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The FRAND Ceremony and the Engagement of Article 102 TFEU in the Licensing of Standard Essential Patents

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ESSAY

THE FRAND CEREMONY AND THE ENGAGEMENT OF ARTICLE 102 TFEU IN THE LICENSING OF STANDARD ESSENTIAL PATENTS

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I. *INTRODUCTION*

A Standard Essential Patent ("SEP") is a patent that must be practiced by any firm wishing to commercially deploy a privately-adopted standard, such as the standards promulgated by the European

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Telecommunications Standards Institute ("ETSI").[1] The adoption of a standard by a major Standard Setting Organization ("SSO")[2]—such as ETSI—requires a declaration by a covered SEP-holder that effects a legal commitment to license that the SEP on a fair, reasonable and non-discriminatory basis ("FRAND").[3] This gesture—which I describe as a "FRAND ceremony"—has multiple legal consequences. The FRAND ceremony binds the SEP-holding declarant to the express terms of the commitment as a matter of private law (which, in regard to ETSI, is a matter of French law). Moreover, the FRAND ceremony establishes additional obligations binding on the SEP-holder—sourced in EU competition law. The declarant acknowledges the "essentiality" of its patent to the practice of the standard, which goes a long way to presumptively establishing a "dominant position" under Article 102 of the Treaty on the Functioning of the European Union ("TFEU")[4] and charging the SEP-holder with "special responsibility." The holder of a SEP incorporated in an ETSI standard (or a standard of most other important SSOs) is thus likely bound to make available licenses on FRAND (or FRAND-like) terms that overlay or augment the FRAND undertaking expressly set out in the FRAND declaration itself.

This Essay examines the FRAND formulation for determining the maximum royalties payable to the holder of a Standard Essential Patent, with a focus on EU competition law. The holder undertaking to license a SEP on FRAND terms undoubtedly makes a contractual commitment. Moreover, the SEP holder affects a change in legal status, engaging Article 102 TFEU. There are two related and overlapping sets of FRAND obligations now in play: one established by private law according to express terms defined by the SEP-holder and the SSO; the other flowing from EU competition law.

There is hardly any point where competition law and intellectual property rights collide more directly than in the case of Standard

1. The European Telecommunications Standards Institute ("ESTI") is the pre-eminent standard-setting organization for telecommunications standards. ETSI participated in the setting of the 3G and 4G/LTE standards, which were the subject of the Smartphone Wars. ETSI's FRAND processes are subject of the *Huawei* and *Unwired Planet* cases, discussed in this Essay.

2. *See generally* Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889 (2002).

3. For the current version of ETSI's FRAND obligation, see EUROPEAN TELECOMMS. STANDARDS INST. § 6, annex 6 (2018).

4. Consolidated Version of the Treaty on the Functioning of the European Union art. 102, 2008 O.J. (C 115) 47 [hereinafter Article 102 TFEU].

Essential Patents. A SEP, like any patent, enjoys a presumption of validity and gives its holder a set of commercial exclusivities. These exclusivities may operate to generate an economic reward to an innovator. A SEP, like any patent, may generate monopoly rents reflective of the market power of the covered invention.[5] Indeed, SEPs are more likely to enjoy significant market power than ordinary patents, for reasons to be discussed below, and as such are more likely—in the words of Article 102 TFEU—to constitute a "dominant position."[6]

The incorporation of a patent into a widely utilized standard will significantly enhance that patent's market power. Rival technologies, that would otherwise check the SEP's power in the market, fall away into competitive irrelevance once the standard is set. A SEP "locks in" all users of the standard; they may not avoid practicing the SEP if they wish to deploy the associated standard. A SEP holder may "hold up" any prospective practitioner of the standard; the amount of royalties the SEP holder might then demand will reflect more than the simple value of the innovation covered by the patent. The SEP holder can expropriate, at least in theory, a considerable amount of the value of the standard itself (which necessarily exceeds the value of the innovation subject to the patent).

