respect of that product—even after the patent for the products included in the same licence has expired—where the unpatented product is, from the commercial point of view, complementary to the patented product, constitutes a restriction of competition as referred to in **Article 85(1)**, except where the making of payments also in respect of the unpatented products is merely a factor in the calculation of a fair reward for the inventor, the amount of which has been determined without account being taken of the unpatented products.
4. A contractual clause whereby the licensee of a design which is protected by copyright or by national commercial legislation is required to make payments for an indeterminate period, even after the patent for the product in question has expired, constitutes an infringement of **Article 85(1)** of the Treaty except where the other intellectual property rights or rights associated with the know-how with which the clause is concerned exist independently and retain their independent substance even if dissociated from the patent.
5. For the purposes of answering the foregoing questions, the fact that the clause is contained in a licensing agreement entered into between the filing of the patent application and the grant of the patent is irrelevant.

JUDGMENT

[1] By order of 23 September 1987, which was received at the Court Registry on 14 October 1987, the Sø-og Handelsret referred to the Court for a preliminary ruling under **Article 177** of the EEC Treaty a number of questions on the interpretation of **Article 85(1)** of the EEC Treaty, with a view to determining the compatibility with that provision of certain clauses contained in a licensing agreement.

[2] The questions were raised in proceedings concerning certain clauses in a licensing agreement under which Kai Ottung, a civil engineer, the plaintiff in the main proceedings, granted to A/S Anton Petersen & Henius Eftf (hereinafter referred to as 'the licensee') the exclusive right—which was subsequently assigned to the defendants in the main proceedings—to exploit two control devices which he had designed for use on brewery tanks. When the agreement was entered into, the licensee's business was concerned mainly with the sale of brewery equipment.

[3] Under clauses 1 and 2 of that agreement the licensee undertook,

for an indeterminate period, to pay royalty for each device sold. Under clause 5 of the agreement, as amended by an addendum, the agreement may be terminated only by the licensee's giving six months' notice expiring on 6 October of any year. When such termination takes effect, the licensee is permitted to manufacture only a number of devices corresponding to the orders received as at the date of expiry of the agreement, less the number of devices, if any, in stock.

[4] The agreement was entered into after a patent application had been filed in respect of one of the control devices, fitted with a non-return valve for the admission of air, but before the patent was granted in Denmark. During the years following the grant of the patent, the licensee paid the agreed royalty when selling the devices developed by Mr. Ottung, most of which incorporated the non-return valve for the admission of air. The Danish patent expired on 12 April 1977 and the latest patent in respect of the same devices granted in a member-State expired on 15 March 1980. As from the end of 1980, the defendants in the main proceedings ceased paying the royalty, on the ground, *inter alia*, that all the patents had expired; however, they did not terminate the licensing agreement pursuant to clause 5, maintaining that the discontinuance of royalty payments was tantamount to termination.

[5] In the course of the proceedings before the national court, Mr. Ottung claimed that the defendants should be ordered, as from 1 January 1981, to pay him the royalty provided for in the agreement or, in the alternative, royalty of a lower amount to be fixed by the court. In support of those claims, he argued in particular that the licensing agreement had been entered into for an indeterminate period and could not cease to apply until the defendants had terminated it in accordance with clause 5.

[6] Considering that the dispute raised certain questions concerning the interpretation of **Article 85(1)** of the EEC Treaty, the Sø-og Handelsret submitted the following questions for a preliminary ruling:

> 1. Does a contractual obligation under which a licensee of a patented invention is to pay royalty for an indeterminate period, and thus even after the expiry of the patent, constitute a restriction of competition of the kind referred to in **Article 85(1)** of the Treaty of Rome where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?
>
> In that connection, is it of any significance that the grantor cannot determine the agreement whereas the licensee can bring it to an end by giving a certain notice of termination and, according to the terms of the agreement, is thereafter not entitled to exploit the patent?
>
> 2. To be answered if Question 1 is answered in the affirmative:
>
> Does a contractual obligation under which a licensee of a non-patented product is to pay royalty for an indeterminate period, and thus even after the patent for products also covered by the licensing agreement has expired, specifically in respect of that product constitute a restriction of competition of the kind referred to in **Article 85** of the EEC Treaty where it is established that the non-patented product complements the

1989 — *Ottung v. Klee & Weilbach A/S* — European Court of Justice — *Judgment*

product for marketing purposes and that the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

In that connection is it of any significance that the licensee only entered into the agreement to pay a royalty in respect of the non-patented product because otherwise he would not obtain a licence for the patented invention?

3. To be answered if Question 1 is answered in the affirmative:

Does a contractual obligation under which, for the use of a design protected by the law of copyright or under the Marketing Act, a licensee is to pay royalty for an indeterminate period, and thus even after the expiry of the patent on the product in question, constitute a restriction of competition of the kind referred to in **Article 85** of the Treaty of Rome where it is established that the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

In that connection is it of any significance that the licensee only entered into the agreement to pay royalty for exploitation of the copyright or for protection against passing off under the Marketing Act because he would obtain a licence for the patented invention?

4. To be answered if Question 1 is answered in the negative:

Does a provision in a licensing agreement according to which a licensee is not entitled to sell the product in question after the termination of the agreement constitute a restriction of competition of the kind referred to in **Article 85(1)** where the licensing agreement relates to a patented product and the patent has expired and where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

[7] Reference is made to the Report for the Hearing for a fuller account of the facts of the case and observations submitted to the Court, which are mentioned or discussed hereinafter only in so far as is necessary for the reasoning of the Court.

The first question

[8] With respect to the first limb of the first question, it should first be observed that **Article 85(1)** prohibits as incompatible with the Common Market agreements between undertakings which may affect trade between member-States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market.

[9] It must be assumed that the national court considers that trade between member-States is likely to be affected in the circumstances with which the main proceedings are concerned.

[10] Restrictions which are imposed by the proprietor of a patent upon the reproduction, use or exploitation of a patented invention otherwise than under a licence granted for that purpose and which derive from the application of national legislation intended to protect industrial property rights cannot in themselves be regarded as preventing, restricting or distorting competition within the Common Market within the meaning of **Article 85(1)**.

[11] The possibility cannot be ruled out that the reason for the

inclusion in a licensing agreement of a clause imposing an obligation to pay royalty may be unconnected with a patent. Such a clause may instead reflect a commercial assessment of the value to be attributed to the possibilities of exploitation granted by the licensing agreement. That is even more true where, as in the main proceedings, the obligation to pay royalty in respect of two devices, one being patented after the agreement was entered into and the other being complementary to the first, was embodied in a licensing agreement entered into before the patent was granted.

[12] Where the obligation to pay royalty was entered into for an indeterminate period and thus purports to bind the licensee even after the expiry of the patent concerned, the question arises whether, having regard to the economic and legal context of the licensing agreement, the obligation to continue to pay royalty might constitute a restriction of competition of the kind referred to in **Article 85(1)**.

[13] An obligation to continue to pay royalty after the expiry of a patent can result only from a licensing agreement which either does not grant the licensee the right to terminate the agreement by giving reasonable notice or seeks to restrict the licensee's freedom of action after termination. If that were the case, the agreement might, having regard to its economic and legal context, restrict competition within the meaning of **Article 85(1)**. Where, however, the licensee may freely terminate the agreement by giving reasonable notice, an obligation to pay royalty throughout the validity of the agreement cannot come within the scope of the prohibition contained in **Article 85(1)**.

[14] For the purpose of the national court's assessment of the legality of the clause at issue, it is irrelevant that the licensor is bound by a clause preventing him from terminating the agreement.

[15] It must therefore be stated in reply to the first limb of the first question submitted by the national court that a contractual obligation under which the grantee of a licence for a patented invention is required to pay royalty for an indeterminate period, and thus after the expiry of the patent, does not in itself constitute a restriction of competition within the meaning of **Article 85(1)** of the Treaty where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent.

[16] In view of the answer given above, there is no need for a separate answer to be given to the second limb of the first question or to the second and third questions.

The fourth question

[17] In its fourth question, the national court asks whether a clause in a licensing agreement which prevents the licensee from manufacturing and marketing the products in question after definitive

1989 — *Ottung v. Klee & Weilbach A/S* — European Court of Justice

termination of the agreement constitutes a restriction of competition within the meaning of **Article 85(1)**.

[18] A clause in a licensing agreement prohibiting the manufacture and marketing of the products in question after termination of the agreement weakens the licensee's competitive position since it places the licensee at a disadvantage in relation to its competitors, who may freely manufacture the products concerned after the patent has expired. To that extent the clause in question may, depending on the legal and economic context in which the agreement was concluded, restrict competition within the meaning of **Article 85(1)**.

[19] However, it is for the national court to verify, having regard to the relevant information at its disposal, in particular the position occupied by the undertakings concerned in the market for the products at issue, whether the licensing agreement is liable to appreciably affect trade between the member-States.

[20] It must therefore be stated in reply to the fourth question that a clause contained in a licensing agreement prohibiting the manufacture and marketing of the products after the termination of the agreement comes within the prohibition laid down in **Article 85(1)** only if it emerges from the economic and legal context in which the agreement was concluded that it is liable to appreciably affect trade between member-States.

Costs

[21] The costs incurred by the E.C. Commission and the United Kingdom, which have submitted observations to the Court, are not recoverable. Since these proceedings are, in so far as the parties to the main proceedings are concerned, a step in the action pending before the national court, the decision on costs is a matter for that court.

On those grounds, THE COURT (Sixth Chamber), in reply to the questions submitted to it by the Sø-og Handelsret by order of 23 September 1987,

HEREBY RULES;

1. A contractual obligation under which the grantee of a licence for a patented invention is required to pay royalty for an indeterminate period, and thus after the expiry of the patent, does not in itself constitute a restriction of competition within the meaning of **Article 85(1)** of the Treaty where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent.

2. A clause contained in a licensing agreement prohibiting the manufacture and marketing of the products after the

termination of the agreement comes within the prohibition laid down in **Article 85(1)** only if it emerges from the economic and legal context in which the agreement was concluded that it is liable to appreciably affect trade between member-States.

GENENTECH INC v HOECHST GMBH, SANOFI-AVENTIS DEUTSCHLAND GMBH

BEFORE THE COURT OF JUSTICE OF THE EUROPEAN UNION (FIRST CHAMBER)

(Case C-567/14)

Presiding, Silva de Lapuerta P.C.; Arabadjiev, Bonichot, Fernlund (Rapporteur) and Regan, JJ.: Wathelet A.G.: July 7, 2016

[2016] 5 C.M.L.R. 9

EU law; Licensees; Licensing agreements; Patents; Royalties

H1 *Anti-competitive practices—agreements—art.101 TFEU—patent licencing agreement—running royalty—revocation of patent—non-violation of patent—non-payment of royalty due under licence agreement—national arbitration—inability of Union Courts to rule on questions of national law under art.267 TFEU—interpretation of provisions of national law—jurisdiction of national court to determine need for preliminary ruling—relevance of questions referred—purely hypothetical nature of legal question referred—insufficient factual or legal material to give ruling—inability of Court of Justice to review arbitral proceedings—obligation to pay royalty for exclusive licence agreement—commercial assessment of value attributed to possibilities of exploitation—freedom to terminate agreement—reasonable notice—expiration of industrial property rights—non-application of art.101(1) to licence agreement at issue.*

H2 Reference from the Cour d'Appel de Paris (Court of Appeal, Paris), France, for a preliminary ruling under art.267 TFEU.

H3 G was a biotechnology company which, from 1992 onwards, had entered into a licence agreement with H, permitting it to make use of technology protected by a European Patent. Under the terms of the licence agreement, G was required to pay H, amongst other fees, a running royalty amounting to 0.5% of the net sales of the finished product. However, G failed to pay the running royalty as required, and H subsequently initiated arbitration proceedings against it under the terms of the licence agreement, securing an award against G in 2012. G appealed that award before the Court of Appeal, Paris, on the basis, *inter alia*, that the relevant European Patent had been revoked in 1999. Since the national court was uncertain about the potential application of art.101(1) TFEU, it decided to make a reference to the Court of Justice asking, in essence, whether that provision had to be interpreted as precluding, under a licence agreement of the sort at issue, an obligation to pay a royalty in such circumstances.

H4 The Court of Justice took the view that it did not have jurisdiction to rule on the validity of the findings of the arbitrator nor of the domestic court. However, relying upon earlier precedent from the case of *Ottung* (320/87), the Court confirmed that art.101(1) TFEU did not preclude the imposition on a licensee of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-violation of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.

Held:

Inability of Union Courts to rule on questions of national law under article 267 TFEU

H5 In the context of art.267 TFEU, the Court of Justice had no jurisdiction to rule either on the interpretation of provisions of national laws or national regulations or on their conformity with EU law. Furthermore, it was not for the Court to determine whether the decision whereby a matter was brought before it was taken in accordance with the rules of national law governing the organisation of the courts and their procedure. Thus, the Court had to abide by the decision from a court of a Member State requesting a preliminary ruling insofar as that decision had not been overturned in any appeal procedures provided for by national law. [22] & [23]

Attanasio Group Srl v Comune di Carbognano (C-384/08) EU:C:2010:133; [2010] 3 C.M.L.R. 6; *Reina v Landskreditbank Baden-Wurttemberg* (65/81) EU:C:1982:6; *ASNEF-EQUIFAX Servicios de Informacion sobre Solvencia y Credito SL v Asociacion de Usuarios de Servicios Bancarios (AUSBANC)* (C-238/05) EU:C:2006:734; [2007] 4 C.M.L.R. 6; *Rheinmühlen-Düsseldorf v Einfuhr– und Vorratsstelle fur Getreide und Futtermittel* (146/73) EU:C:1974:12; *Burtscher v Stauderer* (C-213/04) EU:C:2005:731; [2006] 2 C.M.L.R. 13, followed.

Jurisdiction of national court to determine need for preliminary ruling

H6 In the context of the co-operation between the Court of Justice and the national courts provided for in art.267 TFEU, it was solely for the national court before which a dispute had been brought, and which had to assume responsibility for the subsequent judicial decision, to determine, in the light of the particular circumstances of the case, both the need for a preliminary ruling to enable it to deliver judgment and the relevance of the questions which it submitted to the Court. Consequently, where the question put concerned the interpretation of a provision of EU law, the Court was, in principle, bound to give a ruling. The Court may refuse to rule on a question referred by a national court only where it was quite obvious that the interpretation of EU law that was sought bore no relation to the actual facts of the main action or its purpose, where the problem was hypothetical, or where the Court did not have before it the factual or legal material necessary to give a useful answer to the questions submitted to it. [26]

PreussenElektra AG v Schleswag AG (C-379/98) EU:C:2001:160; [2001] 2 C.M.L.R. 36; *Melki, Proceedings against* (C-188/10 and C-189/10) EU:C:2010:363; [2011] 3 C.M.L.R. 45, followed.

Inability of Court of Justice to review arbitral proceedings under article 267 TFEU

H7 It was not within the jurisdiction of the Court of Justice, in the context of a preliminary ruling procedure, to review the findings of a national arbitrator or his or her interpretation of the requirements of a licence agreement carried out in the light of national law. [38]

Obligation to pay royalty for exclusive licence agreement under article 101 TFEU

H8 (a) In the context of an exclusive licence agreement, the obligation to pay a royalty, even after the expiry of the period of validity of the licensed patent, may reflect a commercial assessment of the value to be attributed to the possibilities of exploitation granted by the licence agreement, especially when that obligation to pay was embodied in a licence agreement entered into before the patent was granted. In such circumstances, where the licensee may freely terminate the agreement by giving reasonable notice, an obligation to pay a royalty throughout the validity of the agreement could not come within the scope of the prohibition set out in art.101(1) TFEU. [39]

Ottung v Klee & Weilbach A/S (320/87) EU:C:1989:195; [1990] 4 C.M.L.R. 915, followed.

H9 (b) Consequently, art.101(1) TFEU did not prohibit the imposition of a contractual requirement providing for payment of a royalty for the exclusive use of a technology that was no longer covered by a patent, on condition that the licensee was free to terminate the contract. That assessment was based on the finding that that royalty was the price to be paid for commercial exploitation of the licensed technology with the guarantee that the licensor would not exercise its industrial-property rights. As long as the licence agreement at issue was still valid and could be freely terminated by the licensee, the royalty payment was due, even if the industrial-property rights derived from patents which could not be used against the licensee due to the fact that the period of their validity had expired. In the light of such circumstances, in particular the fact that the licence may be freely terminated by the licensee, the contention may be rejected that the payment of a royalty undermined competition by restricting the freedom of action of the licensee or by causing market foreclosure effects. [40]

Ottung v Klee & Weilbach A/S (320/87) EU:C:1989:195; [1990] 4 C.M.L.R. 915, followed.

H10 (c) Moreover, if, during the period in which a licence agreement was in effect, the payment of the royalty was still due even after the expiration of industrial property rights, the same applied, *a fortiori,* before the validity of those rights had expired. Accordingly, art.101(1) TFEU had to be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-violation of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice. [41]–[43]

Ottung v Klee & Weilbach A/S (320/87) EU:C:1989:195; [1990] 4 C.M.L.R. 915, applied.

H11 **Cases referred to in the judgment:**

1. *ASNEF-EQUIFAX Servicios de Informacion sobre Solvencia y Credito SL v Asociacion de Usuarios de Servicios Bancarios (AUSBANC)* (C-238/05) EU:C:2006:734; [2007] 4 C.M.L.R. 6
2. *Attanasio Group Srl v Comune di Carbognano* (C-384/08) EU:C:2010:133; [2010] 3 C.M.L.R. 6
3. *Burtscher v Stauderer* (C-213/04) EU:C:2005:731; [2006] 2 C.M.L.R. 13
4. *Melki, Proceedings against* (C-188/10 and C-189/10) EU:C:2010:363; [2011] 3 C.M.L.R. 45
5. *Ottung v Klee & Weilbach A/S (320/87) ECR, EU:C:1989:195;* [1990] 4 C.M.L.R. 915
6. *PreussenElektra AG v Schleswag AG* (C-379/98) EU:C:2001:160; [2001] 2 C.M.L.R. 36
7. *Reina v Landskreditbank Baden-Wurttemberg* (65/81) EU:C:1982:6
8. *Rheinmühlen-Düsseldorf v Einfuhr– und Vorratsstelle fur Getreide und Futtermittel* (146/73) EU:C:1974:12

H12 **Further cases referred to by the Advocate General:**

1. *Ascendi Beiras Litoral e Alta, Auto Estradas das Beiras Litoral e Alta SA v Autoridade Tributaria e Aduaneira* (C-377/13) EU:C:2014:1754
2. *Bogendorff von Wolffersdorff v Standesamt der Stadt Karlsruhe and Zentraler Juristischer Dienst der Stadt Karlsruhe* (C-438/14) EU:C:2016:11
3. *Courage Ltd v Crehan* (C-453/99) EU:C:2001:465; [2001] 5 C.M.L.R. 28
4. *Cytec*, No 06-15.320, Bull. civ. I, No 162, p. 4 (French Cour de Cassation)
5. *EBS Le Relais Nord-Pas-de-Calais* (C-240/12) EU:C:2013:173
6. *Eco Swiss China Time Ltd v Benetton International NV* (C-126/97) EU:C:1999:269; [2000] 5 C.M.L.R. 816
7. *Gazprom OAO* (C-536/13) EU:C:2015:316
8. *Groupement des Cartes Bancaires (CB) v European Commission* (C-67/13 P) EU:C:2014:2204; [2014] 5 C.M.L.R. 22
9. *Hilmarton Ltd*, No 92-15137, Bull. civ. I, No 104, p. 79 (French Cour de Cassation)
10. *Huawei Technologies Co Ltd v ZTE Corp* (C-170/13) EU:C:2014:2391; [2015] 5 C.M.L.R. 14
11. *Kadi v Council of the European Union* (C-402/05 P and C-415/05 P) EU:C:2008:461; [2008] 3 C.M.L.R. 41
12. *Mark Rich & Co AG v Societa Italiana Impianti SpA* (C-190/89) EU:C:1991:319
13. *Merck Canada Inc v Accord Healthcare Ltd* (C-555/13) EU:C:2014:92
14. *PT Putrabali Adyamulia*, No 05-18053, Bull. civ. I, No 250 (French Cour de Cassation)
15. *Regie Nationale des Usines Renault SA v Maxicar SpA* (C-38/98) EU:C:2000:225
16. *Ryanair* (13-25.846, FR:CCASS:2015:C100797), French Cour de Cassation
17. *Systembolaget v The Absolute Company* (No T5767-13) 17 June 2015, Supreme Court of Sweden
18. *Thalès* (RG No 2002/19606), Court of Appeal, Paris

H13 **Legislation referred to in the judgment:**
Treaty on the Functioning of the European Union art.101(1) and 267

OPINION

I – Introduction

AG1 This request for a preliminary ruling concerns the interpretation of art.101 TFEU. More specifically, the Cour d'Appel de Paris (Court of Appeal, Paris) asks whether this article precludes an obligation imposed on a licensee under a patent licence agreement to pay royalties for the entire duration of the agreement until its termination, notwithstanding the absence of infringement or the revocation of the licensed patent or patents.

AG2 The request was submitted in the context of an action for annulment of arbitral awards filed by Genentech Inc., a company incorporated under Delaware law (United States of America) ("Genentech") against Hoechst GmbH, formerly Hoechst AG ("Hoechst") and Sanofi-Aventis Deutschland GmbH ("Sanofi-Aventis"), companies incorporated under German law.

II – Legal framework

A – EU law

AG3 Article 101 TFEU provides:

> "1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:
>   (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
>   (b) limit or control production, markets, technical development, or investment;
>   (c) share markets or sources of supply;
>   (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
>   (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.
>
> 2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.
>
> 3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
>   – any agreement or category of agreements between undertakings,
>   – any decision or category of decisions by associations of undertakings,

– any concerted practice or category of concerted practices,
which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question."

B – French law

AG4 Article 1518 of the Code of Civil Procedure (Code de Procédure Civile) provides:

"An international arbitral award delivered in France may be challenged only by way of an action for annulment."

AG5 Article 1520 of the Code of Civil Procedure provides:

"An action for annulment is available only in the following cases:
1. Where the arbitral tribunal wrongly declared itself to have or not to have jurisdiction;
2. Where the arbitral tribunal was improperly constituted;
3. Where the arbitral tribunal issued a ruling without fulfilling the mandate entrusted to it;
4. Where the adversarial principle was not observed; or
5. Where the recognition or enforcement of the award is contrary to international public policy."

III – The facts in the main proceedings and the question referred for a preliminary ruling

AG6 On 6 August 1992, Behringwerke AG ("Behringwerke"),[1] a company incorporated under German law, granted a worldwide non-exclusive licence to Genentech ("the licence agreement") for the use of a human cytomegalovirus (HMCV) enhancer, making it possible to improve the effectiveness of the cellular process used for the production of proteins ("the enhancer"). This technology was the subject of European Patent No EP 0173 177 53, issued on 22 April 1992 ("patent EP 177"), as well as two patents issued in the United States on 15 December 1998 and 17 April 2001 ("patent US 522" and "patent US 140", respectively). On 12 January 1999, the European Patent Office (EPO) revoked patent EP 177.

AG7 The licence agreement was governed by German law.

AG8 Under Article 3.1 of the licence agreement, Genentech undertook to pay, as consideration for the right to use the enhancer:

– a one-off fee of DEM 20,000 (around €10,225) for the costs of issuing the licence;
– a fixed annual research fee of DEM 20,000 (around €10,225); and

[1] Behringwerke subsequently assigned its rights to Hoechst. Hoechst has been a wholly owned subsidiary of Sanofi-Aventis since July 2005.

– a "running" royalty of 0.5 per cent levied on the amount of sales of "finished products"[2] ("the running royalty").

AG9 Genentech paid the one-off fee and the annual fee, but never paid the running royalty.

AG10 On 30 June 2008, Hoechst and Sanofi-Aventis made enquiries with Genentech about the finished products using the patented materials and processes, giving rise to the entitlement to payment of the running royalties.

AG11 By letter of 27 August 2008, Genentech notified Hoechst and Sanofi-Aventis of the termination of the licence agreement, which was to take effect two months later.[3]

AG12 On 24 October 2008, believing that Genentech had used the enhancer in the synthesis of recombinant proteins in order to manufacture Rituxan®[4] and other medicinal products without paying the running royalties on the sale of all those medicinal products and had thus infringed the licence agreement, Hoechst and Sanofi-Aventis lodged an application for arbitration against Genentech with the International Court of Arbitration of the International Chamber of Commerce ("ICC") pursuant to the arbitration clause in art.11 of the licence agreement. The ICC registered that application under case number 15900/JHN/GFG.

AG13 On 27 October 2008, Hoechst and Sanofi-Aventis brought an action before the United States District Court for the Eastern District of Texas against Genentech and Biogen (formerly Biogen Idec) for infringement of patents US 522 and US 140. On the same day, Genentech and Biogen brought an action for revocation of those patents before the United States District Court for the Northern District of California.

AG14 These two actions were joined before the United States District Court for the Northern District of California.

AG15 On 11 March 2011, the United States District Court for the Northern District of California held, in essence, that there was no infringement of the patents in question and dismissed the action for revocation of the patents, finding that Genentech had not met the required threshold of proof. That decision was upheld on 22 March 2012 by the United States Court of Appeals for the Federal Circuit and became final.

AG16 By the third partial award of 5 September 2012 ("the third partial award"),[5] the sole arbitrator chosen by the parties held[6] that Genentech had manufactured Rituxan® using the enhancer "rightly or wrongly patented for some time in [patent EP 177] and later in [patents US 522 and 140] …"[7] and, on that basis, found that

[2] Defined in the licence agreement as "commercially marketable goods incorporating a licensed product, sold in a form enabling them to be administered to patients for therapeutic purposes or to be used in a diagnostic procedure, and which are not intended or marketed for reformulation, processing, repackaging or relabeling before use". Under the terms of the agreement, "licensed products" are "materials (including organisms) in respect of which the manufacture, use or sale would, in the absence of this agreement, infringe one or more unexpired claims included in the rights attached to the patents under licence".

[3] Article 8(3) of the licence agreement provides that "the licensee may terminate this agreement and the licences granted pursuant hereto by giving Behringwerke two (2) months' notice for that purpose, if the licensee decides to stop using the licence rights conferred hereunder".

