The case for the defence:
Access for all v. license to all

On 9 March 2020 FOSS Patents blogger Florian Mueller published[1] a paper by Professor Damien Geradin entitled "SEP Licensing After two Decades of Legal Wrangling: Some Issues Solved, Many Still to Address"

Florian Mueller needs little introduction: he is the name on a well-known blog in the industry, and a fierce critic of European SEP owners. Professor Geradin is a lawyer best known for representing Huawei in the *Huawei v ZTE* action in the CJEU. He is also an academic, and in this paper he writes as Professor of Competition Law & Economics, Tilburg University and visiting Professor, University College London.

Professor Geradin's paper addresses six questions. The fifth of these, and the section promoted by FOSS Patents[2], is entitled "*Access for all v. license to all: what are the obligations of the SEP holder*". In analysing this question, the paper considers the *Nokia v Daimler* case. It concludes that Nokia's licensing approach may violate European Competition Law.

This reply considers to what extent such a conclusion is supported by the facts, and finds that it is not. The main issues are:

a) The author of the paper has unfortunately not read the licensing offers that he purports to analyse[3]. Nor has he taken note of what has been said about them in the litigation.

b) The paper argues that, as a matter of law, any "have-made rights" in these licensing offers could only take effect one step up in a supply chain, and would not permit research or marketing activities. Both are incorrect.

The paper's conclusion is therefore based on errors of fact, and errors of law.

[1] http://www.fosspatents.com/2020/03/academic-paper-sheds-light-on-severe.html
[2] Section E of the paper.
[3] By email he confirmed that he has not seen the documents but he has "had them described to him by people in the industry".

In Part a of this reply, I summarise Section E of the paper.

In Part b, I explain what is known from the *Nokia v Daimler* proceedings about the SEP licensing offers being disputed in the case[4] and why this contradicts many of the paper's criticisms.

In Part c I explain "have-made rights", why the paper's assertion that these can only operate one level up the chain, and would not permit research or marketing activities is incorrect, and why these errors undermine the conclusion of the paper and the blog.

a Summary of the paper's conclusions

The paper starts from an assumption that Nokia refuses to grant FRAND licences to suppliers of connectivity solutions in the automotive sector. Nokia, it alleges, only wishes to grant licences to automotive OEMs.

Car makers, it asserts, have special reasons not to take licences to patents that they use. Those reasons are: 1) they would prefer to obtain parts free of third party rights; 2) their products contain many thousands of components; 3) car makers have limited internal expertise in third party technologies; and 4) because of their just-in-time manufacturing processes, car manufacturers are vulnerable to injunctions.

The paper does not specify which of these reasons not to take a licence are unique to the automotive

[4] Although the offers themselves are confidential, the parties have described certain aspects of them in court filings and submissions. In particular, the offers were discussed in a hearing in the Munich Regional Court on 30 October 2019. I rely on what was discussed in that hearing.

industry, or which reason would not equally apply to the telecoms industry, or indeed any person using third party intellectual property.

The paper also raises a "floodgates" principle argument: that if car makers took a licence to Nokia's patents, they may also have to take licences to the other third party intellectual property which they use. It is not clear why this would be a bad thing.

The paper argues that Nokia's licensing offers also put component makers in a difficult position: because they need a licence to lawfully make and sell products. The argument very strongly depends upon an allegation of "refusal to deal": an allegation that Nokia refuses to license component makers. The paper acknowledges that there is not a complete refusal to license: in Nokia's offers there are contractual terms allowing the component makers to use Nokia's patents in the manufacture of components. These clauses are known as "have-made rights" and are a common but previously overlooked feature of patent licences.

Although the author has not read the have-made clauses in Nokia's offers, he argues that as a matter of US and German law any such clause must be limited in its effect to a single step up in the supply chain. It therefore could not provide consent to work the patents to Tier 2 or Tier 3 suppliers in the automotive supply chain.