SSOs have long recognized this vulnerability to opportunistic demands by SEP holders. Most significant standard setting exercises—such as the 3G and 4G/LTE standards established by ETSI—now condition the incorporation of a patented technology into an adopted standard on the making of a FRAND commitment by the patent holder.[7] The FRAND undertaking typically binds the SEP holder to license its SEP to anyone desiring to practice the standard.[8] Moreover, any license of the SEP must be on a "fair, reasonable, and non-discriminatory" basis.[9]

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5. Jorge L. Contreras & Richard J. Gilbert, *A Unified Framework for RAND and Other Reasonable Royalties*, 30 BERKELEY TECH. L.J. 1451 (2015); Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 BERKELEY TECH. L.J. 1135 (2013).

6. Article 102 TFEU.

7. *See* Jeffrey Lewis, *What is "FRAND" All About? The Licensing of Patents Essential to an Accepted Standard*, CARDOZO 2-3 (Jun. 11, 2014), https://cardozo.yu.edu/sites/default/files/Lewis.WhatIsFrandAllAbout.pdf [https://perma.cc/M8Y7-C4ZM].

8. Stanley M. Besen, *Why Royalties for Standard Essential Patents Should Not Be Set by the Courts*, 15 CHICAGO-KENT J. INTELL. PROP. 19, 20 (2016).

9. Jorge L. Contreras, *A Brief History of FRAND: Analyzing Current Debates in Standard Setting and Antitrust Through a Historical Lens*, 80 ANTITRUST L.J. 39, 45 (2015).

Within Europe, the legal obligation binding a SEP-holder to license the SEP on a fair, reasonable and nondiscriminatory basis has twin sources. The first source is easily recognized. A FRAND obligation is voluntarily "declared" by the holder of an SEP during the standard setting exercise. The SSO sponsoring the adoption of the relevant standard will define—in its rules—the terms of the FRAND obligation; the SEP declarant essentially checks a box electing FRAND. The SEP holder's FRAND declaration establishes valid legal obligations under contract or related theories. From this viewpoint, the FRAND obligation is an artifact of private law, and private law will largely determine the nature of the scope of the particular FRAND obligation. The engagement of FRAND results from the exercise of the SEP-holder's election; in the absence of the FRAND declaration, the SEP-holder would be unbound with regard to its patent licensing practices. EU courts and the European Commission recognize the presence of the SEP-holder's FRAND declaration in giving rise to the legal obligations that attach to the SEP; they presume the declaration is essential to the application of FRAND to the SEP.

The second source of the FRAND obligation is competition law. The concept of FRAND, as a response to an exploitative exercise of a property right, was first developed in competition law cases in the United States[10] and the European Union.[11] Competition law courts applied remedies featuring mandates to concede access to "essential facilities" to competitors or others on a FRAND basis.[12] While US antitrust law has largely retreated from recognition of the essential facilities doctrine,[13] the doctrine is alive and well under Article 102 TFEU. Operation of the Intellectual Property ("IP")-related "essential facilities doctrine" under Article 102 TFEU may justify the imposition of remedies that resemble FRAND regardless of the presence or

10. The "essential facilities doctrine" in US antitrust law is traced to *United States v. Terminal Railroad Assoc. of St. Louis*. 224 U.S. 383 (1912). *See also* Otter Tail Power Co. v. United States, 410 U.S. 366 (1973); Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585 (1985).

11. Joined Cases 6 & 7/73, Istituto Chemioterapico Italiano S.p.A. v. Commission of European Communities, 1974 E.C.R. 223.

12. Robert Pitofsky, Donna Patterson & Jonathan Hooks, *The Essential Facilities Doctrine Under U.S. Antitrust Law*, 70 ANTITRUST L.J. 443, 446 (2002); *see also* Marina Lao, *Search, Essential Facilities, and the Antitrust Duty to Deal*, 11 NW. J. TECH. & INTELL. PROP. 275, 287 (2013).

13. Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398 (2004); Pac. Bell Tel. Co. v. Linkline Commc'ns, Inc., 555 U.S. 438 (2009).

absence of a FRAND declaration by the intellectual property rights holder. That is, EU competition law may provide an independent ground for imposing a FRAND obligation on the holder of a SEP or other piece of IP that fits within the EU essential facilities doctrinal developments tracing from *Radio Telefis Eireann v. Commission of the European Communities* ("*Magill*").[14]

A reconciliation of these two views—one private law, the other public law in nature—can be achieved by cumulating their respective legal effects. In most SEP-licensing cases involving a FRAND declaration, the consent-based, private law source coexists with autonomous, public law obligations rooted in EU competition law. The making of a FRAND declaration has more than contractual effects. It also effects a change in legal status that directly engages Article 102 TFEU and is independent—in terms and scope—from any FRAND specification explicitly made by the SEP owner or imposed by a Standard Setting Organization. The FRAND obligation sourced in Article 102 TFEU is paramount—and, where recognized, operates without regard to the presence of a potentially narrower FRAND obligation generated within the standard setting exercise. This twin-source approach can be squared with the understandings reflected in the Article 102 TFEU cases treating FRAND obligations,[15] as well as in the November 2017 Commission notice on a common approach to SEPs.[16]

II. THE FRAND OBLIGATION ARISES THROUGH A CONTRACTUAL DECLARATION

A FRAND undertaking in the standard setting context can be viewed as a voluntary commitment, governed by the private law. Indeed, this is the conventional understanding. The holder of a patent competing for inclusion in a standard engages itself to make licenses

14. Joined Cases C-241/91 P & C-242/91 P, Radio Telefis Eireann (RTE) and Indep. Television Publ'ns Ltd (ITP) v Comm'n of the European Communities, 1995 E.C.R. I-743 [hereinafter Joined Cases C-241/91 P & C-242/91 P].

15. *See*, *e.g.*, Case C-170/13, Huawei Technologies Co. Ltd. v ZTE Corp., ECLI:EU:C:2015:477, *available at* https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62013CJ0170 [https://perma.cc/59VF-J2TE]; Unwired Planet Int'l Ltd. v. Huawei Technologies Co. Ltd. [2018] EWCA (Civ) 2344.

16. Commission of the European Communities, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Setting out the EU approach to Standard Essential Patents, COM (2017) 712 Final (November 2017).

available for practice of that patent to all interested licensees on FRAND terms—including firms that had not participated in the standard setting exercise. There is something of a contractual *quid pro quo* in this process: the holder of what will become a SEP anticipates a broad and perhaps industry-wide deployment of its invention. The invention will likely enjoy a considerable market share and will likely endure longer upon adoption by the SSO as a standard; both of these expectations will likely lead to an increase in the revenues that will be generated by the SEP during its term, even when license royalties are limited by a FRAND commitment. The SSO incorporating the patent into a standard will assure its members (as well as others outside the SSO) access to a superior technology (as of the time of the adoption of the standard) on reliable commercial terms.

The Commission in its November 2017 notice understands the engagement of a FRAND-based licensing obligation to result once "the holders of the SEPs have given a commitment to license them on (FRAND) terms. . . ."[17] The FRAND declaration by the patent owner operates to create the legal obligation to license on FRAND terms. The Commission Notice, for the most part, takes a private law view as to the source of a binding FRAND commitment.

In *Huawei Technologies Co. Ltd. v. ZTE Corp.*, the Court of Justice of the European Union ("CJEU") describes the FRAND undertaking made by Huawei, the SEP holder in that case, to ETSI, the relevant SSO, as binding.[18] The Court points out that Clause 8.1 of Annex 6 of ETSI's Rules of Procedure addresses the case where an owner of patent rights refuses to give a FRAND undertaking, making clear that a FRAND commitment represents an unconstrained exercise of the patent owner's discretion.[19] While *Huawei* arises under the specific circumstances of the Long Term Evolution standard setting process conducted by ETSI[20], the essential contractual nature of a FRAND commitment, in the eyes of the Court of Justice, is likely a general case.