[4] The active ingredient of Rituxan® is rituximab. Since 1998, this medicinal product has been marketed in the United States under the trade name Rituxan® and in the European Union under the trade name MabThera®. It is apparent from the answers provided by Genentech as well as by Hoechst and Sanofi-Aventis to the written questions put by the Court that the arbitral awards at issue in this case concern worldwide sales of Rituxan®, including the sales of this medicinal product under the name "MabThera®".

[5] Footnote not relevant to the English version of this Opinion.

[6] See paras 322 to 330 of the third partial award.

[7] See para.326 of the third partial award.

Genentech was required to pay Hoechst and Sanofi-Aventis the running royalties on the sale of Rituxan® and products with the same properties.[8]

AG17 The sole arbitrator held that, originally, Genentech had wanted to use the enhancer without being regarded as an infringer,[9] hence the licence agreement. It followed, according to the sole arbitrator, that the commercial purpose of the licence agreement[10] was to avert all litigation on the validity of patents US 522 and US 140 during the period of validity of the licence agreement.[11] In the arbitrator's opinion:

> "such a truce [could] not last forever since the [licence agreement was] subject to being terminated on relatively short notice by either party …[12]"

AG18 He took the view that, once a patent has been registered, a licensee such as Genentech could be comforted by securing a licence for the use of the patent, unlike a third party who might be deterred from competing with a licensee. The sole arbitrator therefore considered that, under the licence agreement, the registration of the patents was a relevant consideration in order to establish the existence of a commercial purpose for concluding the agreement at issue, even if the question of the validity of the patents was not. He pointed out that a patent dispute could last for years, as evidenced by the parallel disputes in the United States, and incur considerable costs.[13] A company such as Genentech therefore had an interest in concluding such an agreement.

AG19 Consequently, the sole arbitrator held that any payments made under the licence agreement could not be reclaimed and any payments due thereunder remained due where the patent had been revoked or was not infringed by the licensee's activity.[14] Since the commercial purpose of the licence agreement was to avert all patent litigation, he took the view that the ultimate outcome of the patent proceedings did not require the licensor to refund the royalties received if the patent was found to be invalid. Nor did it release the licensee from its obligation to pay those royalties if, as in Genentech's case, it had withheld them.

AG20 On the basis of the foregoing considerations, the sole arbitrator held that, under the licence agreement, Genentech was required to pay Hoechst and Sanofi-Aventis the running royalties on the sales of Rituxan®manufactured between 15 December 1998 (when patent US 522 was issued) and 28 October 2008 (when the licence agreement was terminated).[15]

[8] See para.114 of the third partial award.
[9] See para.299 of the third partial award.
[10] The sole arbitrator considered that, under German law, which applies to the licence agreement, contracts should be interpreted not only on the basis of their wording, but also on the basis of their genesis, their systematic context and their commercial purpose (see, to that effect, para.255 of the third partial award). He found that the commercial reason that led the parties to enter into the licence agreement was that, when the agreement was concluded, Behringwerke had a patented invention (namely patent EP 177) which Genentech wished to make commercial use of without running the risk of infringing the patent (see, to that effect, para.258 of the third partial award). According to the sole arbitrator, the question of the validity of the patent was not relevant under German law, which recognises the contractual right to royalty payments in a licence agreement even if the patent at issue is ultimately revoked. He held that, pursuant to German law, a person could also grant a licence in respect of an invention that was not patented or not patentable (see, to that effect, para.292 of the third partial award).
[11] See, to that effect, para.307 of the third partial award.
[12] See para.308 of the third partial award.
[13] See para.313 of the third partial award.
[14] See para.314 of the third partial award.
[15] See, to that effect, para.161 and point 1 of the operative part of the third partial award.

AG21 He also ordered Genentech to pay Hoechst and Sanofi-Aventis €391,420.36 plus USD 293,565.27 (around €260,000) in respect of their representation costs for the period between 9 June 2011 and 5 September 2012.

AG22 Lastly, he reserved the decisions on the assessment of the quantum of the royalties owed, on the arbitration costs and on other representation costs for the final award.

AG23 On 25 February 2013, the sole arbitrator issued his final award in which he ordered Genentech to pay Hoechst €108,322,850 plus simple interest in respect of damages, €211,250 in respect of arbitration costs, and €634,649.88 plus USD 555,907.23 (around €490,778) in respect of representation costs.[16]

AG24 In para.219 of the final award, the sole arbitrator finds that, late on in the proceedings, Genentech argued that:

> "Hoechst's efforts to interpret [the licence agreement] so as to enable it to recover running royalties without taking account of whether or not the supposedly licensed products [were] covered by the licensed patents infringed the *antitrust rules of the European Union*."

AG25 In this connection, the sole arbitrator held that:

> "Genentech [had] not explain[ed] *how* [EU competition law would be] infringed … [were it to lose] this arbitration. German licence law permits licence agreements for the purpose of using non-patented know-how and may provide for royalties to that end. This cannot be altered by claiming — without providing any further arguments — that the licence infringes [EU competition law].[17]"

AG26 Genentech brought an action before the Cour d'Appel de Paris (Court of Appeal, Paris) under arts 1518 and 1520 of the Code of Civil Procedure seeking annulment of the third partial award, the final award and the addendum.

AG27 By order of 3 October 2013, la Cour d'Appel de Paris (Court of Appeal, Paris) dismissed Genentech's application for joinder of the actions for annulment of the third partial award, the final award and the addendum.

AG28 In the context of the proceedings for annulment of the third partial award, the Cour d'Appel de Paris (Court of Appeal, Paris) questions whether the licence agreement is compatible with art.101 TFEU. It observes that the sole arbitrator considered that, during the period of validity of the licence agreement, the licensee was bound to pay the royalties stipulated in the contract even though the revocation of the patent or patents had retroactive effect. It enquires whether such an agreement contravenes the provisions of art.101 TFEU, insofar as it requires the licensee to pay royalties now without cause on account of the revocation of the patent or patents attached to the rights granted and places the licensee at a "competitive disadvantage."

AG29 In those circumstances, the Cour d'Appel de Paris (Court of Appeal, Paris) decided to stay the proceedings and refer the following question to the Court for a preliminary ruling:

[16] These amounts were not altered by the decision and the addendum to the final award issued on 25 February 2013, which concerned the calculation of interest owed by Genentech to Hoechst ("the addendum").
[17] See para.222 of the final award.

"Must the provisions of Article 101 TFEU be interpreted as precluding effect being given, where patents are revoked, to a licence agreement which requires the licensee to pay royalties for the sole use of the rights attached to the licensed patent?"

AG30 By order of 18 November 2015, the Cour de cassation (Court of Cassation) (France) declared inadmissible the appeal lodged by Hoechst and Sanofi-Aventis against the judgment of the Cour d'Appel de Paris (Court of Appeal, Paris) of 23 September 2014 referring a question to the Court for a preliminary ruling.

IV – Procedure before the Court

AG31 This request for a preliminary ruling was lodged at the Court Registry on 9 December 2014. Genentech, Hoechst and Sanofi-Aventis, the French, Spanish and Netherlands Governments and the European Commission submitted written observations.

AG32 Under art.61(1) of the Rules of Procedure of the Court, the parties were invited to answer the Court's questions in writing, which they did on 18 December 2015.

AG33 At the hearing held on 20 January 2016, Genentech, Hoechst and Sanofi-Aventis, the French, Spanish and Netherlands Governments and the Commission made oral submissions.

V – Assessment

A – Admissibility

1. The link between the question referred and the actual facts of the dispute in the main proceedings

AG34 Hoechst and Sanofi-Aventis as well as the French Government submit that the question referred for a preliminary ruling is based on an incorrect factual premiss. Although it concerns the compatibility of the licence agreement with art.101 TFEU "where *patents* are revoked",[18] only patent EP 177 was revoked on 12 January 1999; patents US 522 and US 140 were not.[19] The question referred for a preliminary ruling is therefore devoid of purpose and should be declared inadmissible.

AG35 In my opinion, the fact that the national court refers, in the question raised, to the revocation of "patents" (in the plural) even though only one patent was revoked does not mean that the request for a preliminary ruling is based on an incorrect factual premiss.

AG36 It is clearly apparent from the request for a preliminary ruling that the referring court is well aware of the fact that patents US 522 and US 140 have not been not revoked.

AG37 In that regard, the national court states in p.2 of its request for a preliminary ruling that the technology covered by the licence agreement:

[18] My emphasis.
[19] See point 6 of this Opinion.

> "gave rise to the issue of several patents: European Patent [EP 177] of 22 April 1992, *subsequently revoked* on 12 January 1999 by the European Patent Office for lack of novelty, American Patent [US 520] of 15 December 1998 and American Patent [US 140] of 17 April 2001.[20]"

The national court makes no reference to the revocation of patents US 522 and US 140.

AG38 Furthermore, in p.3 of the request for a preliminary ruling, the national court refers to the judgment of 11 March 2011 of the United States District Court for the Northern District of California which, it submits, "held that Rituxan® did not constitute an infringement of the patents at issue". It follows that the national court is aware of the content of that judgment which also dismissed the action for revocation lodged against patents US 522 and US 140.[21]

AG39 Lastly, even though the sole arbitrator referred in paras 193 and 194 of the third partial award to the revocation of patents US 522 and US 140 by the United States District Court for the Northern District of California, this error does not appear anywhere in the final award. On the contrary, in para.50 of the final award, the sole arbitrator very clearly states that Genentech's action for the revocation of patents US 522 and US 140 was dismissed.

AG40 Whilst it is true that the three actions for annulment brought before the Cour d'Appel de Paris (Court of Appeal, Paris) against the third partial award, the final award and the addendum are not joined,[22] the documents before the Court clearly show that the three actions are related. In its request for a preliminary ruling, the national court itself treats these three judgments as one and the same.[23] It is therefore clear that there is no incorrect factual premiss.

AG41 In any event, the existence or otherwise of the allegedly incorrect factual premiss has no bearing on my proposed answer to the question referred by the national court, which concerns both the revocation of a patent (in this case, patent EP 177) as well as the non-infringement of a patent (in this case, patents US 522 and US 140).

AG42 As the Commission pointed out in its replies to the written questions put by the Court:

> "the sole arbitrator held in the third partial award that the purpose of the [licence] agreement was not to make provision for the reimbursement of royalties or to prevent such royalties being claimed where the patents subsequently proved to be invalid or not infringed. The purpose of the agreement, interpreted in the light of German law and the history of negotiations between the parties, was to protect the user of the patent(s) — namely Genentech — against litigation concerning the patent(s) which could be protracted and costly. Accordingly, the fact that the US patents might be regarded as invalid or not infringed does not alter the extent of Genentech's obligation to pay the royalties."

[20] My emphasis.
[21] See points 13 to 15 of this Opinion.
[22] See point 27 of this Opinion.
[23] See, in particular, Genentech's heads of claim before the national court (reproduced in the request for a preliminary ruling) which seek the annulment of the third partial award, the definitive award and the addendum.

2. The possibility for the Court to give a useful answer to the national court

AG43 Hoechst and Sanofi-Aventis as well as the French Government submit that the Court is unable to give a useful answer to the national court.

AG44 The French Government argues that the request for a preliminary ruling does not set out the matters of fact and law required in the context of the application of art.101 TFEU and, in particular, Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article [101](3) [TFEU] to categories of technology transfer agreements,[24] such as the actual circumstances of the functioning and structure of the market in issue, the nature of the licence agreement as a contract between competitors or a reciprocal agreement, and the aspects of German law applicable to that agreement.

AG45 In my opinion, these arguments must be rejected because I find that, in accordance with the judgment in *Ottung v Klee & Weilbach A/S* (320/87) ECR, EU:C:1989:195; [1990] 4 C.M.L.R. 915, art.101(1) and (2) TFEU do not require the annulment of the third partial award.[25] The exemption regulations[26] mentioned by the French Government apply art.101(3) TFEU to categories of technology transfer agreements and corresponding concerted practices to which only two undertakings are party, *falling within art.101(1) TFEU*. That is not the case here.

AG46 In any event, I do not think that the Court would have sufficient information to conduct such an analysis, if it does not agree with my finding.

AG47 The plea of inadmissibility relating to the application of those exemption regulations could only be upheld if the Court were to disagree with my finding.

3. The power of the national court to refer a question to the Court for a preliminary ruling

AG48 Hoechst and Sanofi-Aventis submit that it is impossible to answer the question referred for a preliminary ruling without infringing French law which prevents international arbitral awards being reviewed as to their substance except where there is a flagrant infringement of international public policy.[27]

AG49 Failing such a flagrant infringement (as in the case of a cartel), Hoechst and Sanofi-Aventis draw a distinction between situations where the question of the compatibility of an agreement between undertakings with art.101 TFEU was not addressed in the international arbitral award, thereby endangering the effectiveness of competition law, and situations where this question was indeed raised in the award. In their opinion, in the second situation which arises in the present case, the answer to the question referred for a preliminary ruling would make it necessary for the national court to review the third partial award as to its substance, since the ground for annulment forming the subject matter of this question was raised and debated before the sole arbitrator.

AG50 I recall that, in the context of the co-operation between the Court and the national courts, as provided for in art.267 TFEU, it is solely for the national court before

[24] Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article [101](3) [TFEU] to categories of technology transfer agreements [2004] OJ L123/11.

[25] See points 84 to 97 of this Opinion.

[26] The legal basis for all three regulations at issue is Council Regulation No 19/65/EEC of 2 March 1965 on application of Article [101](3) [TFEU] to certain categories of agreements and concerted practices ([1965–1966] OJ Spec. Ed. 35–37).

[27] See judgments of the Cour d'Appel de Paris (Court of Appeal, Paris) of 18 November 2004 in *Thalès*, RG No 2002/19606, p. 9, and Civil Chamber One of the Cour de cassation (Court of Cassation) of 4 June 2008 in *Cytec*, No 06-15.320, Bull. civ. I, No 162, p. 4.

which a dispute has been brought, and which must assume responsibility for the subsequent judicial decision, to determine in the light of the particular circumstances of the case pending before it both the need for a preliminary ruling in order to enable it to deliver judgment and the relevance of the questions which it submits to the Court.

AG51 Where questions referred by national courts concern the interpretation of a provision of EU law, the Court is thus bound, in principle, to give a ruling unless it is obvious that the request for a preliminary ruling is in reality designed to induce the Court to give a ruling by means of a fictitious dispute, or to deliver advisory opinions on general or hypothetical questions, or that the interpretation of EU law requested bears no relation to the actual facts of the main action or its purpose, or that the Court does not have before it the factual or legal material necessary to give a useful answer to the questions submitted to it.[28]

AG52 In my opinion, there is no evidence to suggest that the question referred for a preliminary ruling is hypothetical or that the interpretation of EU law requested bears no relation to the actual facts or purpose of the main action pending before the national court, which concerns art.101 TFEU. Furthermore, I consider that the Court has before it the factual and legal material necessary to give a useful answer to the question referred.

AG53 I also note, purely for information, that the Cour de cassation (Court of Cassation) declared inadmissible the appeal lodged by Hoechst and Sanofi-Aventis against the judgment of the Cour d'Appel de Paris (Court of Appeal, Paris) of 23 September 2014 referring the present question to the Court for a preliminary ruling.

AG54 Consequently, the question referred for a preliminary ruling is admissible and must be answered.

B – Substance

1. The scope of the review of international arbitral awards in the light of European public policy rules

AG55 In its written observations, the French Government recalls that, in [32] of the judgment in *Eco Swiss* (C-126/97), the Court held that the review by Member States' courts of international arbitral awards raising questions of EU law may be "more or less extensive depending on the circumstances", according to the rules adopted by the Member States within the framework of their procedural autonomy. On that basis, the French Government submits that the rules of French law under which the French courts are unable to review international arbitral awards as to their substance and are confined, in the context of an action for annulment of an international arbitral award such as that at issue in the present case, to examining "flagrant" infringements[29] of international public policy, are consistent with the principle of effectiveness laid down in EU law.

AG56 Hoechst and Sanofi-Aventis submit[30] that, even though, in its judgment in *Eco Swiss*, the Court held that a national court hearing an action for annulment of an international arbitral award was required, in accordance with its internal rules of

[28] See order in *EBS Le Relais Nord-Pas-de-Calais* (C-240/12) EU:C:2013:173 at [12] and the case law cited.

[29] See judgment of Civil Chamber One of the Cour de cassation (Court of Cassation) of 4 June 2008 in *Cytec*, No 06-15.320, Bull. civ. I, No 162, p. 4.

[30] See points 48 and 49 of this Opinion.

procedure, to uphold an action for annulment based on an infringement of art.101 TFEU, the French rules of procedure at issue prevent any review of international arbitral awards as to their substance and limit the scope of that review to cases of "flagrant" infringements.[31]

AG57 According to Hoechst and Sanofi-Aventis, since the question of the possible incompatibility of the licence agreement with art.101 TFEU was raised and debated before the sole arbitrator and was rejected by him, it is impossible to answer the question referred for a preliminary ruling without reviewing the third partial award as to its substance, insofar as a licence agreement such as that at issue in this case cannot constitute a restriction by object under art.101 TFEU and cannot, therefore, constitute a flagrant infringement of art.101 TFEU.

AG58 In my opinion, limitations on the scope[32] of the review of international arbitral awards such as those under French law mentioned by Hoechst and Sanofi-Aventis as well as by the French Government—namely the flagrant nature of the infringement of international public policy and the impossibility of reviewing an international arbitral award on the ground of such an infringement where the question of public policy was raised and debated before the arbitral tribunal—are contrary to the principle of effectiveness of EU law.

AG59 Referring to the system for reviewing the compatibility of international arbitral awards with EU law through the public policy reservation, as established by the Court in its judgment in *Eco Swiss*—which concerned, as in this case, an action for annulment of an international arbitral award based on an infringement of public policy and was confirmed by the judgment in *Gazprom* (C-536/13), involving an application for the recognition and enforcement of an international arbitral award disputed on public policy grounds—the Court has held that arbitral tribunals "constituted pursuant to an agreement"[33] are not courts of the Member States within the meaning of art.267 TFEU. Consequently, they cannot refer questions for a preliminary ruling. It is therefore for the courts of the Member States, within the

[31] See judgment of the Cour d'Appel de Paris (Court of Appeal, Paris) of 18 November 2004 in *Thalès*, RG No 2002/19606, p. 9. This approach was confirmed in *Cytec* (judgment of Civil Chamber One of the Cour de cassation (Court of Cassation) of 4 June 2008 in *Cytec*, No 06-15.320, Bull. civ. I, No 162, p. 4). Both cases concerned an infringement of EU competition law.

[32] Since the action for annulment concerns, in accordance with art.1520 of the Code of Civil Procedure, international arbitral awards delivered in France, the subject matter of the review is the international arbitral award itself and not the underlying instrument containing the arbitration clause which gave rise to the arbitration, in this case the licence agreement. It is true that international arbitral awards are not agreements between undertakings within the meaning of art.101 TFEU, but international legal decisions which are not attached to any State legal order and instead fall within the scope of the international arbitral order (see judgment of Civil Chamber One of the Cour de cassation (Court of Cassation) of 8 July 2015 in *Ryanair*, No 13-25.846, FR:CCASS:2015:C100797; also see, to that effect, judgments of Civil Chamber One of the Cour de cassation (Court of Cassation) of 23 March 1994 in *Hilmarton Ltd*, No 92-15137, Bull. civ. I, No 104, p. 79, and 29 June 2007 in *PT Putrabali Adyamulia*, No 05-18053, Bull. civ. I, No 250). However, the judgment in *Eco Swiss China Time Ltd v Benetton International NV* (C-126/97) EU:C:1999:269; [2000] 5 C.M.L.R. 816 clearly shows that an international arbitral award must be annulled where it gives effect to an agreement between undertakings which infringes art.101 TFEU, even if the award itself does not constitute an agreement between undertakings. Otherwise, the parties could put anti-competitive agreements beyond the reach of art.101 TFEU by inserting arbitration clauses in those agreements.

[33] See judgment in *Eco Swiss* (at [34]). I use this term to avoid confusion with some arbitral tribunals which the Court has found fulfil the criteria laid down in the case-law in order to be able to refer a question for a preliminary ruling (see judgment in *Ascendi Beiras Litoral e Alta, Auto Estradas das Beiras Litoral e Alta SA v Autoridade Tributaria e Aduaneira* (C-377/13) EU:C:2014:1754, and order in *Merck Canada Inc v Accord Healthcare Ltd* (C-555/13) EU:C:2014:92). Based on this case law, the arbitral tribunals hearing cases within the framework of the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (ICSID) could be regarded as being able to refer questions to the Court for a preliminary ruling. See, to that effect, Basedow, J., 'EU Law in International Arbitration: Referrals to the European Court of Justice' (2015) 32 *Journal of International Arbitration* 367 at 376–381. Since the number and size of investment arbitrations raising questions on the application of EU law are increasing, particularly in the field of State aid, the possibility for arbitral tribunals to refer questions for a preliminary ruling could help to ensure the correct and effective implementation of EU law.

meaning of art.267 TFEU, to examine, if necessary by referring a question for a preliminary ruling,[34] the compatibility of (international or domestic) arbitral awards with EU law where an action is brought before them for annulment[35] or enforcement,[36] or where any other form of action or review is sought under the relevant national legislation.

AG60 In other words, the system for reviewing the compatibility of international arbitral awards with substantive EU law through the public policy reservation, whether in the context of an action against recognition and enforcement or an action for annulment, shifts responsibility for the review downstream, namely to the courts of the Member States, rather than upstream, to arbitral tribunals.[37]

AG61 The task of arbitrators in international commercial arbitration is to interpret and apply the contract binding the parties correctly. In the performance of this task, arbitrators may naturally find it necessary to apply EU law, if it forms part of the law applicable to the contract (*lex contractus*) or the law applicable to the arbitration (*lex arbitri*). However, the responsibility for reviewing compliance with European public policy rules lies with the courts of the Member States and not with arbitrators, whether in the context of an action for annulment or proceedings for recognition and enforcement.[38]

AG62 This system is therefore the opposite of the system of mutual trust established, in particular, by Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters,[39] which entrusts responsibility for ensuring compliance with EU law, applicable to the substance of the dispute, including European public policy rules, to the court hearing the substance of the dispute (the upstream court), and not the downstream court of recognition and enforcement.[40]

AG63 On that basis, I will examine the two limitations imposed by French law.

[34] See judgment in *Eco Swiss* (at [32], [33] and [40]). Also see, to that effect, judgment of the *Högsta domstolen* (Supreme Court, Sweden) of 17 June 2015 in case No T 5767-13, *Systembolaget v The Absolute Company*, para.23.

[35] This is the situation of the national court in the present case as well as the Netherlands courts in the case which gave rise to the judgment in *Eco Swiss*.

[36] This was the situation of the Lithuanian courts in the case which gave rise to the judgment in *Gazprom OAO* (C-536/13) EU:C:2015:316 where the question was whether the international arbitral award at issue was an "anti-suit injunction" contrary to public policy within the meaning of Article V(2)(b) of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, signed in New York on 10 June 1958 (*United Nations Treaty Series*, Vol. 330, p. 3).

[37] There are of course some exceptions, such as, in particular, the upstream involvement of the (State) court of the seat of the arbitration in its capacity as court supporting the arbitration. However, these exceptions are not directed at ensuring compliance with EU law. See, to that effect, judgment in *Mark Rich & Co AG v Societa Italiana Impianti SpA* (C-190/89) EU:C:1991:319 which concerned the constitution of an arbitral tribunal.

[38] The situation may be different in the case of international investment arbitrations where some rules, such as the ICSID convention, do not make any provision allowing the courts of the Member States to review the compatibility of international arbitral awards with European public policy (see, in particular, arts 53 and 54 of that convention). However, insofar as these legal rules, such as the ICSID convention, are binding on Member States vis-à-vis third countries, they fall within the ambit of art.351 TFEU. A conflict between the international arbitral order and the EU legal order could be averted if arbitral tribunals were able to submit questions to the Court for a preliminary ruling (see fn.34).

[39] Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters [2012] OJ L351/1.

[40] See, to that effect, [33] of the judgment in *Regie Nationale des Usines Renault SA v Maxicar SpA* (C-38/98) EU:C:2000:225 where the Court held that "the court of the State in which enforcement is sought cannot, without undermining the aim of the Convention, refuse recognition of a decision emanating from another Contracting State solely on the ground that it considers that national or [EU] law was misapplied in that decision. On the contrary, it must be considered whether, in such cases, the system of legal remedies in each Contracting State, together with the preliminary ruling procedure provided for in Article [267 TFEU], affords a sufficient guarantee to individuals". The Court went on to hold in [34] of its judgment that '… an error of law such as that alleged in the main proceedings does not constitute a manifest breach of a rule of law regarded as essential in the legal order of the State in which enforcement is sought".

a) The flagrant or manifest nature of the infringement of public policy

AG64 If the review of an international arbitral award in the light of European public policy rules (which cover only a very narrow category of rules in the EU legal order) had to be limited to manifest or flagrant infringements of art.101 TFEU, this review would be illusory since agreements or practices liable to restrict or distort competition are "frequently covert",[41] which would, in many cases, make it impossible (or excessively difficult) for individuals to exercise the rights conferred on them by EU competition law.

AG65 As Hoechst and Sanofi-Aventis conceded in para.21 of their written observations, along with their legal expert in para.5 of her opinion,[42] the effect of this extremely limited review would be that it would cover only "the most obvious infringements [of art.101 TFEU, such as price-fixing or market-sharing agreements". Restrictions by effect would therefore completely evade review by the courts hearing actions for annulment, since a finding that such restrictions exist would require more than a token examination of the substance of the arbitral award, which the French courts are unable to do.

AG66 Even if there were a scale of infringements of art.101 TFEU based on their obviousness and harmfulness including, in particular, restrictions by object and by effect,[43] there is nothing in art.101 TFEU to support the conclusion that these restrictions would be permissible. Indeed, art.101 TFEU expressly prohibits agreements between undertakings "*which have as their object or effect*"[44] the restriction of competition. Accordingly, either there is an infringement of art.101 TFEU, in which case the agreement between undertakings at issue is automatically void, or there is no infringement at all.