Consequently, the paper concludes that "*The market consequences of tolerating Nokia's approach would therefore be significant*". It "*would likely breach EU competition law*" (meaning Article 101) because the approach would affect "*trade between Member States in a manner which might harm the attainment of the objectives of a single market between the Member States, in particular by sealing off national markets or by affecting the structure of competition within the common market*".

If correct, this conclusion would be a surprising one. It would apply to most (if not all) patent licences in the telecoms industry. Even the licences awarded to TCL by Judge Selna in *TCL v Ericsson*[5] and to Huawei by Mr Justice Birss in *Unwired Planet*[6] would, on that analysis, have violated Article 101. In Part C of this paper I demonstrate that Nokia's approach has been common to licensing practice in other industries too, including the automotive industry, since at least the 1960s. If the paper's conclusions are correct, these industries would presumably also violate Article 101.

The paper further concludes that Nokia's offered licence terms (and again, by implication, many other patent licences) infringe Article 102(b) TFEU by limiting "*production, markets or technical development to the prejudice of consumers*", because suppliers of mobile communications technology would no longer be able to carry out their own research and development and would face significant restrictions in the way they can market their products. This reply explains why this conclusion is equally flawed in law. More significantly in this case, it is directly contradicted by the primary documents which are said to give rise to the violation.

b The SEP Licensing offers in the Nokia Daimler case

Telecoms cellular essential patents (SEPs) are typically licensed at a single point in each product value chain. The patent owner enters an agreement with the maker of the end user product[7]. He gives his consent to the use of his SEPs to the maker of the end user product, and to each supplier of a component for the end user product. In the latter case he does so by description: although the individual suppliers are not identified in the agreement by name, they are identified as a class of persons who may benefit from the consent. At patent law, this is sufficient to give suppliers consent to use the patents, and they therefore do not infringe the patents. Such consents are referred to amongst licensing professionals as "have-made rights", and are commonly expressed in the grant clause of a licence agreement as: the licensee may "make, have made, use, etc.".

The Nokia licence offers in the Nokia v Daimler case derive from the conventional telecoms industry SEP licensing practices. The offers have been

5 *TCL v Ericsson*, Case 8:14-cv-00341-JVS-DFM.
6 *Unwired Planet International Ltd & Anor v Huawei Technologies Co Ltd & Anor* [2017] EWHC 711 (Pat).

7 *Microsoft v Motorola*, (United States Court of Appeals, Ninth Circuit. No. 14–35393), *In re Innovatio IP Ventures* (2013 WL 5593609, 31) *Unwired Planet v Huawei* ([2017] EWHC 711 (Pat), *TCL v Ericsson* (Case 8:14-cv-00341-JVS-DFM) and *Huawei Technologies Co. Ltd v Samsung (China) Investment Co., Ltd., Huizhou Samsung Electronics Ltd. and Shenzhen Nafang Yunhe Technology Co. Ltd.*(2016) Y03 MC No. 840 are all recent examples of cases in which FRAND licences have been imposed or granted in relation to the end user product maker in a supply chain.

discussed in the proceedings and in conferences[8], and as a result some details are in the public domain. It appears that there are three offered routes to a licence to Nokia's SEPs in the automotive space for connected vehicles:

The first is through Avanci, the pool of cellular SEPs for the automotive sector. Manufacturers who have taken an Avanci licence (which appears to include all of the German car makers except Daimler) get a licence to Nokia's SEPs.

The second route is a licence agreement entered into between the car maker and Nokia directly. This operates in the same way as a Telecoms industry SEP licensing agreement: the car maker receives a licence to use the patents, and his suppliers are covered by have-made rights. Any components used or destined for use in a licensed vehicle are thereby licensed.

A third route has been offered to the component suppliers, should their car maker customers prefer not to take a licence. This is Nokia's Tier 1 licensing offering. From the description given to the court in the Nokia v Daimler case[9], it is apparent that the Tier 1 offer adopts a similar structure to a conventional telecoms industry SEP licence, but under the Tier 1 offer a Tier 1 supplier may enter into the agreement and pay the licence fees on behalf of any car maker customers, for the connected vehicles and the underlying value chain.