AG67 Consequently, it makes no difference whether the infringement of the public policy rule was flagrant or not. No system can accept infringements of its most fundamental rules making up its public policy, irrespective of whether or not those infringements are flagrant or obvious.

b) The impossibility of reviewing an international arbitral award on the ground of infringement of public policy where the question was raised and debated before the arbitral tribunal, because this would entail a review of the award as to its substance

AG68 In [36] of its judgment in *Eco Swiss*, the Court held that art.101 TFEU (formerly art.81 EC) constituted:

> "a fundamental provision which is essential for the accomplishment of the tasks entrusted to the [EU] and, in particular, for the functioning of the internal market.[45]"

[41] Judgment in *Courage Ltd v Crehan* (C-453/99) EU:C:2001:465; [2001] 5 C.M.L.R. 28 at [27]).
[42] Professor Laurence Idot acknowledges that her line of argument would result in the situation whereby, "except in exceptional cases where an award gives effect to, for example, a cartel, the State court [could] no longer, when hearing an action contesting the award, debate the substantive question of competition law if it had been raised and debated before the arbitral tribunal".
[43] See judgment in *Groupement des cartes bancaires (CB) v European Commission* (C-67/13 P) EU:C:2014:2204; [2014] 5 C.M.L.R. 22 at [48] to [52]).
[44] My emphasis.
[45] The Court based this finding on art.3(g) of the EC Treaty (currently art.3(1)(b) TFEU. As I explained in point 182 of my Opinion in *Gazprom*, "I do not agree that the [judgment] in *Eco Swiss* (C-126/97, EU:C:1999:269, paragraph 36) … should be interpreted in such a way that the mere fact that a particular sphere forms part of the exclusive or shared powers of the European Union in accordance with Articles 3 TFEU and 4 TFEU is sufficient to raise a provision

AG69 In addition, in [37] of the judgment in *Gazprom*, the Court held that the principle of mutual trust is not binding on arbitral tribunals.[46] This means that the courts of the Member States are not bound to comply with the answers to questions concerning EU law given by arbitral tribunals, which are not courts of the Member States within the meaning of art.267 TFEU.

AG70 Consequently, if art.101 TFEU is a provision of fundamental importance to the EU legal order, the fact that the parties may have raised and debated the question of the incompatibility of the arbitral award with this provision before the arbitral tribunal cannot be decisive. This is because the conduct of the parties during the arbitration proceedings could have the effect of undermining the effectiveness of that article, since the arbitral tribunal is unable in principle[47] to submit a question to the Court for a preliminary ruling and is not necessarily tasked with interpreting and applying EU law.

AG71 For these reasons, the review by a court of a Member State of whether international arbitral awards are contrary to European public policy rules cannot be conditioned by whether or not this question was raised or debated during the arbitration proceedings, nor can it be limited by the prohibition under national law preventing the substance of the award in issue from being reconsidered.

AG72 Put another way, one or more parties to agreements which might be regarded as anti-competitive cannot put these agreements beyond the reach of review under arts 101 TFEU and 102 TFEU by resorting to arbitration.

2. Does Article 101(1) TFEU require the annulment of an international arbitral award such as that at issue in the main proceedings which gives effect to a patent licence agreement providing for the payment of royalties for the entire duration of the agreement, even in the event of the revocation with retroactive effect of a patent covering the technology concerned (in this case, patent EP 177) or where the use of the technology at issue does not entail any infringement (patents US 522 and US 140)?

a) Preliminary remarks

AG73 It is apparent from reading the third partial award and the sole arbitrator's interpretation of the licence agreement that Genentech's obligation to pay running royalties to Hoechst and Sanofi-Aventis, calculated on the basis of their production

of EU law to the rank of public-policy provisions. If that were the case, EU law in its entirety, from the Charter of Fundamental Rights to a directive on pressurised equipment, would be a matter of public policy …". In point 177 of that Opinion, I explained, by citing [304] of the judgment in *Kadi v Council of the European Union* (C-402/05 P and C-415/05 P) EU:C:2008:461; [2008] 3 C.M.L.R. 41), that the notion of European public policy could only cover "principles that form part of the very foundations of the [EU] legal order" to the point that their "*breach ... cannot be tolerated* … because such a breach would be unacceptable from the viewpoint of a free and democratic State governed by the rule of law". These are therefore "mandatory rule[s] which [are] so *fundamental* to the [EU] legal order that [they] cannot be subject to any derogation whatsoever in the context of the case at issue (see point 100 of my Opinion in *Bogendorff von Wolffersdorff v Standesamt der Stadt Karlsruhe and Zentraler Juristischer Dienst der Stadt Karlsruhe* (C-438/14) EU:C:2016:11. Articles 101 TFEU and 102 TFEU are, in that sense, fundamental provisions which are essential for the functioning of the internal market, without which the European Union would not function and the breach of which, whether or not flagrant or obvious, would be unacceptable from the standpoint of the EU legal order.

[46] Also see, to that effect, point 154 of my Opinion in *Gazprom*.

[47] See judgment in *Ascendi Beiras Litoral e Alta*and order in *Merck Canada*. In the present case, the sole arbitrator is not a "court or tribunal of a Member State" within the meaning of this case-law because his jurisdiction is not binding and is instead the result of a contractual choice freely made by the parties to the licence agreement which gave rise to the arbitral awards at issue in the main proceedings.

of medicinal products using the technology of the enhancer, was not conditional on that technology being or remaining patent protected.[48]

AG74 According to the third partial award, the mere use of the technology at issue during the term of the licence agreement was sufficient to trigger the obligation to pay running royalties.[49]

AG75 In this respect, it is not for the Court to review or call in question the findings of the sole arbitrator and his interpretation of the licence agreement under German law, according to which the licence agreement required royalties to be paid notwithstanding the revocation or non-infringement of one or more patents.

AG76 Furthermore, the national court's question only concerns the interpretation of art.101 TFEU, rendering Genentech's references to the judgment in *Huawei Technologies* (C-170/13) EU:C:2014:2391 and to some passages of my Opinion[50] in that case, which relate exclusively to art.102 TFEU, pointless.

b) Arguments of the parties

AG77 For Genentech, the obligation imposed by the third partial award to pay the running royalties at issue where the patent is revoked or where there is no infringement of a licensed patent not only significantly affects trade between Member States, but also constitutes a restriction on competition by both object and effect.

AG78 As regards the effect on trade between Member States, Genentech maintains that, on 2 June 1998, the Commission granted EU-wide marketing authorisation for MabThera® under Council Regulation (EEC) No 2309/93 of 22 July 1993 laying down Community procedures for the authorisation and supervision of medicinal products for human and veterinary use and establishing a European Agency for the Evaluation of Medicinal Products.[51] According to Genentech, during the relevant period (1998 to 2008), it manufactured "rituximab" with a view to it being marketed in different Member States, mainly the Federal Republic of Germany, the Kingdom of Spain, the French Republic, the Italian Republic and the United Kingdom of Great Britain and Northern Ireland. It notes that the royalties awarded by the sole arbitrator were calculated on the basis of net worldwide sales of finished products for the period between 1998 and 2008 and that, in view of the high volume of sales in the European Union during the relevant period, the restriction on competition resulting from the payment ordered by the sole arbitrator directly affects trade between Member States.

[48] In their replies to the written questions put by the Court, Genentech, Hoechst and Sanofi-Aventis, the French Government and the Commission submit that the third partial award does not concern patent EP 177. The Commission argues that the two US patents (patents US 522 and US 140) are not much more relevant to the third partial award. It contends that, under the law applicable to the licence agreement, namely German law, the revocation or annulment of a patent under licence does not affect the obligation to pay royalties, adding that a licence may be granted under German law even for a technology which is not patented or not patentable. Hoechst and Sanofi-Aventis state that it is clearly apparent from the third partial award that the sole arbitrator ordered Genentech to pay the royalties owed to Sanofi based exclusively on the fact that Genentech used the enhancer forming the subject matter of the licence agreement to manufacture Rituxan® in the United States.

[49] It is not disputed that, according to the US courts, patents US 522 and US 140 are not infringed. The sole arbitrator also found in paras 322 to 330 of the third partial award that the enhancer had been used to manufacture Rituxan® between 15 December 1998 and 27 October 2008. See point 16 of this Opinion.

[50] *Huawei Technologies Co Ltd v ZTE Corp* (C-170/13) EU:C:2014:2391; [2015] 5 C.M.L.R. 14.

[51] Council Regulation (EEC) No 2309/93 of 22 July 1993 laying down Community procedures for the authorisation and supervision of medicinal products for human and veterinary use and establishing a European Agency for the Evaluation of Medicinal Products [1993] OJ L214/1.

AG79 Genentech also explains that it is at a competitive disadvantage on the market, since it is required to pay for the use of a technology which its competitors can take advantage of freely and without charge.

AG80 Furthermore, Genentech submits that Hoechst and Sanofi-Aventis were rewarded and unjustly enriched by receiving[52] running royalties in respect of scientific and technological discoveries to which they contributed nothing. It claims that the international arbitration awards at issue in the main proceedings enabled Hoechst and Sanofi-Aventis to "tax" their competitors and impose a financial burden on the pharmaceutical industry in general and on Genentech and its subsidiaries in particular, which pursue their business both in Europe and in the rest of the world, in contravention of EU competition law.

AG81 As regards competition in the strict sense, Genentech claims that Sanofi-Aventis is the second largest pharmaceutical group in Europe in terms of revenue for prescription medicines and is involved in research and development as well as the manufacture of medicinal products in several therapeutic areas. It also states that Sanofi-Aventis is one of the main competitors of Roche (which currently wholly owns Genentech) in the research-based field of the pharmaceutical industry.

AG82 By contrast, Hoechst and Sanofi-Aventis argue that the arbitral awards disputed by Genentech have only a very weak link to the European Union.

AG83 They also submit that the royalties owed by Genentech do not derive from any European patent and that the international arbitral awards in dispute do not have even the slightest impact on Genentech's sales. Furthermore, they claim that the sole arbitrator ruled on the single question whether Genentech was contractually bound to pay the royalties provided for in the licence agreement and that the royalties awarded to Hoechst and Sanofi-Aventis in the final award were calculated on the basis of worldwide sales of Rituxan®, only 17 per cent of which related to the European Union, corresponding to approximately €18 million during the period at issue between 1998 and 2008.

c) Assessment

AG84 Concerning the assessment of the effect on trade between Member States, I concur with the Commission's observations in its replies to the written questions put by the Court that it is for the national court to determine whether, in the light of the characteristics of the market at issue, it is sufficiently likely that the obligation to pay royalties, in compliance with the final award and under the licence agreement, exerts a direct or indirect, actual or potential influence on the movement of trade between the Member States, and that this influence is not insignificant.[53]

[52] By order of 3 October 2013, the cour d'appel de Paris (Court of Appeal, Paris) granted leave to enforce the third partial award, the final award and the addendum. The orders and rulings have therefore been enforced.

[53] According to the Commission, there are factors which suggest that the obligation to pay the royalties at issue may have such an influence. "First, the geographic scope of the licence agreement is worldwide and thus includes the whole of the European Union … Secondly, the licence agreement relates to a technology which, in the [sole] arbitrator's opinion, was used to manufacture rituximab, the active ingredient of the medicinal product MabThera® marketed in the European Union. Thirdly, MabThera® was the subject of marketing authorisation … under Article 3 of [Regulation (EEC) No 2309/93]. Fourthly, it appears that Genentech marketed MabThera® in at least Germany, France and Italy. Fifthly, it appears that Sanofi and [Genentech, now part of the Roche group,] are major competitors in the field of pharmaceutical research and, in particular, are potential competitors within the sphere of action of Rituxan® (and MabThera®). Sixthly, the obligation to pay royalties may add to Genentech's manufacturing costs and have the effect of reducing competition on existing product and technology markets, particularly within the sphere of action of MabThera®. Seventhly, it appears that Rituxan® and MabThera® generate turnover in excess of one billion euros, enabling them to be regarded as 'blockbuster' medicinal products."

AG85 As regards the restriction on competition, the question here is not whether Genentech was commercially disadvantaged by the sole arbitrator's interpretation of the licence agreement or whether, with the (indisputable) benefit of hindsight, it would not have entered into such an agreement.[54] The aim of art.101 TFEU is not to regulate commercial relations between undertakings in a general way, but rather to prohibit some types of agreements between them which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market.

AG86 In addition, in its judgment in *Ottung*, the Court examined in the light of competition law a contractual obligation under which the licensee of a patented invention was required to pay a royalty for an indeterminate period, and thus even after the expiry of the patent.

AG87 In [11] and [12] of the judgment, the Court held:

> "The possibility cannot be ruled out that the reason for the inclusion in a licensing agreement of a clause imposing an obligation to pay royalty *may be unconnected with a patent*. Such a clause may instead reflect *a commercial assessment* of the value to be attributed to the possibilities of exploitation granted by the licensing agreement …
> Where the obligation to pay royalty was entered into for an indeterminate period and thus purports to bind the licensee even after the expiry of the patent concerned, the question arises whether, having regard to the economic and legal context of the licensing agreement, the obligation to continue to pay royalty might constitute a restriction of competition of the kind referred to in Article [101](1)."[55]

AG88 According to the Court, the obligation at issue may infringe art.101(1) TFEU where the licence agreement either does not grant the licensee the right to terminate the agreement by giving reasonable notice or seeks to restrict the licensee's freedom of action after termination.[56]

AG89 Although it is true that that judgment covered slightly different economic and legal circumstances from those at issue in the main proceedings,[57] I consider that the case-law can be applied to the present case by analogy.

[54] As Hoechst and Sanofi-Aventis observed in their replies to the written questions put by the Court, "the mere fact that the payment of contractual royalties owed under the licence agreement may possibly constitute a financial burden for the licensee, in this case Genentech, is not sufficient to characterise a restriction on competition. Such a burden simply illustrates the commercial nature of the licence agreement, which was concluded with complete knowledge of the facts by fully informed commercial undertakings of equal strength, and which — as with all other commercial agreements — may turn out to be commercially less advantageous than initially envisaged by one of the parties".
[55] My emphasis.
[56] See judgment in *Ottung* (at [13]). Genentech considers that the Commission, in its decision of 2 December 1975 relating to a proceeding under Article [101 TFEU] (IV/26.949 —*AOIP v Beyrard*) ([1976] OJ L6/8), "stated that there is a restriction on competition where a clause of a licensed patent agreement 'provides for the payment of royalties to the licensor whether or not the licensor's patents are exploited'. According to the Commission …, a clause such as this in a licence agreement 'is also incompatible with Article [101](1), in the same way as the obligation to pay royalties *after the expiration of a patent*'" (my emphasis). Genentech's observations concern a clause which requires a licensee to pay royalties where it manufactures the products referred to in the agreement without using the licensor's patents. In that decision, the Commission found that the clause had a restrictive effect on competition because it provided for the payment of royalties to the licensor whether or not the licensor's patents were exploited. It considered that the clause at issue, like other clauses laying down an obligation to pay royalties after the expiry of a patent, was incompatible with art.101(1) TFEU. It should be noted that the Commission, like the Court in [13] of its judgment in *Ottung*, pointed out that "the obligation to pay royalties after the expiration of the … patent … constitutes … an infringement of Article [101]*because the licensee does not have the right to terminate the agreement*" (my emphasis).
[57] The present case concerns the revocation or non-infringement of patents while the case giving rise to the judgment in *Ottung* concerned the expiry of patents.

AG90 The third partial award confirms the fact that Genentech's obligation to pay royalties flowed not from the use of a technology protected by valid patents, but from the licence agreement alone.[58] The sole arbitrator's interpretation of the licence agreement under German law clearly shows that the commercial purpose of the agreement was to enable Genentech to use the enhancer at issue while averting patent litigation. Since Genentech, unlike other users of the enhancer who did not conclude a licence agreement with Hoechst and Sanofi-Aventis, actually benefited from this "temporary truce"[59] for the duration of the licence agreement, the payments for using the enhancer, owed by Genentech under the agreement, were not reimbursable notwithstanding the absence of infringement or the revocation of the patents at issue.

AG91 Furthermore, the obligation to pay royalties was stipulated to last only for the duration of the validity of the licence agreement and Genentech was freely able to terminate it by giving very short notice of two months.[60] As soon as the licence agreement was terminated, Genentech was therefore in exactly the same position as all other users of the enhancer at issue.[61]

AG92 I also note that Genentech's freedom of action was not restricted in any way during the period after termination and it was not subject to any clause preventing it from challenging the validity or the infringement of the patents at issue. Indeed, following the termination of the licence agreement, Genentech brought proceedings to revoke the patents before the United States District Court for the Northern District of California.

AG93 Genentech nevertheless submits that the judgment in *Windsurfing International v Commission of the European Communities* (193/83, EU:C:1986:75) demonstrates that art.101(1) TFEU is infringed if the holder of a patent licence is required to pay royalties calculated on the basis of the net selling price of a product which is not covered by the patent.

AG94 In that judgment, the Court held that, in principle, this method of calculating royalties based on the net selling price of a complete sailboard was of such a nature as to restrict competition with regard to boards which were not covered by a patent.[62] The Court noted, in [65] of its judgment, that the demand for rigs and for boards was separate.

AG95 However, in that judgment the patent holder had, by means of the clause at issue and in contravention of art.101(1)(e) TFEU, made the conclusion of the agreement conditional on the acceptance, by its partner, of supplementary obligations[63] which, by their nature or according to commercial usage, had no connection with the subject matter of the agreement. In the main proceedings, there is no evidence to suggest that the enforcement of the third partial award would have had the effect

[58] According to Hoechst and Sanofi-Aventis, the national laws of several Member States provide that, where a patent is revoked, the licensee is entitled to stop paying royalties in the future, but cannot demand reimbursement of royalties already paid.
[59] See para.315 of the third partial award.
[60] In the case giving rise to the judgment in *Ottung*, the notice period was six months expiring on 1 October of each year.
[61] By contrast, as the Commission submits in its observations, "an obligation to continue to pay royalties, without it being possible to terminate the agreement by giving reasonable notice, would add to the licensee's manufacturing costs without economic justification and would have the effect of reducing competition on the existing product and technology markets and deterring the licensee from investing in the development and improvement of its technology".
[62] See judgment in *Windsurfing International Inc v Commission of the European Communities* (193/83) EU:C:1986:75 at [67].
[63] The relevant clause of the licence agreement required the licensees to pay royalties for sailboard rigs manufactured under a patent only covering rigs based on the selling price of a complete sailboard, which was made up of rigs and boards, the latter not being covered by the patent.

of imposing obligations on Genentech which, by their nature or according to commercial usage, would have had no connection with the subject matter of the licence agreement.

AG96 According to the sole arbitrator, the commercial purpose of the licence agreement was to avert patent litigation and, in consequence, the calculation of royalties was wholly independent of the existence or otherwise of a valid patent over the finished product.

AG97 Consequently, I consider that art.101 TFEU does not preclude effect being given, in the event of revocation or non-infringement of patents protecting a technology, to a licence agreement which requires the licensee to pay royalties for the sole use of the rights attached to the licensed patents where, first, the commercial purpose of the agreement is to enable the licensee to use the technology at issue while averting patent litigation and, secondly, the licensee may terminate the licence agreement by giving reasonable notice, even in the event of revocation or non-infringement.

3. Applicability of the exemption regulations on technology transfer

AG98 Genentech, Hoechst, Sanofi-Aventis, the Netherlands Government and the Commission filed observations on the application of the provisions of Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.[64]

AG99 By contrast, the French Government submits that, since the question referred for a preliminary ruling concerns the implementation of the licence agreement between 15 December 1998 and 27 October 2008, Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article [101](3) [TFEU] to certain categories of technology transfer agreements[65] and Regulation 772/2004 should be applied for the period at issue.

AG100 In my opinion, it is not appropriate to examine the applicability of these three "exemption" regulations in the present case.

AG101 Besides the fact that the Court does not have sufficient information in order to conduct such an analysis, there is no need to do so because I consider that, in accordance with the judgment in *Ottung*, art.101(1) and (2) TFEU does not require the annulment of the third partial award. I note that these exemption regulations apply art.101(3) TFEU[66] to categories of technology transfer agreements and corresponding concerted practices to which only two undertakings are party, *falling within art.101(1) TFEU.*.

AG102 I also consider, for the sake of completeness, that it is necessary to reject Genentech's observations that its obligation, in compliance with the third partial award, to pay royalties on the basis of all sales of MabThera®constitutes a hardcore restriction under art.4(1)(a) and (d) of Regulation 316/2014

AG103 The documents before the Court do not show that the object or effect of the licence agreement and the third partial award is to restrict Genentech's ability to

[64] Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements [2014] OJ L93/17.
[65] Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article [101](3) [TFEU] to certain categories of technology transfer agreements [1996] OJ L31/2.
[66] The three regulations at issue all have Regulation 19/65 as their legal basis.

determine its prices when selling products to third parties[67] or to restrict its ability "to exploit its own technology rights" or "to carry out research and development".[68]

VI – Conclusion

AG104 I therefore propose that the Court should give the following answer to the questions referred for a preliminary ruling by the Cour d'Appel de Paris (Court of Appeal, Paris):

> Article 101 TFEU does not require, in the event of revocation or non-infringement of patents protecting a technology, the annulment of an international arbitral award giving effect to a licence agreement which obliges the licensee to pay royalties for the sole use of the rights attached to the licensed patents where the commercial purpose of the agreement is to enable the licensee to use the technology at issue while averting patent litigation, provided that the licensee is able to terminate the licence agreement by giving reasonable notice, is able to challenge the validity or infringement of the patents, and retains his freedom of action after termination.

JUDGMENT

1 This request for a preliminary ruling concerns the interpretation of art.101 TFEU.

2 The request was made in the context of proceedings between, on the one hand, Genentech Inc. and, on the other, Hoechst GmbH and Sanofi-Aventis Deutschland GmbH concerning the annulment of an arbitration award relating to the performance of a licence agreement concerning rights derived from patents.

The dispute in the main proceedings and the question referred for a preliminary ruling

3 On 6 August 1992, Behringwerke AG granted a worldwide non-exclusive licence to Genentech ("the licence agreement") for the use of a human cytomegalovirus enhancer ("the HCMV enhancer"). This technology was the subject of European Patent No EP 0173 177 53, issued on 22 April 1992 and revoked on 12 January 1999, as well as of two patents, US 522 and US 140, issued in the United States on 15 December 1998 and 17 April 2001 respectively.

4 Genentech used the HCMV enhancer to facilitate the transcription of a deoxyribonucleic acid (DNA) sequence necessary for production of a biological medicinal product containing the active ingredient rituximab. Genentech markets that medicinal product, in the US, under the trade name Rituxan and, in the European Union, under the trade name MabThera.

5 The licence agreement was governed by German law.

6 Under art.3.1 of that licence agreement, Genentech undertook to pay, as consideration for the right to use the HCMV enhancer:

- a one-off fee of 20,000 Deutschmarks (DM) (approximately €10,225);
- a fixed annual research fee of DM 20,000;

[67] See art.4(1)(a) of Regulation 316/2014 See, to that effect,art.101(1)(a) TFEU.
[68] See art.4(1)(d) of Regulation 316/2014 See, to that effect, art.101(1)(b) TFEU.

– a running royalty equivalent to 0.5 per cent of the net sales of the finished products by the licensee and its affiliated companies and sub-licensees.

7 The licence agreement defines "finished products" as:

> "commercially marketable goods incorporating a licensed product, sold in a form enabling them to be administered to patients for therapeutic purposes or to be used in a diagnostic procedure, and which are not intended or marketed for reformulation, processing, repackaging or relabeling before use."

With regard to "licensed products", these are defined by that agreement as:

> "materials (including organisms) in respect of which the manufacture, use or sale would, in the absence of this agreement, infringe one or more unexpired claims included in the rights attached to the patents under licence."

8 Genentech paid the one-off fee and the annual fee, but never paid the running royalty to Hoechst, the successor company to Behringwerke.

9 On 30 June 2008, Sanofi-Aventis Deutschland, a subsidiary of Hoechst, made enquiries of Genentech as to the finished products which it was marketing without paying the amount of the running royalty.

10 On 27 August 2008, Genentech notified Sanofi-Aventis Deutschland of the decisions to terminate the licence agreement with effect from 28 October 2008.

11 On 24 October 2008, Hoechst, taking the view that Genentech had used the HCMV enhancer without paying the running royalty, initiated arbitration proceedings against it pursuant to the arbitration clause set out in art.11 of the licence agreement.

12 On 27 October 2008, Sanofi-Aventis Deutschland brought an action before the United States District Court for the Eastern District of Texas against Genentech and Biogen Idec Inc. for infringement of the licensed patents. On the same day, Genentech and Biogen brought an action for revocation of those patents before the United States District Court for the Northern District of California. Both of those actions were joined before the latter court, which dismissed them by decision of 11 March 2011.

13 By judgment of 22 March 2012, the United States Court of Appeals for the Federal Circuit dismissed the appeal brought by Sanofi-Aventis Deutschland against that decision.

14 By a third partial award of 5 September 2012 ("the third partial award"), the sole arbitrator held Genentech liable for payment of the running royalty to Hoechst.

15 On 10 December 2012, Genentech brought an action before the Cour d'Appel de Paris (France) (Court of Appeal, Paris, France) seeking annulment of the third partial award.

16 On 25 February 2013, the sole arbitrator issued the final award and fourth partial award on the quantum and the costs, in which Genentech was ordered to pay to Hoechst, in addition to the arbitration and representation costs, the sum of €108,322,850 in damages, plus simple interest. That final award was supplemented by an addendum of 22 May 2013.

17 By order of 3 October 2013, the cour d'appel de Paris (Court of Appeal, Paris) granted leave for enforcement of the third partial award and refused to join Genentech's actions seeking annulment of that third partial award and of the final award of 25 February 2013 and the addendum thereto of 22 May 2013.

18 In the context of the proceedings for annulment of the third partial award, the referring court expresses uncertainty as to whether the licence agreement is compatible with art.101 TFEU. It notes that the sole arbitrator took the view that, during the period of validity of the licence agreement, the licensee was required to pay the royalties stipulated in that agreement even though the revocation of the patents had retroactive effect. The referring court is unsure whether such an agreement contravenes the provisions of art.101 TFEU, insofar as it requires the licensee to pay royalties which no longer serve any purpose because of the revocation of the patents attached to the rights granted and places the licensee at a "competitive disadvantage."

19 In those circumstances, the Cour d'Appel de Paris (Court of Appeal, Paris) decided to stay the proceedings and to refer the following question to the Court for a preliminary ruling:

> "Must the provisions of Article 101 TFEU be interpreted as precluding effect being given, where patents are revoked, to a licence agreement which requires the licensee to pay royalties for the sole use of the rights attached to the licensed patent?"

The question referred for a preliminary ruling

Admissibility

20 Hoechst and Sanofi Aventis Deutschland (hereinafter referred to jointly as "Hoechst") and the French Government argue that the request for a preliminary ruling is inadmissible, a contention which the European Commission disputes.

21 First, Hoechst contends, in essence, that the rules governing the national proceedings do not allow the referring court to ask such a question without being in breach of its own jurisdiction. Hoechst declares that, as a result, it brought an appeal before the Cour de cassation (France) (Court of Cassation, France) against the request for a preliminary ruling.

22 It should, however, be borne in mind, first, that, in the context of art.267 TFEU, the Court has no jurisdiction to rule either on the interpretation of provisions of national laws or national regulations or on their conformity with EU law (see, inter alia, judgment of 11 March 2010 in *Attanasio Group Srl v Comune di Carbognano* (C-384/08) EU:C:2010:133; [2010] 3 C.M.L.R. 6 at [16] and the case law cited) and, secondly, that it is not for the Court to determine whether the decision whereby a matter is brought before it was taken in accordance with the rules of national law governing the organisation of the courts and their procedure (judgments of 14 January 1982 in *Reina v Landskreditbank Baden-Wurttemberg* (65/81) EU:C:1982:6 at [8], and of 23 November 2006 in *ASNEF-EQUIFAX Servicios de Informacion sobre Solvencia y Credito SL v Asociacion de Usuarios de Servicios Bancarios (AUSBANC)* (C-238/05) EU:C:2006:734; [2007] 4 C.M.L.R. 6 at [14]).

23 The Court must abide by the decision from a court of a Member State requesting a preliminary ruling insofar as that decision has not been overturned in any appeal procedures provided for by national law (judgments of 12 February 1974 in *Rheinmühlen-Düsseldorf v Einfuhr– und Vorratsstelle fur Getreide und Futtermittel* (146/73) EU:C:1974:12 at [3], and of 1 December 2005 in *Burtscher v Stauderer* (C-213/04) EU:C:2005:731; [2006] 2 C.M.L.R. 13 at [32]). In the present case, it

is apparent from the evidence produced during the proceedings that, by order of 18 November 2015, the Cour de cassation dismissed the appeal brought by Hoechst against the decision requesting a preliminary ruling, with the result that the view cannot be taken that that decision has been overturned.

24 Secondly, Hoechst submits that no useful answer could be provided to the referring court. It argues that, in the case of an action seeking annulment of an international arbitral award, national courts are not entitled to check how competition issues were decided on by the arbitrator when he has taken the view, in the final award, that there was no breach of art.101 TFEU.

25 The French Government adds that the request for a preliminary ruling does not contain the elements of fact and law necessary to enable a useful answer to be given to the question. In particular, it argues, the decision making the reference does not specify the actual conditions of the functioning and structure of the market or markets at issue. The referring court, in its view, failed to mention certain normative instruments relating to EU competition law, which are nonetheless relevant, or provide any information concerning the German law to which the licence agreement is subject.

26 It must be borne in mind in this regard that, in the context of the cooperation between the Court of Justice and the national courts provided for in art.267 TFEU, it is solely for the national court before which a dispute has been brought, and which must assume responsibility for the subsequent judicial decision, to determine, in the light of the particular circumstances of the case, both the need for a preliminary ruling to enable it to deliver judgment and the relevance of the questions which it submits to the Court. Consequently, where the question put concerns the interpretation of a provision of EU law, the Court is, in principle, bound to give a ruling. The Court may refuse to rule on a question referred by a national court only where it is quite obvious that the interpretation of EU law that is sought bears no relation to the actual facts of the main action or its purpose, where the problem is hypothetical, or where the Court does not have before it the factual or legal material necessary to give a useful answer to the questions submitted to it (judgments of 13 March 2001 in *PreussenElektra AG v Schleswag AG* (C-379/98) EU:C:2001:160; [2001] 2 C.M.L.R. 36 at [38] and [39], and of 22 June 2010 in *Proceedings against Melki* (C-188/10 and C-189/10) EU:C:2010:363; [2011] 3 C.M.L.R. 45 at [27]).

27 In the present case, since the referring court raises the question whether art.101 TFEU precludes the licence agreement from being implemented in accordance with the interpretation which was given to it by the sole arbitrator, it is not entirely obvious that the question referred to the Court as to the interpretation to be given to this provision of the TFEU is irrelevant for the purpose of resolving the dispute in the main proceedings. The order for reference sets out, briefly but precisely, the origin and nature of this dispute, the outcome of which it regards as dependent on the interpretation of art.101 TFEU. It follows that the referring court has adequately defined the factual and legal framework within which it made its request for interpretation of EU law to enable the Court to provide a useful reply to that request.

28 Thirdly, Hoechst and the French Government argue that the question posed by the referring court does not correspond to the facts at issue in the main proceedings, insofar as the US patents, which alone have relevance for the purposes of the main proceedings, have not been revoked.

29 In that regard, it must be noted that the referring court has, admittedly, formulated its question in terms that could be understood as referring to the particular situation

in which the licensee would be required to pay royalties for the use of rights attached to the patents, notwithstanding the revocation of those patents.

30 However, as the Advocate General has observed in point 36 of his Opinion, it is clear from the terms of the request for a preliminary ruling, as reproduced, essentially, in [12] and [13] above, that the referring court is aware that patent US 522, issued on 15 December 1998, and patent US 140, issued on 17 April 2001, which the parties agree are the only patents of relevance for the purposes of the main proceedings, have not been revoked. The reference to the revocation of the patents by the referring court merely repeats that set out in paras 193 and 194 of the third partial award, the wording of which is clearly contradicted both by the rest of that award, in particular paras 51 to 53 thereof, and by the evidence in the file made available to the Court.

31 It follows that the question referred is admissible.

Substance

32 It should be noted at the outset that it is apparent from the file before the Court that Genentech argued during the arbitration proceedings that it was not required to pay the running royalty, since, according to the terms of the licence agreement, the payment of that royalty was based on the supposition, first, that the HCMV enhancer was present in the finished product rituximab and, secondly, that the manufacture or use of that enhancer had, in the absence of that agreement, breached the rights attached to the licensed patents. The sole arbitrator, however, rejected those arguments, which he considered to be based on a literal interpretation of the licence agreement, which was contrary to the parties' commercial objectives, namely to allow Genentech to use the HCMV enhancer for the production of proteins without incurring any risk of an infringement action brought by the holder of the rights to that technology.

33 Similarly, it also follows from the request for a preliminary ruling that, in the main proceedings, Genentech argued that, by requiring it to pay the running royalty in the absence of any infringement, even though, according to the terms of the licence agreement, that royalty was due only for products the manufacture, use or sale of which would, in the absence of that agreement, infringe the licensed patents, the third partial award imposes on it unjustified expenses, in breach of competition law.

34 Consequently, even if, in formal terms, the referring court appears, as has already been stated in [29] above, to have limited its question to the case of a revocation of the patents, that question should be understood as also referring to the case of non-infringement of the licensed patents.

35 In those circumstance, the question raised by the referring court must be understood as asking, in essence, whether art.101(1) TFEU must be interpreted as precluding, under a licence agreement such as that at issue in the main proceedings, the imposition on the licensee of an obligation to pay a royalty for the use of a patented technology for the entire period during which that agreement was in effect, in the event of the revocation or non-infringement of patents protecting that technology.

36 Genentech and the Spanish Government consider that the answer to this question should be in the affirmative. Hoechst, the French Government, the Netherlands Government and the Commission take the opposite view.

37 Genentech claims that the sole arbitrator disregarded the clear terms of the licence agreement and of art.101 TFEU by requiring it to pay royalties on sales of a product which does not infringe the patented technology. Genentech submits that it has been exposed to additional costs of approximately €169 million as compared with its competitors due to that restriction, by object and effect, of art.101 TFEU.

38 In that regard, it must be noted, as the Advocate General observed in point 75 of his Opinion, that it is not for the Court, in the context of the preliminary ruling procedure, to review the findings of the sole arbitrator or his interpretation of the licence agreement carried out in the light of German law, according to which Genentech is required to pay the running royalty fee notwithstanding the revocation or non-infringement of the patents at issue in the main proceedings.

39 It should further be recalled that the Court has already ruled, in the context of an exclusive licence agreement, that the obligation to pay a royalty, even after the expiry of the period of validity of the licensed patent, may reflect a commercial assessment of the value to be attributed to the possibilities of exploitation granted by the licence agreement, especially when that obligation to pay was embodied in a licence agreement entered into before the patent was granted (judgment of 12 May 1989 in *Ottung v Klee & Weilbach A/S* (320/87) ECR, EU:C:1989:195; [1990] 4 C.M.L.R. 915 at [11]). In such circumstances, where the licensee may freely terminate the agreement by giving reasonable notice, an obligation to pay a royalty throughout the validity of the agreement cannot come within the scope of the prohibition set out in art.101(1) TFEU (judgment of 12 May 1989 in *Ottung* at [13]).

40 It thus follows from the judgment of 12 May 1989 in *Ottung*, that art.101(1) TFEU does not prohibit the imposition of a contractual requirement providing for payment of a royalty for the exclusive use of a technology that is no longer covered by a patent, on condition that the licensee is free to terminate the contract. That assessment is based on the finding that that royalty is the price to be paid for commercial exploitation of the licensed technology with the guarantee that the licensor will not exercise its industrial-property rights. As long as the licence agreement at issue is still valid and can be freely terminated by the licensee, the royalty payment is due, even if the industrial-property rights derived from patents which are granted exclusively cannot be used against the licensee due to the fact that the period of their validity has expired. In the light of such circumstances, in particular the fact that the licence may be freely terminated by the licensee, the contention may be rejected that the payment of a royalty undermines competition by restricting the freedom of action of the licensee or by causing market foreclosure effects.

41 That solution, stemming from the judgment of 12 May 1989 in *Ottung*, applies a fortiori in a situation such as that at issue in the main proceedings. If, during the period in which a licence agreement is in effect, the payment of the royalty is still due even after the expiration of industrial property rights, the same applies, a fortiori, before the validity of those rights has expired.

42 The fact that the courts of the State issuing the patents at issue in the main proceedings have held, following the termination of the licence agreement, that Genentech's use of the licensed technology did not infringe the rights derived from those patents has, according to the information provided by the referring court on the German law applicable to that agreement, no effect on the enforceability of the royalty for the period prior to that termination. As a result, since Genentech was

free to terminate the agreement at any time, the obligation to pay the royalty during the period in when that agreement was in effect, during which the rights derived from the licensed patents which had been granted were in force, does not constitute a restriction of competition within the meaning of art.101(1) TFEU.

43 In the light of the foregoing considerations, the answer to the question referred is that art.101(1) TFEU must be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.

Costs

44 Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court. Costs incurred in submitting observations to the Court, other than the costs of those parties, are not recoverable.

R1 On those grounds, the Court (First Chamber) hereby rules:

> Article 101(1) TFEU must be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.

HUAWEI TECHNOLOGIES CO LTD v ZTE CORP, ZTE DEUTSCHLAND GMBH (RE SMARTPHONE STANDARD ESSENTIAL PATENTS)

BEFORE THE COURT OF JUSTICE OF THE EUROPEAN UNION (FIFTH CHAMBER)

(Case C-170/13)

Presiding, von Danwitz, PC; Vajda, Rosas, Juhász and Šváby (Rapporteur) JJ; Wathelet A.G.: July 16, 2015

[2015] 5 C.M.L.R. 14

Abuse of dominant position; EU law; Fair reasonable and non-discriminatory terms; Infringement; Injunctions; Licensing; Mobile telephony; Standard-essential patents; United States

H1 *Anti-competitive practices—abuse of dominance—art.102 TFEU—patented telecommunications technology—standard essential patent—action for patent violation—balance between free competition and protection of intellectual property—art.17(2) of EU Charter of Fundamental Rights—effective judicial protection—art.47 of Charter—objective concept of abuse of dominance—hindering maintenance or growth of competition—recourse to methods different from those governing normal competition—exercise of exclusive right linked to intellectual property—refusal to licence standard essential patent as abuse of dominance—indispensable to manufacturing of competing products—undertaking to licence patent on fair, reasonable and non-discriminatory terms—legitimate expectation of FRAND licensing—legal and factual circumstances of refusal to licence—high level of protection for intellectual property rights—Directive 2004/48—effective enforcement of exclusive rights—obligation to licence patent prior to use—limitation on rights of proprietor of standard essential patent—obligation of prior consultation with alleged violator—obligation to provide written offer for licence on FRAND terms—proprietor best placed to determine FRAND terms—duties to respond diligently to any FRAND licencing offer made—determination of FRAND royalties by independent third parties—residual right to challenge validity and essentiality of patents—action for damages relating to past use not in breach of art.102 TFEU—no direct impact on competition.*

H2 Reference from the *Landgericht Düsseldorf* (Düsseldorf Regional Court), Germany, for a preliminary ruling under art.267 TFEU.

H3 H was a technology company that held a patent in Germany relating to the LTE standard for telecommunications, for which it had undertaken to grant licences to third parties on FRAND terms. Z was a technology company that incorporated H's patented standard within its own technology. Although Z had sought to licence H's patent, no agreement had been concluded. H brought an action for patent violation before the national court, which took the view that the case turned upon whether H might have breached art.102 TFEU by initiating the litigation. It thus made a reference to the Court of Justice, asking, essentially, about the circumstances in which the holder of a standard essential patent ("SEP") might be held to have abused its dominant market position by bringing an action for an injunction against an entity acting in breach of the proprietor's patent.

H4 The Court of Justice held, in response, that, in certain circumstances, the bringing of legal proceedings could amount to breach of art.102 TFEU. However, the proprietor could avoid such a finding where, prior to bringing the action, first, the proprietor alerted the alleged violator of the breach at issue, and, secondly, if the alleged violator expressed its willingness to conclude a licensing agreement on FRAND terms, the proprietor presented to that violator a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it was to be calculated. The alleged violator was obliged to respond diligently to any FRAND licencing offer made to it, in accordance with recognised commercial practices in the field and in good faith, a point which had to be established on the basis of objective factors and which implied, in particular, that there were no delaying tactics. To the extent that the national proceedings related to past acts of use of the SEP or an award of damages in respect of those acts of use, however, that would not have a direct impact on products complying with the standard in question manufactured by competitors appearing or remaining on the market. Consequently, the Court of Justice held, such actions could not be regarded as an abuse under art.102 TFEU.

Held:

Balance between free competition and protection of intellectual property

H5 In assessing the lawfulness of an action for patent violation brought by the proprietor of a SEP against a undertaking acting in breach of that patent with which no licensing agreement had been concluded, the Court of Justice had to strike a balance between maintaining free competition—in respect of which primary EU law and, in particular, art.102 TFEU prohibited abuses of a dominant position—and the requirement to safeguard that proprietor's intellectual property rights and its right to effective judicial protection, guaranteed by art.17(2) and art.47 of the Charter, respectively. [42]

Abuse of dominant position contrary to article 102 TFEU

H6 The concept of an abuse of a dominant position within the meaning of art.102 TFEU was an objective concept relating to the conduct of a dominant undertaking which, on a market where the degree of competition was already weakened precisely because of the presence of the undertaking concerned, through recourse to methods different from those governing normal competition in products or services on the basis of the transactions of commercial operators, had the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition. [45]

F Hoffmann-La Roche & Co AG v Commission of the European Communities (85/76) EU:C:1979:36; [1979] 3 C.M.L.R. 211; *AKZO Chemie BV v Commission of the European Communities* (C-62/86) EU:C:1991:286; [1993] 5 C.M.L.R. 215; *Tomra Systems ASA v European Commission* (C-549/10 P) EU:C:2012:221; [2012] 4 C.M.L.R. 27, followed.

Exercise of exclusive right linked to intellectual property

H7 The exercise of an exclusive right linked to an intellectual property right—for example, the right to bring an action for breach of that right—formed part of the rights of the proprietor of an intellectual property right, with the result that the exercise of such a right, even if it was the act of an undertaking holding a dominant position, could not in itself constitute an abuse of a dominant position. In exceptional circumstances, however, the exercise of an exclusive right linked to an intellectual property right by the proprietor may involve abusive conduct for the purposes of art.102 TFEU. [46] & [47]

Volvo AB v Erik Veng (UK) Ltd (238/87) EU:C:1988:477; [1989] 4 C.M.L.R. 122; *Radio Telefis Eireann v Commission of the European Communities* (C-241/91 P and C-242/91 P) EU:C:1995:98; [1995] 4 C.M.L.R. 718; *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* (C-418/01) EU:C:2004:257; [2004] 4 C.M.L.R. 28, followed.

Refusal to licence standard essential patent as abuse of dominance

H8 (a) Where a patent was essential to a standard established by a standardisation body, rendering its use indispensable to all competitors that envisaged manufacturing products that complied with the standard to which it was linked, that feature distinguished SEPs from patents that were not essential to a standard and which normally allowed third parties to manufacture competing products without recourse to the patent concerned and without compromising the essential functions of the product in question. Frequently, however, a patent would obtain SEP status only in return for the proprietor's irrevocable undertaking, given to the standardisation body in question, that it was prepared to grant licences on fair, reasonable and non-discriminatory terms ("FRAND") terms. [49]–[51]

H9 (b) Although the proprietor of a standard essential patent had the right to bring an action for a prohibitory injunction or for the recall of products, the fact that that patent had obtained such a status meant that its proprietor was in a position to prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserved to itself the manufacture of the products in question. In those circumstances, and having regard to the fact that an undertaking to grant licences on FRAND terms created legitimate expectations on the part of third parties that the proprietor of the SEP would in fact grant licences on such terms, a refusal by the proprietor of the SEP to grant a licence on those terms may, in principle, constitute an abuse within the meaning of art.102 TFEU. [52]–[53] & [73]

Obligation to licence on FRAND terms under article 102 TFEU

H10 Having regard to the legitimate expectations created where a proprietor had committed to licence a patent on FRAND terms, the abusive nature of a refusal to do so may, in principle, be raised in defence to actions for a prohibitory injunction or for the recall of products. Under art.102 TFEU, however, the proprietor of the patent was obliged only to grant a licence on FRAND terms. [54]

Legal and factual circumstances of refusal to licence patent

H11 In order to prevent an action for a prohibitory injunction or for the recall of products from being regarded as abusive, the proprietor of an SEP was obliged to comply with conditions which sought to ensure a fair balance between the interests concerned. In that connection, due account had to be taken of the specific legal and factual circumstances in the case. [56]

Post Danmark A/S v Konkurrenceradet (C-209/10) EU:C:2012:172; [2012] 4 C.M.L.R. 23, followed.

High level of protection for intellectual property rights

H12 In determining whether an action to enforce intellectual property rights might be considered abusive, it was necessary to take into account, inter alia, Directive 2004/48, which—in accordance with art.17(2) of the Charter—provided for a range of legal remedies aimed at ensuring a high level of protection for intellectual property rights in the internal market, and the right to effective judicial protection guaranteed by art.47 of the Charter, comprising various elements, including the right of access to a tribunal. That need for a high level of protection for intellectual property rights meant that, in principle, the proprietor may not be deprived of the right to have recourse to legal proceedings to ensure effective enforcement of his exclusive rights, and that, in principle, the user of those rights, if he was not the proprietor, was required to obtain a licence prior to any use. [57] & [58]

European Commission v Otis NV (C-199/11) EU:C:2012:684; [2013] 4 C.M.L.R. 4, followed.

Limitation on rights of proprietor of standard essential patent

H13 Although the irrevocable undertaking to grant licences on FRAND terms given to the standardisation body by the proprietor of a SEP could not negate the substance of the rights guaranteed to that proprietor by art.17(2) and art.47 of the Charter, it did, nonetheless, justify the imposition on that proprietor of an obligation to comply with specific requirements when bringing actions against alleged patent violation for a prohibitory injunction or for the recall of products. Accordingly, the proprietor of an SEP which considered that that SEP was the subject of a violation could not, without breaching art.102 TFEU, bring an action for a prohibitory injunction or for the recall of products against the alleged violator without notice or prior consultation with the alleged violator, even if the SEP had already been used by the alleged violator. [59]–[60]

Obligations prior to initiating proceeds for breach of standard essential patent

H14 (a) Prior to proceedings for breach of a SEP, it was for the proprietor of the SEP in question, first, to alert the alleged violator of the breach complained about by designating that SEP and specifying the way in which it had been breached. In view of the large number of SEPs composing many technology standards, it was not certain that the violator of one of those SEPs would necessarily be aware that it was using the teaching of an SEP that was both valid and essential to a standard. [61]–[62]

H15 (b) Secondly, after the alleged violator had expressed its willingness to conclude a licensing agreement on FRAND terms, it was for the proprietor of the SEP to present to that alleged violator a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty was to be calculated. Where the proprietor of an SEP had given an undertaking to the standardisation body to grant licences on FRAND terms, it could be expected that it would make such an offer. Furthermore, in the absence of a public standard licensing agreement, and where licensing agreements already concluded with other competitors were not made public, the proprietor of the SEP was better placed to check whether its offer complied with the condition of non-discrimination than was the alleged violator. [63]–[64]

Obligations of alleged violator of standard essential patent

H16 It was for the alleged violator diligently to respond to any FRAND licencing offer made to it, in accordance with recognised commercial practices in the field and in good faith, a point which had to be established on the basis of objective factors and which implied, in particular, that there were no delaying tactics. Should the alleged violator not accept the offer that had been made to it, it may rely on the abusive nature of an action for a prohibitory injunction or for the recall of products only if it had submitted to the proprietor of the SEP in question, promptly and in writing, a specific counter-offer that corresponded to FRAND terms. Where the alleged violator was using the teachings of the SEP before a licensing agreement had been concluded, it was for that alleged violator, from the point at which its counter-offer was rejected, to provide appropriate security, in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit. The calculation of that security had to include, inter alia, the number of the past acts of use of the SEP, and the alleged violator had to be able to render an account in respect of those acts of use. [65]–[67]

Determination of FRAND royalties by independent third parties

H17 Where no agreement could be reached on the details of the FRAND terms following the counter-offer by the alleged violator, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay. [68]

Right of alleged violator to challenge validity and essentiality of patents

H18 Having regard, first, to the fact that a standardisation body such as that which developed the standard at issue in the main proceedings did not check whether patents were valid or essential to the standard in which they were included during the standardisation procedure, and, secondly, to the right to effective judicial protection guaranteed by art.47 of the Charter, an alleged violator could not be criticised either for challenging, in parallel to the negotiations relating to the grant of licences, the validity of those patents and/or the essential nature of those patents to the standard in which they were included and/or their actual use, or for reserving the right to do so in the future. [69]

Action for damages relating to past use not breach of article 102 TFEU

H19 Where an action for patent violation brought by the proprietor of an SEP sought the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use, that would not have a direct impact on products complying with the standard in question manufactured by competitors appearing or remaining on the market. Consequently, such actions could not be regarded as an abuse under art.102 TFEU. Article 102 TFEU therefore had to be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding an SEP, which had given an undertaking to the standardisation body to grant licences for that SEP on FRAND terms, from bringing an action for breach against the alleged violator of its SEP and seeking the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use. [74]–[76]

H20 **Cases referred to in the judgment:**

1. *AKZO Chemie BV v Commission of the European Communities* (C-62/86) EU:C:1991:286; [1993] 5 C.M.L.R. 215
2. *European Commission v Otis NV* (C-199/11) EU:C:2012:684; [2013] 4 C.M.L.R. 4
3. *F Hoffmann-La Roche & Co AG v Commission of the European Communities* (85/76) EU:C:1979:36; [1979] 3 C.M.L.R. 211
4. *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* (C-418/01) EU:C:2004:257; [2004] 4 C.M.L.R. 28
5. *Post Danmark A/S v Konkurrenceradet* (C-209/10) EU:C:2012:172; [2012] 4 C.M.L.R. 23
6. *Radio Telefis Eireann v Commission of the European Communities* (C-241/91 P and C-242/91 P) EU:C:1995:98; [1995] 4 C.M.L.R. 718
7. *Tomra Systems ASA v European Commission* (C-549/10 P) EU:C:2012:221; [2012] 4 C.M.L.R. 27
8. *Volvo AB v Erik Veng (UK) Ltd* (238/87) EU:C:1988:477; [1989] 4 C.M.L.R. 122

H21 **Further cases referred to by the Advocate General:**

1. *Allen & Hanburys Ltd v Generics (UK) Ltd* (434/85) EU:C:1988:109; [1988] 1 C.M.L.R. 701
2. *AstraZeneca AB v European Commission* (C-457/10 P) EU:C:2012:770; [2013] 4 C.M.L.R. 7
3. *Centrafarm BV v Sterling Drug Inc* (15/74), EU:C:1974:114; [1974] 2 C.M.L.R. 480
4. *Der Grüne Punkt — Duales System Deutschland v Commission of the European Communities* (C-385/07 P) EU:C:2009:456; [2009] 5 C.M.L.R. 19
5. *Europemballage Corp and Continental Can Inc v Commission of the European Communities* (6/72) EU:C:1973:22; [1973] C.M.L.R. 199
6. *Football Association Premier League Ltd v QC Leisure* (C-403/08 and C-429/08) EU:C:2011:631; [2012] 1 C.M.L.R. 29

7. *Hauer v Land Rheinland-Pfalz* (44/79), EU:C:1979:290; [1980] 3 C.M.L.R. 42
8. *Hochtief and Linde-Kca-Dresden* (C-138/08) EU:C:2009:627
9. *Ioannis Katsivardas - Nikolaos Tsitsikas OE v Ipourgos Ikonomikon* (C-160/09) EU:C:2010:293
10. *Masterfoods Ltd (t/a Mars Ireland) v HB Ice Cream Ltd* (C-344/98) EU:C:2000:249; [2001] 4 C.M.L.R. 14
11. *Nederlandsche Banden-Industrie-Michelin NV v Commission of the European Communities* (322/81) EU:C:1983:313; [1985] 1 C.M.L.R. 282
12. *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co KG* (C-7/97) EU:C:1998:569; [1999] 4 C.M.L.R. 112
13. *United Brands Co v Commission of the European Communities* (27/76) EU:C:1978:22; [1978] 1 C.M.L.R. 429
14. *UPC Telekabel Wien GmbH v Constantin Film Verleih GmbH* (C-314/12) EU:C:2014:192
15. *ZZ (France) v Secretary of State for the Home Department* (C-300/11) EU:C:2013:363; [2013] 3 C.M.L.R. 46

H22 **Legislation referred to by the Court:**
Treaty on the Functioning of the European Union art.102
EU Charter of Fundamental Rights arts 17(2) & 47
Directive 2004/48 Gen.