The paper only appears to acknowledge the existence of the second of these licensing offers. Since the central tenet of the paper is the repeated theory that Nokia refuses to deal with the Tier 1 component makers, the omission of any mention of Nokia's Tier 1 licensing offering is unfortunate.

c Have-made rights

In a patent licence agreement, the "have-made right" is a shorthand for the part of the licence grant clause which provides consent for the use of patents by the suppliers of the immediate counterparty. Those suppliers are not named in the agreement, and they may change from time to time. But, so long as they are making products for the named licensee, they do not infringe the patent.

Although known as have-made "rights", this phrase has the potential to be slightly misleading as it may suggest some sort of bilateral contractual right that could, if needed, be enforced against the counterparty (for example, an obligation to do something). In the grant clause of a licence agreement what is being granted is consent to use the patents. Patent statutes generally contain similar wording around "consent" when they describe what constitutes patent infringement:

"In the absence of the consent of the proprietor of the patent, any third party shall be prohibited from [...];"[10]

"the following shall be prohibited, save consent by the owner of the patent [...];"[11] or

"a person infringes a patent for an invention if, but only if, while the patent is in force, he does any of the following things in the [territory] in relation to the invention without the consent of the proprietor of the patent [...]".[12]

Consent from the patentee prevents the existence of the statutory tort of patent infringement. Have-made rights give that consent.

Have-made rights are not a new concept. Nor are they confined to the telecoms industry. In German case law, have-made rights have arisen from various industries[13], including consumer goods, medical products and aviation.

Reported US cases involving have-made rights in patent licences go back to *Carey v United States*[14], a case relating to a pre-war patent for the production of titanium metal from ore. The patent was licensed to Siemens Haber, but under wartime legislation became vested in the United States Attorney General. The court determined whether producers of titanium, who were using the patented process in order to meet demands for jet aircraft for the later

[8] Including OxFirst's conference in Brussels on 6-7 February 2020 https://www.oxfirst.com/oxfirst-ip-and-competition-forum-building-bridges-in-turbulent-markets/

[9] 30 October 2019 LG Munich.

[10] Section 9 German Patents Act.

[11] Article 613-3 French Intellectual Property Code.

[12] Section 60(1) Patents Act 1977 (UK).

[13] Eg. Consumer goods *(OLG Munich 11 September 2003 – 6 U 2448/03);* aviation *(LG Mannheim 6 February 2015 – 7 O 289/10);* memory chips *(Court of Appeal Munich, judgment 25 July 2013, docket no. 6 U 545/12);* medical products *(Court of Appeal Düsseldorf, judgment 1 October 2009, docket no. 2 U 82/08);* MPEG video codecs *(Düsseldorf District Court, judgment 11 January 2007, docket no. 4a O 351/05);* and in optical components *(OLG Munich 27 July 2006 - 6 U 4349/04, published in NJOZ 2008, 4118).*

[14] 326 F.2d 975, 979-980 (Ct. Cl. 1964)

Korean war, were doing so under the licensee's implicit have-made right.

Have-made rights are even used in the automotive industry: *Radar Indus. Inc v Cleveland Die & Manufacturing Company*[15] is a comparatively recent case about a patent for a mechanical clevis link, used to attach the radiator in General Motors cars. The court found that have-made rights covered the activities of the component maker who made the clevis link, and supplied it to the licensee.

In the context of telecoms SEPs, have-made rights feature in the ETSI IPR Policy. Paragraph 6.1 envisages that licences would include the ability to "*make or have-made components*". They appear in both of the major court-awarded licences in the mobile telecoms industry: in the *Unwired Planet*[16] decision the licence proposed by the UK High Court included have-made rights (clause 2.1.3 of Unwired Planet awarded licence), and they also appear in the Court-imposed licence in *Ericsson v TCL*[17]: see Clause A[18].

The paper argues that have-made rights are deficient in comparison to a licence: so much so that it would breach EU competition law to offer only a have-made right to a supplier. There are six grounds on which it is alleged that have-made rights are deficient:

"not operating under a license"

The first ground is that "*while have-made rights could potentially immunise Tier-1 TCU suppliers from infringement proceedings, they* (the supplier) *would still be unlicensed (as operating under have-made rights is not operating under a license)*".