OPINION

I – Introduction

AG1 This request for a preliminary ruling, lodged by the Landgericht Düsseldorf (Düsseldorf Regional Court, Germany; or "the referring court") at the Court Registry on April 5, 2013, concerns the interpretation of art.102 TFEU.

AG2 The case centres around a patent said to be "essential to a standard developed by a standardisation body" (a standard-essential patent (SEP)) and, for the first time, the Court is called upon to analyse whether—and, if so, in what circumstances—an action for infringement brought by the SEP-holder against an undertaking which manufactures products in accordance with that standard constitutes an abuse of a dominant position.

AG3 The request for a preliminary ruling has been made in the course of a dispute between, on the one hand, Huawei Technologies Co Ltd ("Huawei"), a multinational group of undertakings active in the telecommunications sector, established in Shenzhen (China), and, on the other, ZTE Corp, established in Shenzhen, and ZTE Deutschland GmbH, established in Düsseldorf (Germany), (together, "ZTE"), members of a group of undertakings, also multinational, operating in the same sector. By its action for infringement, Huawei seeks an injunction prohibiting the continuation of the infringement and an order for the rendering of accounts, the recall of products and the assessment of damages.

AG4 The action for infringement concerns a European patent held by Huawei and registered under No EP 2 090 050 B 1 (the "patent at issue"). The Federal Republic of Germany is one of the contracting Member States designated by that patent, which is "essential" to the Long Term Evolution (LTE) standard[1] developed by the European Telecommunications Standards Institute ("ETSI").[2] This means that anyone using the standard inevitably uses the teaching of that patent.

AG5 The patent at issue was notified to ETSI by Huawei, which, on March 4, 2009, gave ETSI a commitment to grant licences to third parties on fair, reasonable and non-discriminatory terms ("FRAND terms").[3]

AG6 After the "breakdown"[4] of the negotiations for the conclusion of a licensing agreement on FRAND terms, Huawei brought an action for infringement before the referring court against ZTE in order to obtain an injunction prohibiting the continuation of the infringement and an order for the rendering of accounts, the recall of products and the assessment of damages. According to ZTE, that action for a prohibitory injunction constitutes an abuse of a dominant position, since ZTE is willing to negotiate a licence.

AG7 The conduct of SEP-holders who have given a commitment to grant licences to third parties on FRAND terms has given rise to a plethora of actions before the courts of several Member States and third countries. These various actions, based not only on competition law but also on civil law, have given rise to a number of divergent legal approaches and, consequently, a considerable degree of uncertainty as to the lawfulness of certain forms of conduct on the part of SEP-holders and undertakings which, in implementing a standard developed by a European standardisation body, use the teaching of an SEP.

AG8 In the light of the questions submitted by the referring court, I shall confine my observations in this Opinion to competition law and, in particular, to the question of abuse of a dominant position.

AG9 That does not mean, however, that the matters at issue in the dispute before the referring court, which, in my view, stem largely from a lack of clarity as to what is meant by "FRAND terms" and as to the requisite content of such terms, could not be adequately—if not better—resolved in the context of other branches of law or by mechanisms other than the rules of competition law.

AG10 It is sufficient in this regard to point out that a commitment to grant licences on FRAND terms is not the same as a licence on FRAND terms; nor does it give any indication of the FRAND terms which must, in principle, be agreed by the parties concerned.

AG11 If FRAND licensing terms are a matter entirely for the discretion of the parties and, where appropriate, the civil courts or arbitration tribunals, it seems clear to me that the risk of the parties concerned being unwilling to negotiate or of the negotiations breaking down could, at least in part, be avoided or mitigated if standardisation bodies were to establish minimum conditions or a framework of

[1] Under art.2 of Regulation (EU) No 1025/2012 of the European Parliament and of the Council of October 25, 2012 on European standardisation, amending Council Directives 89/686/EEC and 93/15/EEC and Directives 94/9/EC, 94/25/EC, 95/16/EC, 97/23/EC, 98/34/EC, 2004/22/EC, 2007/23/EC, 2009/23/EC and 2009/105/EC of the European Parliament and of the Council and repealing Council Decision 87/95/EEC and Decision No 1673/2006/EC of the European Parliament and of the Council ([2012] OJ L316/12), "standard" means "a technical specification, adopted by a recognised standardisation body, for repeated or continuous application, with which compliance is not compulsory …". One of the key objectives of standardisation is to ensure the broadest possible application of the standard. However, that scope may conflict with the exclusive rights of intellectual property owners.

[2] ETSI is one of the European standardisation bodies listed in Annex I to Regulation 1025/2012, and Huawei and ZTE are ETSI members. One of the instruments binding on ETSI members is entitled "ETSI Intellectual Property Rights Policy", para.14 of which establishes that adherence to the Policy is obligatory for ETSI members, while para.15.6 defines the "essential" nature of a patent. The ETSI Intellectual Property Rights Policy is set out in Annex 6 to the ETSI Rules of Procedure. See also point 24 of this Opinion.

[3] See para.6.1 of the ETSI Intellectual Property Rights Policy. See also point 23 of this Opinion.

[4] See point 27 of this Opinion.

"rules of good conduct" for the negotiation of FRAND licensing terms. Without these, not only actions for a prohibitory injunction but also the rules on abuse of a dominant position, which should be employed only as solutions of last resort, are being used as a negotiating tool or a means of leverage by the SEP-holder or the undertaking which implements the standard and uses the teaching protected by that SEP.

II – Legal context

A – Charter of Fundamental Rights of the European Union

AG12 Article 16 of the Charter of Fundamental Rights of the European Union (the "Charter"), entitled "Freedom to conduct a business", states:

> "The freedom to conduct a business in accordance with Union law and national laws and practices is recognised."

AG13 Under Article 17 of the Charter, entitled "Right to property":

> "1. Everyone has the right to own, use, dispose of and bequeath his or her lawfully acquired possessions. No one may be deprived of his or her possessions, except in the public interest and in the cases and under the conditions provided for by law, subject to fair compensation being paid in good time for their loss. The use of property may be regulated by law in so far as is necessary for the general interest.
> 2. Intellectual property shall be protected."

AG14 Article 47 of the Charter, entitled "Right to an effective remedy and to a fair trial", states:

> "Everyone whose rights and freedoms guaranteed by the law of the Union are violated has the right to an effective remedy before a tribunal in compliance with the conditions laid down in this Article.
> …"

AG15 Article 52(1) of the Charter, entitled "Scope and interpretation of rights and principles", provides:

> "Any limitation on the exercise of the rights and freedoms recognised by this Charter must be provided for by law and respect the essence of those rights and freedoms. Subject to the principle of proportionality, limitations may be made only if they are necessary and genuinely meet objectives of general interest recognised by the Union or the need to protect the rights and freedoms of others."

B – Directive 2004/48/EC

AG16 Article 9 of Directive 2004/48 of the European Parliament and of the Council of April 29, 2004 on the enforcement of intellectual property rights,[5] entitled "Provisional and precautionary measures", provides:

[5] [2004] OJ L157/45.

"1. Member States shall ensure that the judicial authorities may, at the request of the applicant:
   (a) issue against the alleged infringer an interlocutory injunction intended to prevent any imminent infringement of an intellectual property right, …
   …"

AG17 Article 10 of Directive 2004/48, entitled "Corrective measures", provides:

"1. Without prejudice to any damages due to the rightholder by reason of the infringement, and without compensation of any sort, Member States shall ensure that the competent judicial authorities may order, at the request of the applicant, that appropriate measures be taken with regard to goods that they have found to be infringing an intellectual property right and, in appropriate cases, with regard to materials and implements principally used in the creation or manufacture of those goods. Such measures shall include:
   (a) recall from the channels of commerce,
   (b) definitive removal from the channels of commerce, or
   (c) destruction.

…

3. In considering a request for corrective measures, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account."

AG18 Article 11 of that directive, entitled "Injunctions", provides:

"Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. …"

AG19 Article 12 of Directive 2004/48, entitled "Alternative measures", provides:

"Member States may provide that, in appropriate cases and at the request of the person liable to be subject to the measures provided for in this section, the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in this section if that person acted unintentionally and without negligence, if execution of the measures in question would cause him/her disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory."

AG20 Article 13 of Directive 2004/48, entitled "Damages", provides:

"1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.
   When the judicial authorities set the damages:
   (a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which

the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement;

or

(b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.

2. Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established."

C – The ETSI Intellectual Property Rights Policy

AG21 Under para.3.1 of the ETSI Intellectual Property Rights Policy, the objective of that standardisation body is to create standards which meet the technical objectives of the European telecommunications sector and to reduce the risk to ETSI, its members and others applying ETSI standards, that investment in the preparation, adoption and application of standards could be wasted as a result of an essential intellectual property right for those standards being unavailable. In order to do that, the ETSI Intellectual Property Rights Policy seeks to strike a balance between the needs of standardisation for public use in the field of telecommunications and the rights of the owners of intellectual property rights. Paragraph 3.2 of the ETSI Intellectual Property Rights Policy provides that intellectual property right holders should be adequately and fairly rewarded for the use of their intellectual property rights in the implementation of standards.

AG22 Paragraph 4.1 of the ETSI Intellectual Property Rights Policy provides that each member, in particular during the development of a standard in the establishment of which it participates, must take the necessary measures to inform ETSI of its standard-essential intellectual property rights in a timely fashion. A member submitting a technical proposal for a standard must therefore draw the attention of ETSI to any of its intellectual property rights which might be essential to the standard if that proposal is adopted.

AG23 Paragraph 6.1 of the ETSI Intellectual Property Rights Policy provides that, when a standard-essential intellectual property right is brought to the attention of ETSI, the Director-General of ETSI must immediately request the owner of that right to give, within three months, an *irrevocable* undertaking that it is prepared to grant licences on FRAND terms in relation to that intellectual property right. Where no FRAND undertaking has been made, ETSI is to assess whether or not to suspend work on the relevant parts of the standard until the matter has been resolved and/or submit for approval any relevant standard.[6] If the owner of the intellectual property rights refuses to submit a FRAND undertaking in accordance

[6] See para.6.3 of the ETSI Intellectual Property Rights Policy. The procedure for approving ETSI standards varies according to the type of standard in question and is set out in the ETSI guidelines. In this regard, I would point out that ETSI develops, in particular, European Standards (EN), ETSI Standards (ES) and ETSI Technical Specifications (TS), the approval procedures for which vary considerably.

with para.6.1 of that Policy, ETSI must seek an alternative technology and, if no such technology exists, work on the standard in question must cease.[7] In accordance with para.14 of the ETSI Intellectual Property Rights Policy, any violation of the Policy by a member is deemed to be a breach by that member of its obligations to ETSI.

AG24 In accordance with para.15.6 of the ETSI Intellectual Property Rights Policy, intellectual property rights are considered "essential" where, in particular, it is not possible on technical grounds to make equipment which complies with a standard without infringing the intellectual property right. However, ETSI does not check whether the intellectual property right which has been brought to its attention by one of its members is valid or essential.

AG25 The ETSI Intellectual Property Rights Policy does not precisely define what is meant by FRAND licensing terms. It is for the patent owner and the patent user to negotiate the terms and conditions of use of an SEP.[8] (10) Nor does the ETSI Intellectual Property Rights Policy lay down any rules or provisions as to how to resolve disputes in the event that the parties do not reach an agreement on specific FRAND terms.[9]

III – The main proceedings and the questions referred for a preliminary ruling

AG26 Among the products developed and marketed by ZTE in Germany are base stations with LTE software ("the disputed embodiments"). According to the referring court, the disputed embodiments developed and marketed by ZTE are unquestionably made for use with LTE software and operate on the basis of the LTE standard. Given that the patent at issue, owned by Huawei, is essential to the LTE standard, ZTE inevitably uses that patent.

AG27 It emerges from the order for reference that, between November 2010 and the end of March 2011, Huawei and ZTE engaged in discussions relating, inter alia, to the infringement of the patent and the possibility of concluding a licensing agreement. Huawei "named the amount which it considered to be a reasonable royalty". ZTE "sought a cross-licensing agreement". It also emerges from the order for reference that, on January 30, 2013, ZTE made an offer for a cross-licensing agreement and proposed, but did not pay, a royalty due to Huawei (in the amount of €50). Furthermore, the referring court states that "[t]he parties did not exchange any specific offers in relation to a licensing agreement". On April 28, 2011, Huawei brought before the referring court the action which has given rise to these preliminary ruling proceedings.

AG28 ZTE filed an opposition before the European Patent Office (EPO) against the grant of the patent at issue on the ground that the patent was not valid. By decision of January 25, 2013, the EPO confirmed the validity of the patent and rejected ZTE's opposition. An appeal against that decision is currently pending.

[7] See para.8 of the ETSI Intellectual Property Rights Policy.

[8] According to para.4.1 of the ETSI Guide on Intellectual Property Rights of September 19, 2013 ("the Guide"), the specific licensing terms and the negotiations relating to them are matters of business between the undertakings. It follows that it is not ETSI's role to regulate them. Unlike the ETSI Intellectual Property Rights Policy, which is binding on ETSI members, the Guide is purely explanatory.

[9] According to para.4.3 of the Guide, ETSI members must attempt to resolve any dispute relating to the application of the IPR policy on a bilateral and amicable basis. According to para.4.4 of the Guide, ETSI members must engage in an impartial and honest negotiation process for the purpose of concluding agreements on the licensing of their intellectual property rights on FRAND terms.

AG29 The referring court states that ZTE's use of the patent at issue is unlawful. However, it considers that the action for a prohibitory injunction could be dismissed on grounds of the compulsory nature of the licence—on the basis of art.102 TFEU, in particular—if it could be found that, by pursuing its action for a prohibitory injunction, Huawei is abusing "*the dominant position which it unquestionably holds*".[10]

AG30 According to the referring court, there are two approaches to determining the point from which the SEP-holder infringes art.102 TFEU by abusing its dominant position in relation to the infringer.

AG31 First, the referring court points out that the Bundesgerichtshof (Federal Court of Justice, Germany) found in its judgment of May 6, 2009 in *Orange-Book-Standard* (KZR 39/06, "*Orange-Book-Standard*")[11] that, where the owner of a patent seeks a prohibitory injunction against a defendant who has a claim to a licence for that patent, the patent owner abuses his dominant position only where the following conditions are met:

> "First, the defendant must have made the applicant an unconditional offer to conclude a licensing agreement (an offer which, specifically, must not contain a clause limiting the licence exclusively to the cases of infringement), it being understood that the defendant must consider itself bound by that offer and that the applicant is obliged to accept it, since its refusal of the offer would unfairly hamper the defendant or breach the principle of non-discrimination. If the defendant considers the amount of royalty claimed by the applicant to be excessive, or if the applicant refuses to quantify the royalty, the offer of an agreement is regarded as unconditional if it provides that the applicant is to determine the amount of the royalty fairly.
> Secondly, if the defendant is already making use of the subject-matter of the patent before the applicant accepts its offer, it must meet the obligations which, for use of the patent, will be incumbent on it under the future licensing agreement. That means, in particular, that the defendant must render an account for its acts of use in accordance with the terms of a non-discriminatory agreement and that it must meet the resulting payment obligations.
> As regards the fulfilment of that payment obligation, the defendant is not required to pay the royalty directly to the applicant. The defendant is at liberty to deposit a security for payment of the royalty at an Amtsgericht [local court]."

AG32 Secondly, the referring court points out that, in a press release[12] regarding a Statement of Objections sent to Samsung Electronics and Others

[10] In German, "unstreitig gegebenen marktbeherrschenden Stellung".
[11] The reasoning adopted by the Bundesgerichtshof is based on art.82 EC (now art.102 TFEU), para.20(1) of the German Law against restrictions on competition (Gesetz gegen Wettbewerbsbeschränkungen; "GWB") and para.242 of the German Civil Code, as published on January 2, 2002 (BGBl. I, p.42, 2909; 2003 I, p.738) and amended by para.4 of the Law of June 26, 2013 (BGBl. I, p.1805). Under the last-mentioned provision, entitled "Performance in good faith", "[a]n obligor has a duty to perform the obligation in accordance with the requirements of good faith, with due regard for customary practice".
[12] See European Commission press release IP/12/1448 of December 21, 2012 and Commission Memorandum 12/1021 of the same date (the "press release"). By decision of April 29, 2014, the Commission adopted a decision on the basis of art.9 of Council Regulation (EC) 1/2003 of December 16, 2002 on the implementation of the rules on competition laid down in Articles [101 TFEU] and [102 TFEU] ([2003] OJ L1/1) in relation to Samsung Electronics and Others following the commitments given by them. Under art.9(1) of that regulation, entitled "Commitments", "[w]here the Commission intends to adopt a decision requiring that an infringement be brought to an end and the undertakings concerned offer commitments to meet the concerns expressed to them by the Commission in its preliminary assessment, the Commission may by decision make those commitments binding on the undertakings. …". By decision of April 29, 2014, the Commission adopted a decision pursuant to art.7 of Regulation 1/2003, directed against Motorola

(COMP/C-3/39.939) in the course of an infringement procedure relating to the mobile telephony market, the European Commission made a preliminary assessment to the effect that the bringing of an action for a prohibitory injunction was unlawful in the light of art.102 TFEU, given that the case concerned an SEP, that the patent holder had indicated to a standardisation body that it was prepared to grant licences on FRAND terms and that the infringer was itself willing to negotiate such a licence.

AG33 However, as the referring court points out, the Commission does not explain, in its press release, in what circumstances an infringer may be regarded as being willing to negotiate. Nor does it echo the criteria set out by the Bundesgerichtshof in its judgment in *Orange-Book-Standard*.

AG34 According to the referring court, if the criteria established by the Bundesgerichtshof were applied in the present case, ZTE could not legitimately rely on the compulsory nature of the licence, with the result that the action for infringement would have to be upheld. The referring court takes the view that, on that assumption, Huawei was not obliged to accept one of the offers made in writing by ZTE with a view to the conclusion of a licensing agreement. The referring court gives two reasons for that view.

AG35 First, ZTE's offers to conclude an agreement should be regarded as inadequate on account of the fact that they were not "unconditional" offers within the meaning of the case law of the Bundesgerichtshof, since they were limited exclusively to the products giving rise to the infringement.

AG36 Secondly, regardless of whether or not the amount of the royalty was correctly determined, ZTE did not pay the royalty which it had itself calculated (€50), there being nothing to indicate that the Amtsgericht had ordered the collection of that sum for deposit as a security. Furthermore, the referring court points out that ZTE did not duly or exhaustively render an account for past acts of use.

AG37 On the other hand, the referring court considers that, if the approach argued for by the Commission in its press release were taken, the action for a prohibitory injunction brought by Huawei would have to be dismissed as an abuse. Since Huawei bases its action on an SEP, ZTE is obliged to use that SEP in order to be able to place on the market the disputed LTE-compliant embodiments. The referring court observes that Huawei declared to ETSI that it was willing to license its patent to third parties and points out that ZTE was—at least at the relevant time (the end of the oral negotiations)—"willing to negotiate" within the meaning of the Commission's position. That willingness to negotiate is apparent, in any event, from ZTE's written offers to conclude an agreement (which incorporate, in part, Huawei's proposals). The referring court considers that, in the context of the Commission's argument, willingness to negotiate is not affected by the fact that the parties cannot agree on the content of certain clauses in the agreement or, in particular, on the amount of the royalty payable.

AG38 In those circumstances, the Landgericht Düsseldorf decided to stay the proceedings and to refer the following questions to the Court for a preliminary ruling:

> "(1) Does the proprietor of a standard-essential patent which informs a standardisation body that it is willing to grant any third party a licence on

Mobility LLC ("Motorola"), finding, in particular, that Motorola had infringed art.102 TFEU by bringing an action for a prohibitory injunction against Apple Inc. and Others before a German court on the basis of an SEP which Motorola had pledged to license on FRAND terms (Case AT.39985).

[FRAND] terms abuse its dominant market position if it brings an action for an injunction against a patent infringer even though the infringer has declared that it is willing to negotiate concerning such a licence?

or

is an abuse of the dominant market position to be presumed only where the infringer has submitted to the proprietor of a standard-essential patent an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfils its contractual obligations for acts of use already performed in anticipation of the licence to be granted?

(2) If abuse of a dominant market position is already to be presumed as a consequence of the infringer's willingness to negotiate:

Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed where the patent infringer has merely stated (orally) in a general way that it is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which it is prepared to conclude a licensing agreement?

(3) If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position:

Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to that offer? Must the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the standard-essential patent is actually used and/or is shown to be valid?

(4) If the fulfilment of the infringer's obligations arising from the licence that is to be granted is a prerequisite for the abuse of a dominant market position:

Does Article 102 TFEU lay down particular requirements with regard to those acts of fulfilment? Is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?

(5) Do the conditions under which the abuse of a dominant position by the proprietor of a standard-essential patent is to be presumed apply also to an action on the ground of other claims (for rendering of accounts, recall of products, damages) arising from a patent infringement? ”

IV – The procedure before the Court

AG39 Written observations have been lodged by Huawei, ZTE, the Netherlands and Portuguese Governments, and by the Commission. Huawei, ZTE, the Netherlands and Finnish Governments and the Commission presented oral argument at the hearing on September 11, 2014.

V – Analysis

A – Preliminary observations

AG40 The Court is called upon to determine whether—and, if so, in what circumstances—an action for infringement brought by an SEP-holder which has given a commitment to grant licences on FRAND terms constitutes an abuse of a dominant position. The questions raised by the referring court do not concern the specific terms of a FRAND licence, which lie in the discretion of the parties and, where appropriate, the civil courts and arbitration tribunals, but seek rather to determine, in the light of competition law, the framework within which the licensing of an SEP on FRAND terms is to be negotiated.

AG41 According to the referring court, SEP-holders are in a powerful position when negotiating licences because of their right to bring an action for a prohibitory injunction. Consequently, it should be ensured that SEP-holders cannot, for example, impose excessive royalties in breach of their commitment to grant licences on FRAND terms, thereby engaging in conduct which has become known as "patent hold-up".[13]

AG42 However, the referring court also points out that placing a restriction on the right to bring an action for a prohibitory injunction considerably reduces the SEP-holder's margin for negotiation, given that it may lack sufficient leverage to conduct those negotiations on an equal footing with the infringer. The referring court adds that the SEP-holder must tolerate the unlawful use of its patent, regardless of whether and when a licensing agreement will actually be concluded, and that it will not be able to recover damages, the applicability and amount of which are uncertain, until some unforeseeable date after the event. This will be the case even if the licensing negotiations are drawn out for reasons attributable solely to the infringer. Such conduct has been termed "patent hold-out" or "reverse patent hold-up".

AG43 By Question 1, the referring court asks whether an SEP-holder which has given a commitment to a standardisation body—in this case, ETSI—to grant licences to third parties on FRAND terms abuses its dominant position if it brings an action for a prohibitory injunction against an infringer even though the infringer was "willing to negotiate" such a licence.

AG44 In Question 1, the referring court also envisages a second scenario, in which there would be abuse of a dominant position only if the infringer had submitted to the SEP-holder an acceptable, unconditional offer which the holder could not refuse without unfairly impeding the infringer or breaching the principle of non-discrimination, and if the infringer had already fulfilled its contractual obligations for acts of use already performed in anticipation of the licence to be granted.

AG45 In my view, in order to give a useful and complete response to Question 1, the two scenarios described should be examined together.

AG46 Questions 2, 3 and 4 concern, respectively, the form to be taken by the infringer's willingness to negotiate and the form of its offer and of the fulfilment of the obligations incumbent on it under the licence to be granted. The reply to those

[13] According to the Commission, "hold-up is exacerbated where a large number of SEPs, covering various standards, are applied to a single product. In such circumstances, the number of potential licensors may cause the combined royalty payments made to the various SEP-holders to become excessive. This phenomenon is known as 'royalty stacking'".

questions depends largely on the answer to Question 1. Question 5 concerns the actions other than an action for a prohibitory injunction which are available to the SEP-holder for the purpose of protecting its intellectual property rights. Given that the questions raised by the referring court are principally concerned with the lawfulness of the action for a prohibitory injunction, I shall focus my observations in this Opinion on that action.

B – The case law established by the Bundesgerichtshof in Orange-Book-Standard and the Commission's press release in Samsung Electronics and Others

AG47 It is clear that the referring court's questions have been largely inspired by the *Orange-Book-Standard* judgment of the Bundesgerichtshof and the Commission's press release in the Samsung Electronics and Others case.

AG48 As regards *Orange-Book-Standard*, the significant factual differences between that case and the dispute before the referring court should be noted. The patent at issue here is essential to the LTE standard which was developed as a result of an agreement concluded between the undertakings (including Huawei and ZTE) involved in the standardisation process within ETSI, whereas the standard at issue in the *Orange-Book-Standard* case before the Bundesgerichtshof was a de facto standard.[14] It follows that, in *Orange-Book-Standard*, the owner of the patent at issue had not given any commitment to grant licences on FRAND terms. It is only natural that, in those circumstances, the patent owner will have greater negotiating power than in the case of an SEP the owner of which is, like the licence applicant, a member of a European standardisation body, and that an action for a prohibitory injunction on its part will ultimately be regarded as abusive only if the royalty it demands is clearly excessive.

AG49 In view of that significant factual difference between that case and the dispute before the referring court, I am of the opinion that *Orange-Book-Standard* cannot be transposed by analogy to the present case.

AG50 On the other hand, although the press release in the Samsung Electronics and Others case does concern an SEP the owner of which has given a commitment to a standardisation body to grant licences on FRAND terms, it seems to me that a mere willingness on the part of the infringer to negotiate[15] in a highly vague and non-binding fashion cannot, in any circumstances, be sufficient[16] to limit the SEP-holder's right to bring an action[17] for a prohibitory injunction.

AG51 To my mind, a pure and simple application to the present case of the case law established by the Bundesgerichtshof in *Orange-Book-Standard* or the press release

[14] A de facto standard is a specification recognised in the market place, typically through the widespread acceptance of that specification. See, to that effect, Section 1.2 of the Opinion of the Economic and Social Committee on the Communication from the Commission to the Council and the European Parliament on "Standardisation and the global information society: the European approach" (COM(1996) 359 final).

[15] Either orally or in writing.

[16] The press release, which is only a few pages long, has no legal value. It is not binding on the Commission and does not prejudge the outcome of the proceedings to which it refers. Its only objective is to inform the public that proceedings have been opened against Samsung Electronics and Others under Regulation 1/2003. Moreover, it is clear—in particular from the Commission's own observations in that case, which are much more detailed—that the Commission itself is of the opinion that far more stringent requirements should be imposed on the infringer.

[17] As the referring court has pointed out, "[s]uch a declaration may be made very easily and in such a way as to impose little obligation, since it may be changed, withdrawn and, if necessary, renewed at any time. Furthermore, such a declaration does not include any specific terms, even though the licensing terms must be known in order for it to be possible to determine whether they are fair, reasonable and non-discriminatory. Even where a declaration does include specific terms, it is open to question whether those terms are serious. After all, the infringer may change or withdraw those terms at any time, or propose terms which are manifestly unreasonable".

would result in the over-protection or under-protection of the SEP-holder, of those using the teaching protected by the patents or of consumers, respectively.[18]

AG52 It appears necessary, therefore, to find a middle path.

C – The presumption of the existence of a dominant position

AG53 It should be noted that—as the Commission pointed out—the referring court proceeds on the assumption that Huawei holds a dominant position[19] and has not asked the Court either about the criteria for determining the relevant market[20] or about the finding of a dominant position.[21]

AG54 The Portuguese Government and the Commission have confined their observations to the possible abuse of a dominant position on the part of the SEP-holder, while Huawei,[22] ZTE[23] and the Netherlands Government have addressed only superficially in their observations the question of the existence of a dominant position.

AG55 According to settled case law, the Court has jurisdiction only to give rulings on the interpretation or the validity of a provision of EU law on the basis of the facts put before it by the national court. In addition, to alter the substance of the questions referred for a preliminary ruling would be incompatible with the Court's role under art.267 TFEU and with its duty, under art.23 of the Statute of the Court of Justice of the European Union, to ensure that the governments of the Member States and the parties concerned are given the opportunity to submit observations, given that, under that provision, only the order for reference is notified to the interested parties.[24]

[18] As ZTE has pointed out in its observations, placing 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 licence royalties imposed would be very high (though not so high as to constitute a refusal to conclude a contract, in breach of art.102 TFEU).

[19] In the order for reference, the referring court states that Huawei "unquestionably" holds a dominant position, without any further explanation or clarification of that finding.

[20] It is settled case law that the definition of the relevant market is of vital significance for the appraisal of dominant position. See *Europemballage Corp and Continental Can Inc v Commission of the European Communities* (6/72) EU:C:1973:22; [1973] C.M.L.R. 199 at [32].

[21] See *United Brands Co v Commission of the European Communities* (27/76) EU:C:1978:22; [1978] 1 C.M.L.R. 429 at [65] and [66]; *F Hoffmann-La Roche & Co AG v Commission of the European Communities* (85/76) EU:C:1979:36; [1979] 3 C.M.L.R. 211 at [38] and [39]); and, more recently, *AstraZeneca AB v European Commission* (C-457/10 P) EU:C:2012:770; [2013] 4 C.M.L.R. 7 at [175]), which define a dominant position as "a position of economic strength held by an undertaking which enables it to prevent effective competition from being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, its customers and, ultimately, consumers".

[22] According to Huawei, SEPs give their holders the key to access the technology forming the basis of the standard, the use of those patents being, by definition, unavoidable. Huawei takes the view that SEP-holders are thus able, in principle, to control access to use of the standard. Huawei points out, however, that this does not necessarily create a dominant position, in particular where the relevant market includes products which do not use a standard or which use competing standards. According to Huawei, users of the standard which themselves hold SEPs may derive a degree of countervailing power from those patents. It considers that, in certain circumstances, this may offset the SEP-holder's position on the market to such an extent as to divest it of its dominance.

[23] According to ZTE, the scope of protection enjoyed by an SEP covers a configuration of products the use of which is required by the standard, so that any product compliant with the standard necessarily infringes the patent. ZTE claims that, since there is no demand for products which do not comply with the standard, the SEP confers on its holder the legal power to decide which operators enter and remain on the market. Moreover, according to ZTE, an SEP gives its owner a dominant position on markets in downstream services. ZTE is also of the opinion that, insofar as a specific technology or licensing market is determined for each SEP, the owner of a (first) SEP holds a monopoly and, therefore, a dominant position on the market. According to ZTE, "dominant market positions can be observed even in global markets covering all SEPs".

[24] See *Hochtief and Linde-Kca-Dresden* (C-138/08) EU:C:2009:627 at para.22 and case law cited).

AG56 In the present case, since the referring court has accepted neither the need for a question concerning the existence of a dominant position, nor the relevance of such a question, the Court cannot address that point.

AG57 However, it should be noted that the referring court did not state in the order for reference that it had arrived at its finding that the SEP-holder in the present case unquestionably holds a dominant position after it had examined all the circumstances and the specific context of the case. I share the view expressed by the Netherlands Government that the fact that an undertaking owns an SEP does not necessarily mean that it holds a dominant position within the meaning of art.102 TFEU,[25] and that it is for the national court to determine, on a case-by-case basis, whether that is indeed the situation.[26]

AG58 Given that a finding that an undertaking has a dominant position imposes on the undertaking concerned a special responsibility[27] not to allow its conduct to impair genuine competition, that finding cannot be based on hypotheses. If the fact that anyone who uses a standard set by a standardisation body must necessarily make use of the teaching of an SEP, thus requiring a licence from the owner of that patent, could give rise to a rebuttable presumption that the owner of that patent holds a dominant position, it must, in my view, be possible to rebut that presumption with specific, detailed evidence.

D – Abuse of a dominant position or abuse of technological dependence

AG59 It should be pointed out that, in order to answer the questions raised by the referring court, it is necessary, in the light of competition law, to strike a balance between the right to intellectual property and the SEP-holder's (Huawei's) right of access to the courts, on the one hand, and the freedom to conduct business which economic operators such as the undertakings implementing the LTE standard (ZTE) enjoy under art.16 of the Charter, on the other hand. After all, the grant of an

[25] In para.186 of the judgment in *AstraZeneca*, the Court held that, "although the mere possession of intellectual property rights cannot be considered to confer such a position, their possession is none the less capable, in certain circumstances, of creating a dominant position, in particular by enabling an undertaking to prevent effective competition on the market".

[26] The Commission states in its "Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements" ([2011] OJ C11/1, para.269) that, "even if the establishment of a standard can create or increase the market power of [intellectual property rights] holders possessing IPR essential to the standard, there is no presumption that holding or exercising [intellectual property rights] 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".

[27] I would point out that the holding of a dominant position is not in itself prohibited by Article 102 TFEU. See *Nederlandsche Banden-Industrie-Michelin NV v Commission of the European Communities* (322/81) EU:C:1983:313; [1985] 1 C.M.L.R. 282 at [57] and *Post Danmark A/S v Konkurrenceradet* (C-209/10) EU:C:2012:172; [2012] 4 C.M.L.R. 23 at [21] to [23].

injunction sought by an action to cease and desist places a significant restriction on that freedom[28] and is therefore capable of distorting competition.[29]

1. The right to intellectual property

AG60 It can be seen from the documents placed before the Court that, despite its commitment to ETSI that it would grant licences to third parties on FRAND terms, Huawei did not waive its right to bring actions for prohibitory injunctions against persons using the teaching protected by the patent at issue without its consent. However, it is readily apparent from that commitment that Huawei is willing[30] to exploit the patent at issue not only by using the patent exclusively but also by licensing it to others. Moreover, Huawei accepts that a royalty fixed on FRAND terms constitutes adequate and fair compensation for the use of that patent by others.

AG61 Concurring with the observations of Huawei, ZTE, the Netherlands and Portuguese Governments and the Commission, I take the view that, in accordance with settled case law, the exercise of an exclusive right linked to an intellectual property right—that is to say, in the present case, the right to bring an action for a prohibitory injunction in the event of infringement—cannot in itself constitute an abuse of a dominant position.[31] After all, for a patent holder, that right represents the essential means[32] of asserting his intellectual property, the protection of which is specifically recognised by art.17(2) of the Charter.[33]

AG62 It follows that any restriction of the right to bring those actions necessarily constitutes a significant limitation of intellectual property rights and can therefore be permitted only in exceptional and clearly defined circumstances.

AG63 However, the right to intellectual property is not an absolute right. Accordingly, without making any reference to abuse of rights, recital 12 in the preamble to Directive 2004/48 states that:

[28] See, by analogy, *UPC Telekabel Wien GmbH v Constantin Film Verleih GmbH* (C-314/12) EU:C:2014:192 at [47] and [48]). Pursuant to art.11 of Directive 2004/48, Member States are required to ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, their judicial authorities may issue an injunction to prohibit the continuation of the infringement. See, in addition, art.9 of that directive, concerning provisional and precautionary measures. The manufacture and sale of standard-compliant products and services which infringe the exclusive rights of the SEP-holder will be prohibited following the issue of an injunction. Actions for a prohibitory injunction therefore constitute a very powerful remedy, since the grant of an injunction for the infringement of an SEP has the effect of excluding the patent infringer's products and services from the markets covered by the standard. I would also point out that even the threat of an action for a prohibitory injunction can alter the course of licensing negotiations and lead to licensing terms which are not "FRAND". In my opinion, those considerations apply mutatis mutandis to the corrective measures provided for in art.10 of Directive 2004/48.

[29] The internal market, as defined in art.3 TEU, constitutes one of the principal objectives of the European Union and incorporates a system ensuring that competition is not distorted. See Protocol (No 27) on the internal market and competition, annexed to the EU and FEU Treaties.

[30] As pointed out by the Commission in its observations.

[31] See, by analogy, *Volvo AB v Erik Veng (UK) Ltd* (238/87) EU:C:1988:477; [1989] 4 C.M.L.R. 122 at [8]), *Radio Telefis Eireann v Commission of the European Communities* (C-241/91 P and C-242/91 P) EU:C:1995:98; [1995] 4 C.M.L.R. 718 at [33]) and *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* (C-418/01) EU:C:2004:257; [2004] 4 C.M.L.R. 28 at [34]).

[32] According to settled case law, the essential objective of a patent is to ensure, in order to reward the creative effort of the inventor, that the owner of the patent has the exclusive right to use an invention with a view to manufacturing industrial products and selling them, either directly, or by granting licences to third parties, as well as the right to oppose infringements (see *Centrafarm BV v Sterling Drug Inc* (15/74), EU:C:1974:114; [1974] 2 C.M.L.R. 480 at [9], and *Football Association Premier League Ltd v QC Leisure* (C-403/08 and C-429/08) EU:C:2011:631; [2012] 1 C.M.L.R. 29 at [107].

[33] That possibility also constitutes a measure of general prevention because it deters infringements.

> "[t]his Directive should not affect the application of the rules of competition, and in particular Articles [101 TFEU] and [102 TFEU]. The measures provided for in this Directive should not be used to restrict competition unduly in a manner contrary to the Treaty."

It follows that the right to bring actions for a prohibitory injunction for the purpose of protecting intellectual property is not an absolute and inviolable right and must be reconciled, in the general interest, with the rules on competition laid down, in particular, in arts 101 TFEU and 102 TFEU.[34]Article 12 of Directive 2004/48 provides, for example, that, at the request of the person liable to be subject to an injunction and under certain circumstances, the competent judicial authorities may order pecuniary compensation to be paid to the intellectual property right holder instead of granting the injunction. Restrictions on the right to bring actions for a prohibitory injunction and the substitution of pecuniary compensation for that right are thus clearly envisaged by that directive.[35]

AG64 Moreover, intellectual property right holders can themselves limit the manner in which they will exercise those rights.

AG65 In this regard, I believe that the commitment given by Huawei in the dispute before the referring court to grant licences to third parties on FRAND terms bears some similarity to a "licence of right".[36] Whereas the grant of compulsory licences is required by law,[37] a patent owner can on his own initiative authorise third parties to use the teaching of his patent under certain conditions. I would point out that, where a patent licensee has a licence of right, an injunction may not, in principle, be issued against him.[38]

2. Right of access to the courts

AG66 The right of access to the courts and the possibility of asserting rights before a court are recognised by art.47 of the Charter. In [51] of the judgment in *ZZ (France) v Secretary of State for the Home Department* (C-300/11) EU:C:2013:363; [2013] 3 C.M.L.R. 46), however, the Court held that art.52(1) of the Charter permits

[34] See, by analogy, point 105 of the Opinion of the Advocate General Cosmas in *Masterfoods Ltd (t/a Mars Ireland) v HB Ice Cream Ltd* (C-344/98) EU:C:2000:249; [2001] 4 C.M.L.R. 14, in which the Advocate General states that "[t]here is no doubt that Articles [101 TFEU] and [102 TFEU] occupy an important position in the system of the Community legal order and serve the general interest which consists in ensuring undistorted competition. Consequently, it is perfectly comprehensible for restrictions to be placed on the right to property ownership pursuant to Articles [101 TFEU and 102 TFEU], to the degree to which they might be necessary to protect competition".

[35] See also art.3(2) of Directive 2004/48, which provides that "[t]hose measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse". The concept of abuse is not defined in Directive 2004/48. I take the view, however, that that concept necessarily, though not exclusively, encompasses infringements of arts 101 TFEU and 102 TFEU. See also art.8(2) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), under which: "[a]ppropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology".

[36] See, by analogy, Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection ([2012] OJ L361/1), art.8 of which, entitled "Licences of right", provides as follows:

> "1. The proprietor of a European patent with unitary effect may file a statement with the EPO to the effect that the proprietor is prepared to allow any person to use the invention as a licensee in return for appropriate consideration.
> 2. A licence obtained under this Regulation shall be treated as a contractual licence."

See also para.23 of the German Law on Patents (Patentgesetz) and s.46 of the UK Patents Act 1977.

[37] See, for example, para.24 of the German Law on Patents.

[38] See, to that effect, *Allen & Hanburys Ltd v Generics (UK) Ltd* (434/85) EU:C:1988:109; [1988] 1 C.M.L.R. 701 at [4]), which explains the scope of s.46 of the UK Patents Act 1977.

limitations on the exercise of the rights enshrined in art.47, but points out that, in view of the importance of the fundamental right guaranteed by art.47, it should be taken into account that art.52(1) of the Charter provides that any limitation[39] must in particular respect the essence of the fundamental right in question and requires, in addition, that, subject to the principle of proportionality, the limitation must be necessary and must genuinely meet objectives of general interest recognised by the European Union.[40]

AG67 Despite the fact that the Charter does not create a hierarchy among the fundamental rights which it recognises, with the exception of human dignity, which is inviolable[41] and subject to no exception, the bringing an action for a prohibitory injunction can constitute an abuse of a dominant position only in exceptional circumstances, given the importance of the right of access to the courts.

3. Freedom to conduct business and undistorted competition

AG68 It is settled case law that the concept of abuse of a dominant position is an objective concept and refers to the conduct of a dominant undertaking which is such as to influence the structure of a market where the degree of competition is already weakened precisely because of the presence of the undertaking concerned, and which, through recourse to methods different from those governing normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition.[42]

AG69 Huawei, ZTE, the Netherlands and Portuguese Governments and the Commission argue that, in accordance with settled case law, a finding of abuse of a dominant position following the bringing of an action for a prohibitory injunction requires the existence of "exceptional circumstances".[43] I would point out that:

> "[i]t is clear from that case-law that, in order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market."[44]

AG70 It is true, as Huawei has pointed out, that that case law is based on facts which are not directly comparable with those of the dispute before the referring court. It is clear that, as in the cases which gave rise to that case law, having a licence to use the patent at issue is indispensable to the production of LTE standard-compliant

[39] I would also point out that the procedural rules of each Member State impose a framework on the right of access to the courts. Ready examples include the rules on time-limits for bringing actions (time-barring rules), the rules on capacity to bring legal proceedings (locus standi) and the rules on vexatious litigants.

[40] Article 52(1) of the Charter also applies to intellectual property rights, the protection of which is recognised by art.17(2) of that Charter. See, by analogy, *Hauer v Land Rheinland-Pfalz* (44/79), EU:C:1979:290; [1980] 3 C.M.L.R. 42 at [17] to [30]).

[41] See art.1 of the Charter.

[42] *AstraZeneca* at [74] and case law cited).

[43] RTE at [50], and [53] to [56] (refusal to grant a copyright licence) and *IMS Health* at [35] and [36] (refusal to grant a licence for the use of a brick structure protected by an intellectual property right). See also *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co KG* (C-7/97) EU:C:1998:569; [1999] 4 C.M.L.R. 112 at [39] and [40]) (refusal of a media undertaking to include a rival daily newspaper in its newspaper home-delivery scheme).

[44] *IMS Health* at [38].

products and services. However, unlike in those cases, which concern refusals to grant licences for the use of intellectual property rights, Huawei informed[45] ETSI of the patent at issue and voluntarily gave a commitment to license that patent to third parties on FRAND terms, thereby engaging in conduct which cannot, at first sight, be treated as a refusal akin to those envisaged in the case law cited in fn.42 of this Opinion. Consequently, that case law is only partially applicable to the dispute before the referring court, in which everything will hinge on the manner in which Huawei fulfilled its commitment to ETSI to license the patent at issue on FRAND terms.

AG71 In this regard, I would point out that Huawei's notification of that patent to ETSI and its commitment to license it had an impact on the standardisation procedure and the content of the LTE standard itself.[46] The fact that the teaching protected by the patent at issue has been incorporated into the LTE standard and the fact that a licence to use that patent is therefore indispensable create a relationship of dependence between the SEP-holder and the undertakings which produce products and services in accordance with that standard. That technological dependence leads to economic dependence.

AG72 In [9] of its judgment in *Volvo*, the Court held that:

> "the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article [102 TFEU] if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States."

AG73 I am of the opinion that the guidance given by the Court in that judgment concerning lines of conduct capable of constituting abuse of a dominant position attaches importance, on the one hand, to a relationship of dependence between the intellectual property right holder occupying a dominant position and other undertakings and, on the other, to the abusive exploitation of that position by the right holder through recourse to methods different from those governing normal competition.[47]

AG74 In those circumstances, which are characterised, on the one hand, by the infringer's technological dependence following the incorporation into a standard of the teaching protected by the patent and, on the other hand, by unfair or unreasonable conduct by the SEP-holder,[48] at variance with its commitment to grant licences on FRAND terms, towards an infringer which has shown itself to be objectively ready, willing and able to conclude such a licensing agreement, the bringing of an action for a prohibitory injunction constitutes recourse to a method different from those governing normal competition; it has an adverse effect on

[45] See para.4.1 of the ETSI Intellectual Property Rights Policy.
[46] See, in particular, paras 3, 4, 6 and 8 of the ETSI Intellectual Property Rights Policy.
[47] See also *United Brands* at [182] and [183].
[48] It is important to point out that the conduct of the SEP-holder cannot be regarded as unfair or unreasonable if it is objectively justified. In this regard, I would point out that, if an SEP-holder who has given a commitment to grant licences on FRAND terms does not receive a fair royalty, its capacity to make a return on its investments and its incentive to invest in other technologies will be diminished, as will its willingness to license an SEP on FRAND terms or to participate in the standardisation process.

competition[49] to the detriment, in particular, of consumers and the undertakings which have invested in the preparation, adoption and application of the standard[50]; and it must be regarded as an abuse of a dominant position for the purposes of art.102 TFEU.

AG75 It is clear that such a finding of abuse of a dominant position in the context of standardisation and the commitment to license an SEP on FRAND terms can be made only after the conduct not only of the SEP-holder but also of the infringer has been examined.

E – Application to the present case

1. Question 1

AG76 Although the Court has no jurisdiction under art.267 TFEU to apply art.102 TFEU to a particular case, it may, within the framework of the judicial co-operation provided for in that article, and on the basis of the material presented to it, provide the referring court with an interpretation of art.102 TFEU which may be useful to it for the purposes of applying that article to the specific facts before it.[51]

AG77 It goes without saying that the unlicensed use of a patent, in principle, infringes the intellectual property rights of the patent owner and that the latter has a number of legal remedies available to him under Directive 2004/48 for the purposes of enforcing his rights, including an action for a prohibitory injunction. In such cases, the infringer must open negotiations with the patent owner with a view to concluding a licensing agreement before committing an infringement.

AG78 The dispute before the referring court differs from the foregoing in that the patent owner gave a commitment to a standardisation body (of which it is a member, as is the alleged infringer) to grant licences to third parties on FRAND terms.

AG79 The guidelines applicable to such a case seem to me to be as follows.

AG80 To the extent that the infringer is and remains "able" to conclude and comply with a licensing agreement on FRAND terms and, in particular, to pay an appropriate royalty, the SEP-holder must, given the importance of what is at stake, take certain specific steps before bringing an action for a prohibitory injunction in order to honour its commitment and discharge its special responsibility under art.102 TFEU.

AG81 This is particularly indispensable where it is not certain that the SEP infringer necessarily knows that it is using the teaching of a patent that is both valid and essential to a standard. As far as the LTE standard is concerned, it would appear that more than 4,700 patents have been notified to ETSI as essential, and that a large proportion of those may not be valid or essential to the standard.[52]

[49] That conduct is likely to reduce investment in technologies linked to the LTE standard and the availability of LTE standard-compliant products and services. After all, if SEPs could not be licensed on FRAND terms, undertakings would be reluctant to implement the standard in question, which would devalue the standardisation process. Moreover, where the SEP-holder uses actions for a prohibitory injunction as leverage to increase licence fees, contrary to the FRAND commitment, the prices of LTE standard-compliant products and services are indirectly and unfairly affected, to the detriment of the consumers of those products and services.

[50] See para.3.1 of the ETSI Intellectual Property Rights Policy.

[51] See, to that effect, Ioannis *Katsivardas - Nikolaos Tsitsikas OE v Ipourgos Ikonomikon* (C-160/09) EU:C:2010:293 at [24]).

[52] Huawei itself points out that "an SEP user should act within a reasonable timeframe when making an offer for a FRAND licence or giving a commitment to accept the terms laid down by a court or arbitration tribunal. Some argue that it must have made an offer for a FRAND licence on its own initiative before starting to use the standard. However, this seems unrealistic in the telecommunications industry, given the large number of SEPs and SEP owners and the uncertainty over whether (allegedly) essential patents are valid and whether they have been infringed. Similarly, it

AG82 It is therefore possible that even a large telecommunications undertaking such as ZTE was unable to verify in advance whether all the patents relating to the LTE standard which were notified to ETSI were essential and valid. It should also be taken into consideration that the telecommunications sector is constantly evolving and that undertakings (and therefore potential infringers) must respond quickly in order to bring their products and services to market. It does not therefore seem unreasonable to me that an agreement to license an SEP on FRAND terms should be negotiated and concluded ex post, that is to say, after the use of the teaching protected by that patent has begun.

AG83 On that basis, what specific steps must the SEP-holder take before bringing an action for a prohibitory injunction[53] in order not to be deemed to be abusing its dominant position?

AG84 First, unless it is established that the alleged infringer is fully aware of the infringement, the SEP-holder must alert it to that fact in writing, giving reasons, and specifying the SEP concerned and the way in which it has been infringed. Such a step does not place a disproportionate burden on the SEP-holder as it is one which it would have to take in any event in order to substantiate an action for a prohibitory injunction.

AG85 Secondly, the SEP-holder must, in any event, present to the alleged infringer a written offer for a licence on FRAND terms that contains all the terms normally included in a licence in the sector in question, in particular the precise amount of the royalty and the way in which that amount is calculated.

AG86 Again, such a requirement is not disproportionate, as the SEP-holder has voluntarily undertaken to secure a return on its intellectual property in this manner, thus voluntarily restricting the way in which it exercises its exclusive right. It is therefore reasonable to expect it to prepare and draft such an offer immediately upon obtaining its patent and giving its commitment to grant licences on FRAND terms. Moreover, given that that commitment from the SEP-holder includes an obligation not to discriminate between licensees, the SEP-holder alone has the information necessary for the purposes of complying with that obligation, particularly if it has already granted other licences.

AG87 Once those steps have been taken, what are the obligations of the alleged infringer?

AG88 It must respond in a diligent and serious manner to the offer made by the SEP-holder. If it does not accept that offer, it must promptly submit to the SEP-holder, in writing, a reasonable counter-offer relating to the clauses with which it disagrees. As the referring court has pointed out, the bringing of an action for a prohibitory injunction would not constitute an abuse of a dominant position if the infringer's conduct were purely tactical and/or dilatory and/or not serious.

AG89 The time frame for the exchange of offers and counter-offers and the duration of the negotiations[54] must be assessed in the light of the "commercial window of

is unrealistic to require a standard implementer to enter into negotiations to secure a licence for any patent declared essential before even making use of that patent. Standard implementers in the telecommunications industry cannot be expected (nor is it customary in that sector) to assess every patent that has been declared essential, enter into negotiations to obtain a licence to use that patent and issue a legally binding declaration in respect of each essential patent to every owner of such a patent before starting to use the standard in question. The administrative and financial burden involved would be so onerous and the investment in time so considerable as to make it impossible in practice to use the standard".

[53] Question 1 is specifically concerned with actions for a prohibitory injunction.

[54] Which must be opened (and concluded) quickly, given that the infringer is using the teaching of an SEP (without paying for it).

opportunity" available to the SEP-holder for securing a return on its patent in the sector in question.

AG90 It is for the referring court to verify whether—and, if so, to what extent—the conduct of Huawei and ZTE is in keeping with those guidelines. I would qualify the few additional points that I am about to make by saying that the course and precise content of the series of contacts between Huawei and ZTE are not clear from the order for reference. Furthermore, in their observations before the Court, Huawei[55] and ZTE[56] give very different, not to say contradictory, accounts of that contact.

AG91 What *is* clear from the order for reference is that, during its discussions with ZTE between November 2010 and the end of March 2011,[57] Huawei indicated the amount which, in its view, represented a reasonable royalty. It is for the referring court to assess the content of that "offer"[58] by Huawei and whether it satisfies the conditions and assumptions set out in points 84 and 85 above.

AG92 In addition, the referring court must verify whether, on the basis of the royalty proposed by Huawei and ZTE's response, there was a real possibility of negotiating FRAND terms. In this regard, I take the view that the referring court must assess whether ZTE's proposal for a cross-licensing agreement[59] and the payment of a royalty of €50 were appropriate in the circumstances and satisfied the conditions and assumptions set out in point 88 above.