I have explained above that a patent is infringed only if it is used without the consent of the owner. That consent can be given in different ways.[19] It may be directly set out in a written agreement to the beneficiary of that consent (which we might call a "licence agreement"). Or it may be given indirectly (for example to component suppliers via agreements with manufacturers of the final product). But however it is given, and whatever it is called, consent has the same effect: there is no infringement of the patent. To a patent lawyer, it seems absurd to claim that a person who operates under a consent to use the patent is "*not operating under a licence*".

"research"

The second ground on which have-made rights are said to be deficient is that they prevent component makers from carrying out their own research activities. This prevents investment in new technologies.

To a patent lawyer this would also be a surprising claim. Most countries provide for research exceptions in their national patent rules. Article 30 of the TRIPS Agreement permits countries to adopt an exception for research, and most EU Member States have adopted express statutory exceptions to implement Article 27(b) of the Community Patent Convention (CPC). This Article states that: "*The rights conferred by a Community patent shall not extend to: ... (b) acts done for experimental purposes relating to the subject-matter of the patented invention.*" Germany has included such an exception in s. 11 No 2 of the German Patents Act. The UK has done so in s. 60(5) of the Patents Act 1977. The only EU Member State of which I am aware which has not done so is Austria: Austria considers that it does not need an express exception for research as research does not fall within the listed infringing acts (manufacture, offer for sale, etc.).

It is clear from English and German case law that the research exemption is not limited to pure scientific research: the courts have applied the exemption to cover the making of a new consumer product which will be sold, even though this may be regarded as development work rather than pure research.[20]

In practice the lack of a licence to conduct research has not proved to be a problem. None of the telecommunications patent licences that I have seen cover research. Yet a vast amount of research activity has clearly taken place in the industry[21], building standards by collaborative efforts. There have been no allegations that this research work infringed others' patents.

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[15] 424 F. App'x 931, 936 (Fed. Cir. 2011)
[16] *Unwired Planet International Ltd & Anor v Huawei Technologies Co Ltd & Anor* [2017] EWHC 711 (Pat).
[17] *TCL v Ericsson*, Case 8:14-cv-00341-JVS-DFM
[18] https://www.essentialpatentblog.com/wp-content/uploads/sites/64/2017/12/2017.12.22-1803-Final-Judgment-And-Injunction.pdf
[19] Terrell on the Law of Patents 18th edition, para 14.220.

[20] *Klinische Versuche (Clinical Trials)–II,* Germany [1998] R.P.C. 423
[21] Nokia alone is said to have spent more than $125billion on research into mobile telecommunications, more than the cost of Nasa's Apollo programme in real terms.

The author of the paper is not the first person to argue that have-made rights do not permit research: the point also arose in the *Nokia v Daimler* dispute. Nokia's response to the Munich court was that the Tier 1 offer expressly provides that the Tier 1 supplier may carry out R&D activities. That would appear to put the final nail into the coffin of this particular argument.

"marketing"

The paper argues that have-made rights do not permit component makers to engage in marketing activities. Again, a patent lawyer would question whether marketing *per se* would infringe: the test[22] in EU countries is whether the act constitutes "putting the product on the market", which goes somewhat further.

Whether the consent does cover marketing activities will depend on the wording of the agreement (when construed to make business sense), just as would be the case with a direct bilateral agreement. Certainly it would be hard to argue that a supplier selling components to a licensee under a have-made right nevertheless infringed when he pitched for the supply contract, or provided price lists or marketing materials to the licensee.

In this sense, the consents granted under have-made rights are no better or worse than the consents granted under a bilateral licence agreement. There is certainly nothing inherent in consents granted as "have-made rights" that would preclude them from covering marketing activities.

"higher in the supply chain"

The paper argues that have-made rights can only operate one level up the supply chain. It argues that whilst a direct supplier to the automotive manufacturers might operate lawfully, "*have-made rights would not immunize from infringements manufacturers of components that are higher in the supply chain as their production would not fall under these rights*". It concludes that "*This would call for vertical integration even when it is inefficient*."