AG93 Furthermore, if negotiations are not commenced or are unsuccessful, the conduct of the alleged infringer cannot be regarded as dilatory or as not serious if it asks for those terms to be fixed either by a court or an arbitration tribunal. In that event, it would be legitimate for the SEP-holder to ask the infringer either to provide a

[55] Huawei claims that it informed ZTE in November 2010 that "it was using various LTE patents owned by Huawei and proposed that they conclude a licensing agreement on [FRAND] terms. ZTE replied that Huawei was itself acting in breach of its own patents and sought a cross-licensing agreement, with no royalty. However, in reality, ZTE did not own any validly issued patents in the technical field concerned that might be of interest to Huawei. … In December 2010, Huawei made available to ZTE … a list of those of its own patents that were most affected and proposed the grant of a licence for that portfolio of patents. Finally, later than agreed, ZTE sent a list of its own patents which it claimed were affected. In various discussions between the parties, ZTE set out its position in principle to the effect that only a cross-licensing agreement without royalties would be acceptable. … In March 2011, Huawei made another licence offer to ZTE. That offer, too, was rejected by ZTE, which maintained its position. ZTE did not make a counter-proposal for the conclusion of a licensing agreement on fair, reasonable and non-discriminatory terms in relation to any of the patents owned by Huawei. … In April 2011, after five months of fruitless discussions, Huawei decided to initiate legal proceedings".

[56] According to ZTE, "between November 2010 and March 2011, [Huawei] set out some general requirements regarding the royalty to be paid under the licence. It did not make a specific proposal for an agreement or justify its requirements. During their contacts with one another, [Huawei] presented to [ZTE] a list of 450 patents (from 130 patent families) declared to be essential to various standards … Despite numerous requests to that effect, [Huawei] refused to support its claim by providing, in the patent disputes, 'tables' of use establishing the link between the rights and the specifications and providing a basis for assessment of the claims made by [Huawei]". ZTE adds that "[Huawei had], in the course of [their] communications between November 2010 and March 2011, sought a cross-licensing agreement under which [ZTE] would have had to pay [Huawei] a net royalty rate of 1.8% to offset the difference in value between the portfolios. That request clearly constitutes an excessive royalty". Moreover, ZTE claims that it "proposed to [Huawei] that it pay it [a royalty rate of 0.0022% for the patent at issue, calculated] on the basis of a generally accepted method …". ZTE adds that, "[t]hroughout the entire process, [Huawei] did not at any time submit a specific counter-proposal. It did nothing but criticise [ZTE's] offer for being inadequate. In particular, [Huawei] did not at any time indicate the value of the patent at issue". "[ZTE] calculated the amount of damages on the basis of the rate of 0.0022% …, itself based on previous sales of LTE standard-compliant base stations. Since, up to the relevant date, only 35 experimental stations had been sold, the sum of EUR 50 was calculated. If the number of stations sold increases, the amount of damages will also increase".

[57] See point 27 of this Opinion.

[58] I would point out, in this regard, that the referring court states that Huawei and ZTE "did not exchange any specific offers in relation to a licensing agreement". See point 27 of this Opinion.

[59] See point 27 of this Opinion.

bank guarantee for the payment of royalties[60] or to deposit a provisional sum[61] at the court or arbitration tribunal in respect of its past and future use of the SEP.

AG94 The same would apply if, during the negotiations, the infringer reserved the right, following the conclusion of a licensing agreement, to challenge before a court or arbitration tribunal, on the one hand, the validity of that patent and, on the other hand, the illegality, or even the existence itself, of the use it had made or would make of the teaching protected by the patent.

AG95 Indeed, as regards the validity of the SEP, I share the view of the referring court, Huawei, ZTE and the Commission that it is in the public interest for an alleged infringer to have the opportunity, after concluding a licensing agreement, to challenge the validity of an SEP (as ZTE did). As the Commission has pointed out, the wrongful issue of a patent may constitute an obstacle to the legitimate pursuit of an economic activity. Moreover, if undertakings supplying standard-compliant products and services cannot call into question the validity of a patent declared to be essential to that standard, it could prove effectively impossible to verify the validity of that patent because other undertakings would have no interest in bringing proceedings in that regard.[62]

AG96 As regards the use of the teaching of a patent, undertakings which implement a standard clearly do not have to pay for intellectual property which they are not using.[63] It follows that the alleged infringer can call in question ex post its supposed use of the teaching of a patent and the nature of that patent as being essential to the standard in question.

AG97 In the light of the answers to Question 1, I do not consider there to be any need to answer Questions 2 and 3.

2. Question 4

AG98 The fourth question is based on the premiss, arising from the judgment of the Bundesgerichtshof in *Orange-Book-Standard*, that the infringer must, even before concluding a licensing agreement, fulfil the obligations which will be incumbent on it under the future licensing agreement. I am of the opinion that such a requirement should not be imposed in cases concerning the use of an SEP where the patent owner has made a commitment to grant licences on FRAND terms. However, as is apparent from my reply to Question 1, the infringer must show itself to be objectively ready, willing and able to conclude such a licensing agreement. In those circumstances, the SEP-holder may require the provision of a bank guarantee for the future payment of royalties or the deposit of a provisional sum for past and future use of its patent.

[60] Which will be fixed by the court or arbitration tribunal.
[61] Which will be fixed by the court or arbitration tribunal.
[62] Challenging the validity of a patent is very costly. I take the view, therefore, that only undertakings which use the teaching of a patent have an interest in challenging its validity, in order, in particular, to avoid having to pay royalties on a licence. If undertakings which implement a standard and, therefore, use the teaching of an SEP do not have the right to challenge the validity of the patent, not only do they run the risk of paying a royalty which is not due, but, as pointed out by the referring court in the order for reference, "it may prove impossible to check the validity of SEPs (patents which all operators on the market in question are obliged to use)".
[63] See, by analogy, *Der Grüne Punkt — Duales System Deutschland v Commission of the European Communities* (C-385/07 P) EU:C:2009:456; [2009] 5 C.M.L.R. 19 at [141] to [147].

3. Question 5

AG99 By this question, the referring court asks the Court whether the SEP-holder abuses its dominant position where it takes legal action to assert other claims arising from the infringement, namely, the rendering of accounts, the recall of products and damages.

AG100 Given that the corrective measures provided for in art.10 of Directive 2004/48[64] may consist in the exclusion from the markets covered by the standard of the products and services supplied by an SEP infringer, the considerations set out in points 77 to 89 and 93 to 96 above regarding the action for a prohibitory injunction apply mutatis mutandis to the corrective measures provided for in art.10 of that directive.

AG101 However, I do not see anything in art.102 TFEU to preclude an SEP-holder from taking legal action to secure the rendering of accounts in order to determine what use the infringer has made of the teaching of an SEP with a view to obtaining a FRAND royalty under that patent. It is for the national court in question to ensure that the measure is reasonable and proportionate.

AG102 Finally, I am of the opinion that a claim for damages for past acts of use infringing the SEP is in no way problematic from the point of view of the application of art.102 TFEU. Given that the sole purpose of such a claim is to compensate the SEP-holder for previous infringements of its patent, that claim does not, as the Commission has pointed out, lead:

> "either to the exclusion from the market of standard-compliant products or to the acceptance by a potential licensee of unfavourable licensing terms for the future use of an SEP."

VI – Conclusion

AG103 In the light of the foregoing considerations, I propose that the Court should reply as follows to the questions referred for a preliminary ruling by the Landgericht Düsseldorf:

(1) The fact that a holder of a standard-essential patent (SEP) which has given a commitment to a standardisation body to grant third parties a licence on FRAND (Fair, Reasonable and Non-Discriminatory) terms makes a request for corrective measures or brings an action for a prohibitory injunction against an infringer, in accordance with art.10 and art.11, respectively, of Directive 2004/48/EC of the European Parliament and of the Council of April 29, 2004 on the enforcement of intellectual property rights, which may lead to the exclusion from the markets covered by the standard of the products and services supplied by the infringer of an SEP, constitutes an abuse of its dominant position under art.102 TFEU where it is shown that the SEP-holder has not honoured its commitment even though the infringer has shown itself to be objectively ready, willing and able to conclude such a licensing agreement.

(2) Compliance with that commitment means that, prior to seeking corrective measures or bringing an action for a prohibitory injunction, the SEP-holder,

[64] Those measures include recall from the channels of commerce.

if it is not to be deemed to be abusing its dominant position, must—unless it has been established that the alleged infringer is fully aware of the infringement—alert the alleged infringer to that fact in writing, giving reasons, and specifying the SEP concerned and the manner in which it has been infringed by the infringer. The SEP-holder must, in any event, present to the alleged infringer a written offer of a licence on FRAND terms which contains all the terms normally included in a licence in the sector in question, in particular the precise amount of the royalty and the way in which that amount is calculated.

(3) The infringer must respond to that offer in a diligent and serious manner. If it does not accept the SEP-holder's offer, it must promptly present to the latter, in writing, a reasonable counter-offer relating to the clauses with which it disagrees. The making of a request for corrective measures or the bringing of an action for a prohibitory injunction does not constitute an abuse of a dominant position if the infringer's conduct is purely tactical and/or dilatory and/or not serious.

(4) If negotiations are not commenced or are unsuccessful, the conduct of the alleged infringer cannot be regarded as dilatory or as not serious if it requests that FRAND terms be fixed either by a court or by an arbitration tribunal. In that event, it is legitimate for the SEP-holder to ask the infringer either to provide a bank guarantee for the payment of royalties or to deposit a provisional sum at the court or arbitration tribunal in respect of its past and future use of the patent.

(5) Nor can an infringer's conduct be regarded as dilatory or as not serious during the negotiations for a FRAND licence if it reserves the right, after concluding an agreement for such a licence, to challenge before a court or arbitration tribunal the validity of that patent, its supposed use of the teaching of the patent and the essential nature of the SEP in question.

(6) The fact that the SEP-holder takes legal action to secure the rendering of accounts does not constitute an abuse of a dominant position. It is for the national court in question to ensure that the measure is reasonable and proportionate.

(7) The fact that the SEP-holder brings a claim for damages for past acts of use for the sole purpose of obtaining compensation for previous infringements of its patent does not constitute an abuse of a dominant position.

JUDGMENT

1 This request for a preliminary ruling concerns the interpretation of art.102 TFEU.

2 The request has been made in proceedings between Huawei Technologies Co. Ltd ("Huawei Technologies"), on the one hand, and ZTE Corp. and ZTE Deutschland GmbH ("ZTE"), on the other hand, concerning an alleged infringement of a patent which is essential to a standard established by a standardisation body ("standard-essential patent" or "SEP").

Legal context

International law

3 The Convention on the Grant of European Patents ("EPC"), which was signed in Munich on October 5, 1973 and entered into force on October 7, 977, in the version applicable to the facts in the main proceedings, establishes, as art.1 states, a "system of law, common to the Contracting States, for the grant of patents for invention".

4 Apart from common rules relating to the grant of a European patent, a European patent remains governed by the national law of each of the Contracting States for which it has been granted. In that regard, art.2(2) of the EPC states:

> "The European patent shall, in each of the Contracting States for which it is granted, have the effect of and be subject to the same conditions as a national patent granted by that State …"

5 With regard to the rights conferred on the proprietor of a European patent, art.64(1) and (3) of that convention provides:

> "(1) A European patent shall … confer on its proprietor from the date of publication of the mention of its grant, in each Contracting State in respect of which it is granted, the same rights as would be conferred by a national patent granted in that State.
>
> …
>
> (3) Any infringement of a European patent shall be dealt with by national law."

EU law

6 Recitals 10, 12 and 32 of the preamble to Directive 2004/48/EC of the European Parliament and of the Council of April 29, 2004 on the enforcement of intellectual-property rights ([2004] OJ L157/45) state the following:

> "(10) The objective of this Directive is to approximate legislative systems so as to ensure a high, equivalent and homogeneous level of protection in the Internal Market.
>
> …
>
> (12) This Directive should not affect the application of the rules of competition, and in particular Articles 81 and 82 of the Treaty. The measures provided for in this Directive should not be used to restrict competition unduly in a manner contrary to the Treaty.
>
> …
>
> (32) This Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union [('the Charter')]. In particular, this Directive seeks to ensure full respect for intellectual property, in accordance with Article 17(2) of th[e] Charter."

7 Article 9 of that directive, entitled "Provisional and precautionary measures", states, in para.1:

"Member States shall ensure that the judicial authorities may, at the request of the applicant:

(a) issue against the alleged infringer an interlocutory injunction intended to prevent any imminent infringement of an intellectual-property right …

…"

8 Article 10 of that directive, entitled "Corrective measures", provides, in para.1:

"Without prejudice to any damages due to the rightholder by reason of the infringement, and without compensation of any sort, Member States shall ensure that the competent judicial authorities may order, at the request of the applicant, that appropriate measures be taken with regard to goods that they have found to be infringing an intellectual-property right and, in appropriate cases, with regard to materials and implements principally used in the creation or manufacture of those goods. Such measures shall include:

(a) recall from the channels of commerce;
(b) definitive removal from the channels of commerce; or
(c) destruction."

German law

9 Under the heading "Performance in good faith", para.242 of the German Civil Code (Bürgerliches Gesetzbuch) lays down that an obligor has a duty to perform the obligation in accordance with the requirements of good faith, with due regard for customary practice.

10 Paragraph 139(1) of the Law on Patents (Patentgesetz, BGBl. 1981 I, p.1), as amended most recently by para.13 of the Law of November 24, 2011 (BGBl. 2011 I, p.2302), states:

"The injured party may, where there is a risk of recurrence, bring an action for an injunction against any person who uses a patented invention in breach of Paragraphs 9 to 13. The injured party shall also have that right if an infringement is liable to be committed for the first time."

11 Paragraphs 19 and 20 of the Law against Restrictions of Competition (Gesetz gegen Wettbewerbsbeschränkungen) of June 26, 2013 (BGBl. 2013 I, p.1750) prohibit the abuse by one or more undertakings of a dominant position on a market.

The ETSI rules

12 The European Telecommunications Standards Institute ("ETSI") is a body the objective of which, according to Clause 3.1 of Annex 6 to the ETSI Rules of Procedure, which annex is entitled "ETSI Intellectual-Property Rights Policy", is to create standards which meet the technical objectives of the European telecommunications sector and to reduce the risk to ETSI, its members and others applying ETSI standards, that investment in the preparation, adoption and application of standards could be wasted as a result of an essential intellectual-property right for those standards being unavailable. To that end, Annex 6 seeks a balance between the needs of standardisation for public use in the field of telecommunications and the rights of the owners of intellectual-property rights.

13 Clause 3.2 of that annex provides that owners of intellectual-property rights should be adequately and fairly rewarded for the use of their intellectual-property rights.

14 Under Clause 4.1 of Annex 6, each of the members of ETSI is required to use reasonable endeavours, in particular during the development of a standard in the establishment of which it participates, to inform ETSI of that member's intellectual-property rights which are essential to that standard, in a timely fashion.

15 Clause 6.1 of Annex 6 to the ETSI Rules of Procedure provides that, when an intellectual-property right essential to a standard is brought to the attention of ETSI, the Director-General of ETSI must immediately request the owner of that right to give, within three months, an irrevocable undertaking that it is prepared to grant licences on fair, reasonable and non-discriminatory terms ("FRAND terms") in relation to that right.

16 Under Clause 6.3 of that annex, for so long as such an undertaking has not been given, ETSI is to assess whether work on the relevant parts of the standard should be suspended.

17 Clause 8.1 of Annex 6 provides that, if the owner of the intellectual-property rights refuses to give that undertaking, ETSI is to seek an alternative technology and, if no such technology exists, to stop work on the adoption of the standard in question.

18 Under Clause 14 of Annex 6 to the ETSI Rules of Procedure, any violation of the provisions of that annex by a member of ETSI is deemed to be a breach of that member's obligations to ETSI.

19 Clause 15.6 of that annex provides that an intellectual-property right is regarded as essential where, in particular, it is not possible on technical grounds to make equipment which complies with the standard without infringing the intellectual-property right ("essential patent").

20 However, ETSI does not check whether the intellectual-property right, the use of which an ETSI member has brought to its attention as being necessary, is valid or essential. Nor does Annex 6 define the concept of a "licence on FRAND terms".

The dispute in the main proceedings and the questions referred for a preliminary ruling

21 Huawei Technologies, a multinational company active in the telecommunications sector, is the proprietor of, inter alia, the European patent registered under the reference EP 2 090 050 B 1, bearing the title "Method and apparatus of establishing a synchronisation signal in a communication system", granted by the Federal Republic of Germany, a Contracting State of the EPC ("patent EP 2 090 050 B 1").

22 That patent was notified to ETSI on March 4, 2009 by Huawei Technologies as a patent essential to the "Long Term Evolution" standard. At the same time, Huawei Technologies undertook to grant licences to third parties on FRAND terms.

23 The referring court states, in the order for reference, that that patent is essential to that standard, which means that anyone using the "Long Term Evolution" standard inevitably uses the teaching of that patent.

24 Between November 2010 and the end of March 2011, Huawei Technologies and ZTE Corp, a company belonging to a multinational group active in the telecommunications sector and which markets, in Germany, products equipped with software linked to that standard, engaged in discussions concerning, inter alia,

the infringement of patent EP 2 090 050 B 1 and the possibility of concluding a licence on FRAND terms in relation to those products.

25 Huawei Technologies indicated the amount which it considered to be a reasonable royalty. For its part, ZTE Corp sought a cross-licensing agreement. However, no offer relating to a licensing agreement was finalised.

26 Nonetheless, ZTE markets products that operate on the basis of the "Long Term Evolution" standard, thus using patent EP 2 090 050 B 1, without paying a royalty to Huawei Technologies or exhaustively rendering an account to Huawei Technologies in respect of past acts of use.

27 On April 28,2011, on the basis of art.64 of the EPC and para.139 et seq. of the German Law on Patents, as amended most recently by para.13 of the Law of November 24, 2011, Huawei Technologies brought an action for infringement against ZTE before the referring court, seeking an injunction prohibiting the infringement, the rendering of accounts, the recall of products and an award of damages.

28 That court considers that the decision on the substance in the main proceedings turns on whether the action brought by Huawei Technologies constitutes an abuse of that company's dominant position. It thus observes that it might be possible to rely on the mandatory nature of the grant of the licence in order to dismiss the action for a prohibitory injunction—in particular, on the basis of art.102 TFEU—if, by its action, Huawei Technologies were to be regarded as abusing its dominant position. According to the referring court, the existence of that dominant position is not in dispute.

29 The referring court states, however, that different approaches may be taken in order to determine the point at which the proprietor of an SEP infringes art.102 TFEU as a result of bringing an action for a prohibitory injunction.

30 In this connection, the referring court observes that, on the basis of art.102 TFEU, para.20(1) of the Law of June 26, 2013 against Restrictions of Competition and para.242 of the Civil Code, the Bundesgerichtshof (Federal Court of Justice, Germany) held, in its judgment of May 6, 2009 in *Orange Book* (KZR 39/06), that, where the proprietor of a patent seeks a prohibitory injunction against a defendant which has a claim to a licence for that patent, the proprietor of the patent abuses its dominant position only in certain circumstances.

31 First, the defendant must have made the applicant an unconditional offer to conclude a licensing agreement not limited exclusively to cases of infringement, it being understood that the defendant must consider itself bound by that offer and that the applicant is obliged to accept it where its refusal would unfairly impede the defendant or infringe the principle of non-discrimination.

32 Secondly, where the defendant uses the teachings of the patent before the applicant accepts such an offer, it must comply with the obligations that will be incumbent on it, for use of the patent, under the future licensing agreement, namely to account for acts of use and to pay the sums resulting therefrom.

33 In the light of the fact that ZTE's offers to conclude an agreement could not be regarded as "unconditional", inasmuch as they related only to the products giving rise to the infringement, and that ZTE did not pay Huawei Technologies the amount of the royalty that it had itself calculated or provide to Huawei Technologies an exhaustive account of past acts of use, the referring court observes that it ought to preclude ZTE from being able validly to rely on the compulsory nature of the grant

of the licence and, accordingly, ought to uphold Huawei Technologies' action for a prohibitory injunction.

34 However, the referring court notes that, in the press releases No IP/12/1448 and MEMO/12/1021 of December 21, 2012, concerning a Statement of Objections sent to Samsung and relating to patent-infringement proceedings brought by Samsung in the field of mobile telephony, the European Commission appears to regard the bringing of an action for a prohibitory injunction as unlawful, under art.102 TFEU, where that action relates to an SEP, the proprietor of that SEP has indicated to a standardisation body that it is prepared to grant licences on FRAND terms and the infringer is itself willing to negotiate such a licence. Accordingly, it may be irrelevant that the parties in question cannot agree on the content of certain clauses in the licensing agreement or, in particular, on the amount of the royalty to be paid.

35 In the present case, if those criteria alone are to be applied by the referring court, the latter court observes that it ought to dismiss Huawei Technologies' action for a prohibitory injunction as constituting an abuse within the meaning of artr.102 TFEU, since it is common ground that the parties in the main proceedings were willing to negotiate.

36 The referring court takes the view that, in the case in the main proceedings, the fact that the infringer was willing to negotiate and the proprietor of patent EP 2 090 050 B 1 was prepared to grant licences to third parties ought not be sufficient to constitute an abuse of a dominant position.

37 The referring court takes the view that, in assessing whether the conduct of the proprietor of an SEP is abusive, an appropriate and fair balance has to be struck in relation to all the legitimate interests of the parties, which, it must be recognised, have equivalent bargaining power.

38 Thus, the referring court considers 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. For that reason, but also on the grounds of equality of treatment between the beneficiaries of licences for, and the infringers in relation to, a given product, the proprietor of the SEP ought to be able to bring an action for a prohibitory injunction. Indeed, the exercise of a statutory right cannot, in itself, constitute an abuse of a dominant position, for characterisation as such requires other criteria to be satisfied. For that reason, it is not satisfactory to adopt, as a criterion of such an abuse, the notion of the infringer's "willingness to negotiate", since this may give rise to numerous interpretations and provide the infringer with too wide a freedom of action. In any event, if such a notion is to be held to be relevant, certain qualitative and time requirements must be imposed in order to ensure that the applicant for the licence is acting in good faith. Accordingly, a properly formulated, acceptable, "unconditional" request for a licence, containing all the provisions normally found in a licensing agreement, ought to be required to be submitted before the patent concerned is used. As regards, in particular, requests for a licence from operators which have already placed products using an SEP on the market, those operators must immediately comply with the obligations to render an account of use of that SEP and to pay the corresponding royalty. In addition, the referring court considers that an infringer ought, initially, to be able to provide security instead of paying the royalty directly to the proprietor of the SEP in question. The possibility of the applicant for a licence leaving the determination of a fair royalty amount to the proprietor must also be envisaged.

39 In those circumstances, the Landgericht Düsseldorf decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

> "(1) Does the proprietor of [an SEP] which informs a standardisation body that it is willing to grant any third party a licence on [FRAND] terms abuse its dominant market position if it brings an action for an injunction against a patent infringer even though the infringer has declared that it is willing to negotiate concerning such a licence?
> or
> Is an abuse of the dominant market position to be presumed only where the infringer has submitted to the proprietor of the [SEP] an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfils its contractual obligations for acts of use already performed in anticipation of the licence to be granted?
> (2) If abuse of a dominant market position is already to be presumed as a consequence of the infringer's willingness to negotiate:
> Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed where the patent infringer has merely stated (orally) in a general way that it is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which it is prepared to conclude a licensing agreement?
> (3) If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position:
> Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to that offer? Must the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the [SEP] is actually used and/or is shown to be valid?
> (4) If the fulfilment of the infringer's obligations arising from the licence that is to be granted is a prerequisite for the abuse of a dominant market position:
> Does Article 102 TFEU lay down particular requirements with regard to those acts of fulfilment? Is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?
> (5) Do the conditions under which the abuse of a dominant position by the proprietor of a[n SEP] is to be presumed apply also to an action on the ground of other claims (for rendering of accounts, recall of products, damages) arising from a patent infringement?"

Consideration of the questions referred

40 A preliminary point to note is that the present request for a preliminary ruling has arisen in the context of an action concerning infringement of a patent between two operators in the telecommunications sector, which are holders of numerous patents essential to the "Long Term Evolution" standard established by ETSI,

which standard is composed of more than 4,700 SEPs, in respect of which those operators have undertaken to grant licences to third parties on FRAND terms.

41 In the context of that dispute, the referring court raises the question whether the action for infringement seeking an injunction prohibiting that infringement, the rendering of accounts, the recall of products and damages, brought by the proprietor of an SEP—in this case, Huawei Technologies—against the alleged infringer of that SEP—ZTE, which requested the conclusion of a licensing agreement—is to be characterised as an "abuse of a dominant position", within the meaning of art.102 TFEU, and, accordingly, whether the action must be dismissed.

42 For the purpose of providing an answer to the referring court and in assessing the lawfulness of such an action for infringement brought by the proprietor of an SEP against an infringer with which no licensing agreement has been concluded, the Court must strike a balance between maintaining free competition—in respect of which primary law and, in particular, art.102 TFEU prohibit abuses of a dominant position—and the requirement to safeguard that proprietor's intellectual-property rights and its right to effective judicial protection, guaranteed by art.17(2) and art.47 of the Charter, respectively.

43 As the referring court states in the order for reference, the existence of a dominant position has not been contested before it by the parties to the dispute in the main proceedings. Given that the questions posed by the referring court relate only to the existence of an abuse, the analysis must be confined to the latter criterion.

Questions 1 to 4, and Question 5 insofar as that question concerns legal proceedings brought with a view to obtaining the recall of products

44 By Questions 1 to 4, and Question 5 insofar as that question concerns legal proceedings brought with a view to obtaining the recall of products, which questions it is appropriate to examine together, the referring court asks, essentially, in what circumstances the bringing of an action for infringement, by an undertaking in a dominant position and holding an SEP, which has given an undertaking to the standardisation body to grant licences to third parties on FRAND terms, seeking an injunction prohibiting the infringement of that SEP or seeking the recall of products for the manufacture of which the SEP has been used, is to be regarded as constituting an abuse contrary to art.102 TFEU.

45 First of all, it must be recalled that the concept of an abuse of a dominant position within the meaning of art.102 TFEU is an objective concept relating to the conduct of a dominant undertaking which, on a market where the degree of competition is already weakened precisely because of the presence of the undertaking concerned, through recourse to methods different from those governing normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition (judgments in *F Hoffmann-La Roche & Co AG v Commission of the European Communities* (85/76) EU:C:1979:36; [1979] 3 C.M.L.R. 211 at [91]; *AKZO Chemie BV v Commission of the European Communities* (C-62/86) EU:C:1991:286; [1993] 5 C.M.L.R. 215 at [69]; and *Tomra Systems ASA v European Commission* (C-549/10 P) EU:C:2012:221; [2012] 4 C.M.L.R. 27 at [17]).

46 It is, in this connection, settled case law that the exercise of an exclusive right linked to an intellectual-property right—in the case in the main proceedings, namely

the right to bring an action for infringement—forms part of the rights of the proprietor of an intellectual-property right, with the result that the exercise of such a right, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute an abuse of a dominant position (see, to that effect, judgments in *Volvo AB v Erik Veng (UK) Ltd* (238/87) EU:C:1988:477; [1989] 4 C.M.L.R. 122 at [8]; *Radio Telefis Eireann v Commission of the European Communities ('RTE')* (C-241/91 P and C-242/91 P) EU:C:1995:98; [1995] 4 C.M.L.R. 718 at [49]; and *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* (C-418/01) EU:C:2004:257; [2004] 4 C.M.L.R. 28 at [34]).

47 However, it is also settled case law that the exercise of an exclusive right linked to an intellectual-property right by the proprietor may, in exceptional circumstances, involve abusive conduct for the purposes of art.102 TFEU (see, to that effect, judgments in *Volvo* at [9]; *RTE* at [50]; and *IMS Health* at [35]).

48 Nevertheless, it must be pointed out, as the Advocate General has observed in point 70 of his Opinion, that the particular circumstances of the case in the main proceedings distinguish that case from the cases which gave rise to the case law cited in [46] and [47] of the present judgment.

49 It is characterised, first, as the referring court has observed, by the fact that the patent at issue is essential to a standard established by a standardisation body, rendering its use indispensable to all competitors which envisage manufacturing products that comply with the standard to which it is linked.

50 That feature distinguishes SEPs from patents that are not essential to a standard and which normally allow third parties to manufacture competing products without recourse to the patent concerned and without compromising the essential functions of the product in question.

51 Secondly, the case in the main proceedings may be distinguished by the fact, as is apparent from [15] to [17] and [22] of the present judgment, that the patent at issue obtained SEP status only in return for the proprietor's irrevocable undertaking, given to the standardisation body in question, that it is prepared to grant licences on FRAND terms.

52 Although the proprietor of the essential patent at issue has the right to bring an action for a prohibitory injunction or for the recall of products, the fact that that patent has obtained SEP status means that its proprietor can prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserve to itself the manufacture of the products in question.

53 In those circumstances, and having regard to the fact that an undertaking to grant licences on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms, a refusal by the proprietor of the SEP to grant a licence on those terms may, in principle, constitute an abuse within the meaning of art.102 TFEU.

54 It follows that, having regard to the legitimate expectations created, the abusive nature of such a refusal may, in principle, be raised in defence to actions for a prohibitory injunction or for the recall of products. However, under art.102 TFEU, the proprietor of the patent is obliged only to grant a licence on FRAND terms. In the case in the main proceedings, the parties are not in agreement as to what is required by FRAND terms in the circumstances of that case.

55 In such a situation, in order to prevent an action for a prohibitory injunction or for the recall of products from being regarded as abusive, the proprietor of an SEP

must comply with conditions which seek to ensure a fair balance between the interests concerned.

56 In this connection, due account must be taken of the specific legal and factual circumstances in the case (see, to that effect, judgment in *Post Danmark A/S v Konkurrenceradet* (C-209/10) EU:C:2012:172; [2012] 4 C.M.L.R. 23 at [26] and the case-law cited).

57 Thus, the need to enforce intellectual-property rights, covered by, inter alia, Directive 2004/48, which—in accordance with art.17(2) of the Charter—provides for a range of legal remedies aimed at ensuring a high level of protection for intellectual-property rights in the internal market, and the right to effective judicial protection guaranteed by art.47 of the Charter, comprising various elements, including the right of access to a tribunal, must be taken into consideration (see, to that effect, judgment in *European Commission v Otis NV* (C-199/11) EU:C:2012:684; [2013] 4 C.M.L.R. 4 at [48]).

58 This need for a high level of protection for intellectual-property rights means that, in principle, the proprietor may not be deprived of the right to have recourse to legal proceedings to ensure effective enforcement of his exclusive rights, and that, in principle, the user of those rights, if he is not the proprietor, is required to obtain a licence prior to any use.

59 Thus, although the irrevocable undertaking to grant licences on FRAND terms given to the standardisation body by the proprietor of an SEP cannot negate the substance of the rights guaranteed to that proprietor by art.17(2) and art.47 of the Charter, it does, nonetheless, justify the imposition on that proprietor of an obligation to comply with specific requirements when bringing actions against alleged infringers for a prohibitory injunction or for the recall of products.

60 Accordingly, the proprietor of an SEP which considers that that SEP is the subject of an infringement cannot, without infringing art.102 TFEU, bring an action for a prohibitory injunction or for the recall of products against the alleged infringer without notice or prior consultation with the alleged infringer, even if the SEP has already been used by the alleged infringer.

61 Prior to such proceedings, it is thus for the proprietor of the SEP in question, first, to alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed.

62 As the Advocate General has observed in point 81 of his Opinion, in view of the large number of SEPs composing a standard such as that at issue in the main proceedings, it is not certain that the infringer of one of those SEPs will necessarily be aware that it is using the teaching of an SEP that is both valid and essential to a standard.

63 Secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, it is for the proprietor of the SEP to present to that alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated.

64 As the Advocate General has observed in point 86 of his Opinion, where the proprietor of an SEP has given an undertaking to the standardisation body to grant licences on FRAND terms, it can be expected that it will make such an offer. Furthermore, in the absence of a public standard licensing agreement, and where licensing agreements already concluded with other competitors are not made public,

the proprietor of the SEP is better placed to check whether its offer complies with the condition of non-discrimination than is the alleged infringer.

65 By contrast, it is for the alleged infringer diligently to respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

66 Should the alleged infringer not accept the offer made to it, it may rely on the abusive nature of an action for a prohibitory injunction or for the recall of products only if it has submitted to the proprietor of the SEP in question, promptly and in writing, a specific counter-offer that corresponds to FRAND terms.

67 Furthermore, where the alleged infringer is using the teachings of the SEP before a licensing agreement has been concluded, it is for that alleged infringer, from the point at which its counter-offer is rejected, to provide appropriate security, in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit. The calculation of that security must include, inter alia, the number of the past acts of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use.

68 In addition, where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay.

69 Lastly, having regard, first, to the fact that a standardisation body such as that which developed the standard at issue in the main proceedings does not check whether patents are valid or essential to the standard in which they are included during the standardisation procedure, and, secondly, to the right to effective judicial protection guaranteed by art.47 of the Charter, an alleged infringer cannot be criticised either for challenging, in parallel to the negotiations relating to the grant of licences, the validity of those patents and/or the essential nature of those patents to the standard in which they are included and/or their actual use, or for reserving the right to do so in the future.

70 It is for the referring court to determine whether the above-mentioned criteria are satisfied in the present case, insofar as they are relevant, in the circumstances, for the purpose of resolving the dispute in the main proceedings.

71 It follows from all the foregoing considerations that the answer to Questions 1 to 4, and to Question 5 insofar as that question concerns legal proceedings brought with a view to obtaining the recall of products, is that art.102 TFEU must be interpreted as meaning that the proprietor of an SEP, which has given an irrevocable undertaking to a standardisation body to grant a licence to third parties on FRAND terms, does not abuse its dominant position, within the meaning of art.102 TFEU, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:

– prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and

– where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

Question 5, insofar as that question concerns legal proceedings brought with a view to obtaining the rendering of accounts or an award of damages

72 By Question 5, insofar as that question concerns legal proceedings brought with a view to obtaining the rendering of accounts or an award of damages, the referring court asks, in essence, whether art.102 TFEU must be interpreted as prohibiting an undertaking in a dominant position and holding an SEP, which has given an undertaking to the standardisation body to grant licences for that patent on FRAND terms, from bringing an action for infringement against the alleged infringer of its SEP and seeking the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use.

73 As is apparent from [52] and [53] above, the exercise by the proprietor of the SEP of its intellectual-property rights, by bringing actions for a prohibitory injunction or for the recall of products, may be characterised, in circumstances such as those in the main proceedings, as an abuse, where those proceedings are liable to prevent products complying with the standard in question manufactured by competitors from appearing or remaining on the market.

74 In the present case, according to the description set out in the order for reference, the actions for infringement brought by the proprietor of an SEP, seeking the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use, do not have a direct impact on products complying with the standard in question manufactured by competitors appearing or remaining on the market.

75 Consequently, in circumstances such as those in the main proceedings, such actions cannot be regarded as an abuse under art.102 TFEU.

76 In the light of the foregoing considerations, the answer to Question 5, insofar as that question concerns legal proceedings brought with a view to obtaining the rendering of accounts or an award of damages, is that art.102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding an SEP, which has given an undertaking to the standardisation body to grant licences for that SEP on FRAND terms, from bringing an action for infringement against the alleged infringer of its SEP and seeking the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use.

Costs

77 Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court. Costs incurred in submitting observations to the Court, other than the costs of those parties, are not recoverable.

R1 On those grounds, the Court (Fifth Chamber) hereby rules:

1. Article 102 TFEU must be interpreted as meaning that the proprietor of a patent essential to a standard established by a standardisation body, which has given an irrevocable undertaking to that body to grant a licence to third parties on fair, reasonable and non-discriminatory ("FRAND") terms, does not abuse its dominant position, within the meaning of that article, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:

   – prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and
   – where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

2. Article 102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding a patent essential to a standard established by a standardisation body, which has given an undertaking to the standardisation body to grant licences for that patent on FRAND terms, from bringing an action for infringement against the alleged infringer of its patent and seeking the rendering of accounts in relation to past acts of use of that patent or an award of damages in respect of those acts of use.

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ARBITRATION OF PATENT INFRINGEMENT AND VALIDITY ISSUES WORLDWIDE

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TABLE OF CONTENTS

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power to arbitral tribunals and to cooperate with tribunals to enforce the result. This is a prerequisite for all commercial arbitration, however, since even strictly private rights are essentially grants from the state, and thus awards concerning these rights are relatively worthless without the state's willingness to enforce them.

To challenge the objective arbitrability of patent disputes with the sovereign grant argument thus either impugns all of commercial arbitration, regardless of subject matter, or forces the proponent of the argument to provide some policy reason to distinguish patent arbitration from other types of commercial arbitration. The sovereign grant argument is, in that sense, a legal argument only on its surface. When this surface is penetrated, the proponent must rely on an unstated policy argument. We discuss some of the possibilities below.

A third legal argument concerns the inherently limited power of the arbitrator. Since arbitration is a consensual process, the jurisdictional competence of the arbitrator is limited to those people who have consented to it.[39] It would be impossible, according to this line of thinking, for an arbitrator to render an award that invalidates a patent and thus has a "public" effect.[40]

There are several possible responses to arguments based on the limited power of the arbitrator. First, the effect of an invalidity award may be expressly defined as inter partes, as has been done in the United States.[41] Alternately, an award of patent invalidity may be given broader effect, either through preclusive effects in later proceedings[42] or through third party enforcement of the award itself. Such an award would eliminate an obstacle to competition and thus confer a benefit on the broader public, creating a basis for preclusive effects or third party enforcement of the award on principles of implied consent.

B. Policy Arguments for Restrictions on the Objective Arbitrability of Patent Disputes

In some political systems, restrictions on the objective arbitrability of patent disputes are based on a desire to separate public law from

39. *See* William Grantham, Comment, *The Arbitrability of International Intellectual Property Disputes*, 1996 BERKELEY J. INT'L L. 173, 187 (1996) (proposing the limited power of the arbitrator as a justification for a complete limitation to objective arbitrability, but rejecting it in the final analysis).

40. An analogy may also be drawn to case law worldwide concerning the effect of an arbitral award on non-consenting parties. *See, e.g.*, Nath v. Nath, 1928 A.I.R. 15 (Cal.) 275, 276 (India) (if an arbitral award "purport[s] to interfere with the rights of strangers . . . the strangers will not in any event be affected by it; but as between the parties to the award its provisions must be held to be operative if there are no other questions about its validity.").

41. *See* 35 U.S.C.A. § 294(c) (2002).

42. *See infra* Part IV.

the inherently private mechanism of arbitration.[43] This is essentially a policy choice but one that may be made with little motivation other than longstanding legal tradition. Countries making such a choice usually enforce arbitral awards concerned with the patent as property — patent licensing or patent infringement — but will not enforce awards related to the validity of a patent.[44]

Clearly articulated justifications of such choices from a policy standpoint have, unfortunately, been lacking. Debate is often limited to vague references to the public nature of the patent grant without clearly defining what these public qualities might be or why their presence should require restrictions on objective arbitrability.[45] As pointed out by Grantham in one of the first works on the objective arbitrability of intellectual property at an international level:

> [T]here is a theory that intellectual property disputes — or aspects of them — are inarbitrable per se. This theory is premised on the idea that even though the state usually remains in the background in other types of private disputes, whether similar — in the case of contract actions — or analogous — as with real property arbitration — intellectual property has certain intrinsic features that [compel] the state into the foreground, and thereby, [invoke] the *ordre public*. But, commentators are uncertain as to what [these] intrinsic feature[s] might be and why there is a public policy bar to certain types of intellectual property arbitration.
>
> This is in contrast to antitrust cases, where . . . the antitrust debate at least has the virtue of having been grounded in a serious discussion of the respective roles of the state and of private parties in such disputes. In the case of intellectual property, one cannot point to a body of similar caselaw or literature to support the premise that certain classes of dispute inherently invoke the state interest in such a way that they should automatically be excluded from arbitration.[46]

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43. *See* Grantham, *supra* note 39, at 183.

44. *See, e.g.*, *infra* Part XV.A (discussing public policy arguments about the arbitrability of patent validity in Japan).

45. *See, e.g.*, Beckman Instruments, Inc. v. Technical Dev. Corp., 433 F.2d 55, 63 (7th Cir. 1970).

46. *See* Grantham, *supra* note 39, at 183 (citations omitted).

In our view, the confusion in the underlying policy question regarding the objective arbitrability of patent validity results from the attempt to answer three related questions at once. First, what are the relevant interests of the public[47] in the question of patent validity? Second, are such interests adequately represented by the parties to an arbitration? Third, assuming the public interests are not adequately represented, is a restriction on the objective arbitrability of patent validity the best means of protecting that interest?

Although the first question relates to the public interest in the continuing validity of issued patents, and not the public interests behind the patent system itself, it is perhaps appropriate to begin with the latter interests. The much-discussed public policies underpinning patent systems are the incentives to invent, invest, and disclose.[48] The incentives to invent and invest assume that a patent system is required to allow inventors and investors a return that reflects the value to society of innovation.[49] The last incentive suggests that the patent system encourages innovators to make innovations public that would otherwise be held secret.[50]

Significant discussion has taken place in legal and economic literature as to what the "correct" motivation for a patent system might be.[51] We do not take a position on this discussion, except to adopt the assumption inherent in all patent law that some motivation relating to an incentive to invent, invest, or disclose exists sufficient to justify that law. Regardless of whether the motivation rests on an incentive to invent, invest, or disclose, the patent monopoly is viewed as an undesirable but necessary incentive required to promote overriding state objectives.[52]

The question of the validity of an *existing* patent is thus the question of whether or not a particular monopoly, granted as an incentive,

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47. Here we mean both state interests and the private interests of a sufficiently large number of nonparties to the dispute that the interests can collectively be called public.

48. *See, e.g.*, Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1017–19 (1989). *But see* STAFF OF SUBCOMM. ON PATENTS, TRADEMARKS & COPYRIGHTS OF S. COMM. ON THE JUDICIARY, 85TH CONG., AN ECONOMIC REVIEW OF THE PATENT SYSTEM 32 (Comm. Print 1958) [hereinafter MACHLUP] (prepared by Fritz Machlup) (noting that economists dispute the "incentive to disclose" justification for the patent system).

49. *See, e.g.*, Eisenberg, *supra* note 48, at 1017. "Innovation" here means invention plus actual industrial application.

50. Pennock v. Dialogue, 27 U.S. 1, 19–20 (1829) ("The U.S. patent system is structured in order to encourage innovators to make innovations public rather than keep them secret.").

51. *See generally* MACHLUP, *supra* note 48.

52. *See id.* at 55.

> Existing patents, on the other hand, restrict the use of inventions already known, and thus they reduce temporarily the full contribution these inventions could make to national output. These restrictions are neither "odious" nor unlawful, nor contrary to public policy; they are "necessary" if any profit is to be derived from the patents.

Id.

justifiably exists. The fact that the patent has already been issued means that its incentive function has already been fulfilled[53] and the maintenance of the monopoly is related to the expected reward to the patentee. The lack of a strong correlation between the written law and the actual upholding or invalidation of patents in courts could upset a (presumably) carefully struck balance between the costs of monopolies and the social benefits of invention spurred by patent rights.[54]

The question then becomes whether an arbitration of validity issues is sufficient to maintain this balance. In this context, the technical competence of the arbitral tribunal has been called into question. Arbitrators may simply not be prepared to handle the complexity of extremely technical areas of law such as patent validity.[55] Consistently incorrect decisions by arbitrators on validity could upset the balance between the harms of monopoly power and the incentives to invent and disclose. The courts, however, have rejected the argument that arbitrators are inherently less capable of resolving technical issues.[56] In fact, the ability to select arbitrators knowledgeable in the subject matter of the dispute may render arbitration a better forum for the decision of highly technical matters.[57]

Another argument for restricting the objective arbitrability of patent disputes has to do with the ability of the parties to shape the arbitration procedure to fit their needs. This potential advantage of arbitration becomes a concern when one party is able to exert considerably more influence on the process than the other, especially when the weaker party consistently represents the public interest.[58] This is especially relevant where statutory claims intended to redress societal evils created by power imbalances, such as claims involving racial discrimination, are in dispute. In these cases there is a tension between the desire to allow the parties and the arbitrators to decide which sub-

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53. *See id.*

> If one accepts the theory that patent protection has the social function of serving as an incentive for inventive activity, one accepts, by implication, that the beneficial effects of this incentive system must flow, not from existing patents, but from the hope for future profits from future patents . . . .

Id.

54. *See, e.g.*, Lear, Inc. v. Adkins, 395 U.S. 653, 677 (1969) (Black, J., concurring).

55. *See* Hanes Corp. v. Millard, 531 F.2d 585, 593 (D.C. Cir. 1976) ("[T]he expertise of arbitrators has always lain in resolving, perhaps by way of compromise, contractual disputes rather than in interpreting the import of complicated federal legislation.").

56. *See, e.g.*, Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1198 (7th Cir. 1987) ("[T]here is no reason to think that arbitrators are more likely to err in copyright cases than state or federal judges are . . . .").

57. *See, e.g.*, Robert H. Smit, *General Commentary on the WIPO Arbitration Rules, Recommended Clauses, General Provisions and the WIPO Expedited Arbitration Rules: Articles 1 to 5; Articles 39 and 40*, 9 AM. REV. INT'L ARB. 3, 5 (1998).

58. This might occur, for example, where a powerful merchant drafted the arbitration clause in a contract of adhesion.

stantive law to apply and the desire to see the policies of the legislature carried out.[59]

It is not at all clear that the parties' ability to customize the arbitration forum would be problematic where patent issues are concerned. We are aware of no evidence to support the proposition that the patent laws were created to address a societal evil created through a power imbalance.[60] Furthermore, in our experience, the majority of patent disputes are merchant to merchant, and it is difficult to predict whether the patentee or the alleged infringer will be the party with the most resources. Suits pitting powerful patentees against consumers are rare.[61] To the extent that such suits exist, they often cannot be subjected to valid arbitration agreements because of the legal limitations on consumer arbitration clauses.[62]

Although it appears that neither side in a patent dispute is (on average) likely to be significantly weaker than the other, we are still left with the question of whether either party is prepared to represent the public interest. In this sense, it must be observed that *any* private right arises from a form of public interest. For example, the state has an interest in the proper enforcement of private sales contracts to enable business planning according to certain and known legal principles, or in the proper maintenance of private property interests in real estate.[63] In these cases, the public interests are so aligned with the parties' own interests that they cannot be said to be unrepresented in a dispute.

Yet the public interest in the question of the validity of a patent appears in this sense distinguishable from the public interest in areas of purely private law. A dispute regarding the validity of the patent, unlike a contract dispute, has the potential to affect the freedom of action of numerous third parties. While the accused infringer is certainly adequately motivated to defend *itself* with a claim of invalidity,

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59. Such tensions can be seen in a variety of U.S. cases dealing with statutory rights. *Compare* Rodriguez de Quijas v. Shearson/Am. Express, Inc., 490 U.S. 477, 484 (1989) (holding the arbitration clause in an investment contract enforceable), *and* Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614, 631–37 (1985) (holding provisions of the Sherman Antitrust Act arbitrable), *with* EEOC v. Waffle House, 534 U.S. 279, 295 n.10 (2002) (noting that an arbitration agreement does not prevent the EEOC from enforcing provisions under the ADA that protect employees).

60. *See e.g.*, Eisenberg, *supra* note 50 (describing the various rationales for a patent system); *see also* F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 697 (2001) ("The foundation for the American patent system is purely economic.").

61. This might reflect a desire to spend enforcement resources at the distribution point, or an aversion among patent holders to the generation of negative publicity among the buying public.

62. *See* Chūsai Hō [Arbitration Law], Law No. 138 of 2003 (Japan), Supplemental Provisions, art. 3, no. 2 [hereinafter Japanese Arbitration Law], *translated at* http://www.jcaa.or.jp/e/arbitration-e/kisoku-e/kaiketsu-e/civil.html (allowing consumers to cancel an arbitration agreement); Zivilprozeßordnung [ZPO] [Civil Procedure Statute] July 27, 2001, Bundesgesetzblatt, Teil I [BGBl. I] 1887, § 1030 (F.R.G.).

63. *See* Grantham, *supra* note 39, at 182–83.

it may not be adequately motivated to defend all third parties. This might present a problem where the accused infringer has procedural alternatives that would allow it, contrary to the public interest, to limit the scope of a finding of invalidity.

In fact, it is difficult to see why an accused infringer would have the complete invalidation of the patent as one of its litigation objectives.[64] A judgment of invalidity stands to benefit potential competitors to the alleged infringer, as well as the infringer itself, by making the patented invention available to all potential infringers. The alleged infringer is likely to prefer a broad and irrevocable patent license, leaving the monopoly intact for non-party competitors, and leaving the enforcement costs with the patentee.[65] Thus, a potential infringer is unlikely to share a potential public interest in invalidating a patent.

The public interest in patent validity proceedings may also conflict with the potentially confidential nature of arbitration. It is possible under most arbitration statutes[66] for the parties to keep the proceedings private and confidential.[67] This, in turn, raises the possibility of collusion, since if neither of the parties were interested in fully probing the question of validity, they would be able to conceal even strong evidence of invalidity from the broader public.

Moreover, since it is difficult and expensive to prove invalidity,[68] the public interest might be best served if any evidence of invalidity were made available to the general public. This may not occur in arbitration, where the parties have little incentive to divulge evidence of invalidity to the outside world, and indeed possible incentives to suppress this evidence. In a court dispute regarding patent validity, however, the proceedings are made public. Furthermore, the parties have no choice in the legal consequences that flow from the judicial determination of a particular set of facts. If the accused infringer pleads the invalidity of the patent, the court may invalidate it. If the accused infringer does not wish to invalidate the patent, he must withhold his invalidity claim and face the possibility of being found in violation of the patentee's rights without an adequate defense.

We must note, however, that we are aware of no state that has explicitly identified these policy concerns as a reason for restricting objective arbitrability of patent validity. In fact, some states have at least

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64. An exception might occur where personal or professional animosity plays a strong role.

65. United States patent law enables this outcome by specifying that a patent arbitral award has no effect on non-parties to the arbitration. *See* 35 U.S.C.A. § 294(c) (2002).

66. *See* Alexis C. Brown, *Presumption Meets Reality: An Exploration of the Confidentiality Obligation in International Commercial Arbitration*, 16 AM. U. INT'L L. REV. 969, 990–99 (2001).

67. "Private" means that third parties are excluded from the arbitration hearings, whereas "confidential" means that the results of the arbitration are not disclosed to third parties. *See* Michael Collins, *Privacy and Confidentiality in Arbitration*, 30 TEX. INT'L L.J. 121 (1995).

68. *Cf.* 35 U.S.C.A. § 282 (2002) ("A patent shall be presumed valid.").

tacitly rejected these concerns. In India,[69] for example, it is possible for a court decision on patent validity to be applied only inter partes. Thus, parties in some countries can decide to litigate patent claims in a way that will preserve the patent monopoly even if the court finds that patent invalid.[70]

Moreover, even if arbitration of patent validity is restricted, parties can always resolve disputes through private settlements. Such settlements, in turn, carry the risk that public interests will not be adequately represented. In some countries the limits of objective arbitrability are also the limits of settlement, and thus a settlement may be prohibited from acknowledging patent validity or invalidity.[71] We consider pre-litigation settlement agreements that acknowledge patent invalidity to be exceedingly rare. More often the potential infringer presents or hints at its evidence of invalidity during negotiations, without the parties ever "deciding" on the merits whether the patent is sustainable or not. The question of invalidity then hangs over the patentee like the Sword of Damocles, affecting the terms of an agreement that purports to resolve infringement issues alone.

In any case, the public policy concerns expressed above may be alleviated by placing certain conditions on the private arbitration of validity disputes, similar to those found in a court. For example, registration at the patent office of an award involving a finding of patent validity or invalidity could be required in order to alert third parties to the proceedings. The form of the award could be tied to the pleadings in such a way as to force a brief explanation of the issues decided. The accused infringer then would be faced with a choice: it could either arbitrate its invalidity claims with the knowledge that they would become public and may even have preclusive effect, or withhold its invalidity claims and rely on other arguments. This is the same choice an accused infringer would face in litigation, and the outcome should be similar. Under these conditions, the arbitration of patent validity would appear to satisfy the public policy concerns expressed above.

69. *See infra* note 285 and accompanying text.

70. This may not represent a complete rejection of the state's interest in the outcome of a validity dispute. The proceedings are still public, and the parties still have an incentive to pursue the revocation of the patent if only to force the patentee into a less favorable settlement posture.

71. *See, e.g.*, Zivilprozeßordnung [ZPO] [Civil Procedure Statute] July 27, 2001, Bundesgesetzblatt, Teil I [BGBl. I] 1887, § 1030(1) (F.R.G.) (stating that any claim involving commercial or property matters can be the object of an arbitration agreement, and that arbitration agreements concerning non-commercial or non-property matters are valid to the extent that the parties are free to reach a settlement over the matter); Japanese Arbitration Law, *supra* note 62, art. 13(1).