The paper cites four 4 US cases: *Carey v US*[23], *AMD v Intel*, *Cyrix Corp v Intel*[24] and *CoreBrace LLC v Star Seismic LLC*[25].

None of these cases supports the proposition that "have-made rights" cannot give consent to a supplier who is not directly contracting with the licensee.

If anything, *Carey* suggests that have-made rights are not so limited. The manufacturers of the titanium in that case were several private companies, and the Bureau of Mines, a separate juristic body to the United States, established by statute[26]. The licensee was the United States Attorney General, also a separate juristic body to the United States, acting as an agent. The body which purchased the manufacturing companies' production of the titanium was the US Federal Government's General Services Administration. The have-made rights under which the titanium manufacturers were operating were therefore indirect: there was no direct relationship between the titanium manufacturers, the Bureau of Mines, and the United States Attorney General. The court saw no distinction between a contractor engaged directly by the licensee and one engaged indirectly.

In *Corebrace* it also appears that there was more than one entity involved in the manufacture of components under the have-made rights granted to the licensee.

Under German law the paper cites Christian Osterrieth, *Patent Law*, 5th ed. 2015, Rn. 695 as authority for the proposition that have-made rights cannot give consent to a supplier who is not directly contracting with the licensee. But the cited passage of Prof. Dr. Osterreith's book does not preclude a two-stage supply chain: it merely requires that the work is, ultimately, being done to provide a product for the licensee, rather than for sale by the contractor on the open market.

In the absence of some rule of law that states that have-made rights can only operate one level up the supply chain, the normal rules of contract would appear to apply: the contract does what it says. There is no reason why Nokia's offer of have-made

22 Article 25 of the Community Patent Convention. In English law considered by Jacob J (as he then was in *Gerber v Lectra* [1995] RPC 383 at 411

23 *Carey v United States*, 326 F.2d 975, 979-980 (Ct. Cl. 1964)

24 77 F.3d 1381, 1387-88 (Fed. Cir. 1996)

25 *566 F.3d 1069,1072-73 (*Fed. Cir. 2009*)*

26 *The Bureau of Mines: its history, activities and organization By Powell, Fred Wilbur,*

rights to cover Tier 2 or Tier 3 suppliers would be ineffective.

"dependent on the OEM"

The paper argues that "*Tier-1 suppliers would be immunized from infringement only as long as the automotive OEM for which they operate as an extended workbench are licensed. If for some reason the OEM was no longer licensed or breached the terms of its license, they would be exposed to infringement proceedings*." It argues that "*they would not be allowed to produce components for other OEMs*".

These arguments ignore the way that Nokia's offered Tier 1 licensing arrangements operate. It appears that the party entering the agreement and paying under the agreement is a Tier 1 supplier rather than the car maker. He can produce and sell to any OEM under the agreement. Such an agreement would not depend upon acts or omissions of the OEM. Nor would it be possible for any OEM to whom he sells to *"breach the terms of its license":* these matters are all within the control of the Tier 1 supplier.

"selling on the open market"

The paper argues that Nokia's licensing structure would prevent a Tier 1 supplier from making products to be sold on the open market. This may, at first glance, appear to be a pro-competitive argument, but observant readers may have noticed the sleight of hand. If a person makes a product for sale on the open market, he would not be acting as a Tier 1 supplier.

d Conclusions

The paper's conclusion that Nokia's offers may violate European competition law is based on misunderstandings of those offers and their effect under patent law.

The main misunderstandings are that a) Nokia has only made offers to the automotive OEMs, b) those offers would not permit use of the patents by upstream suppliers, and c) those offers would not permit research or marketing activities.

The paper also fails to identify, as a matter of competition law, what consumer harm would result from such a licensing mechanism. It is noteworthy that all major German car brands except Daimler, the telecoms industry, and a number of other industries, all appear to be operating under such a model without apparent consumer harm.

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