A contract vision of the FRAND undertaking dominates the court's analysis in *Unwired Planet International Ltd. v. Huawei Technologies Co. Ltd.*. The UK High Court (per Justice Birss)

17. *Id.* at 1.
18. C-170/13, *Huawei* ¶¶ 74-76.
19. *Id.* at ¶ 18.
20. *Id.* at ¶¶ 12-20.

describes three "relevant legal contexts" for the consideration of FRAND: "(1) compliance with the FRAND commitment as a matter of contract, (2) compliance with competition law and (3) the grant or refusal of injunctions."[21] Justice Birss' concern in *Unwired Planet* is largely on FRAND as a matter of contract. He notes that both the ETSI intellectual property rights policy and the form of the FRAND declaration provide that the "construction, validity and performance" of the FRAND undertaking is governed by French law.[22] The High Court in *Unwired Planet* considers various alternative foundations under French law—contract or enforceable stipulation or unilateral commitment—as to the legal basis for the FRAND commitment and concludes that under any of these theories, the FRAND declaration creates an enforceable obligation.[23]

The pure contract view is seriously misleading. Public law in various forms—including patent and competition law—are unavoidably part of the FRAND landscape. These bodies of law shape the content of the FRAND undertaking and operate as distinct sources of limits and bounds on SEP royalty terms. Justice Birss does recognize that EU competition law can apply to FRAND commitments[24]—but in his judgment in *Unwired Planet* it is unclear as to how (and why) Article 102 TFEU is engaged.

It is easy then to assume that the FRAND undertaking is a creature of private law, an ordering that is determined within the zone of contractual freedom. This view has been coupled with the further assertion that public law should not interfere with the free functioning of FRAND commitments.[25] An exclusion of public law scrutiny might arguably represent wise policy. That said, there is little foundation to the claim, at least with regard to EU competition law, that private actors can, by interposing a set of arrangements, construct a "do not enter" zone into which public law may not penetrate.

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21. Unwired Planet Int'l v. Huawei Tech. Co. [2017] EWHC 711 (Pat) [99] (Eng.).
22. *See id.* at ¶ 100.
23. *See id.* at ¶ 139.
24. *See id.* at ¶¶ 147-57.
25. *See* Douglas H. Ginsburg, Koren W. Wong-Ervin & Joshua D. Wright, *The Troubling Use of Antitrust to Regulate FRAND Licensing*, 10 CPI ANTITRUST CHRON. 2 (2015).

III. A FRAND OBLIGATION IS ANCHORED IN EU COMPETITION LAW

Article 102 TFEU operates as an independent source, which imposes duties on a holder of a SEP to license that patent on FRAND terms to any undertaking desiring to practice the relevant standard. Many SEP holders enter into commitments to license their SEPs on FRAND terms as part of the standard setting exercise,[26] but the entry of these private commitments masks the public obligations imposed by EU competition law. Article 102 TFEU is, under many conditions involving the licensing of a SEP, a sufficient and independent basis to generate a FRAND obligation. That is, the refusal to license a SEP to a party wishing to practice a standard will constitute an abuse of a dominant position. Moreover, a SEP holder demanding royalties that exceed FRAND levels (whatever they may be) may also violate Article 102 TFEU.[27] A SEP likely will constitute a dominant position in the narrow technology market covered by the patent's scope. The SEP may also hold a dominant position in the broader market defined by the standard that has incorporated the patent. A SEP may be an "essential facility," falling within the well-established reach of Article 102 TFEU.[28] That is, Article 102 TFEU imposes a duty on the SEP holder—even in the absence of a FRAND undertaking—to license to SEP on FRAND terms.

In certain circumstances, European competition law imposes a duty to license on an owner of intellectual property. In *Radio Telefis Eireann v. Commission (Magill*),[29] the CJEU upheld a Commission decision imposing a copyright licensing obligation on a group of Irish broadcasters. *Magill* made clear under European competition law that in special circumstances[30] an IP-holder has a duty to license,[31] and that license must be on a nondiscriminatory basis. It found three television broadcasters operating in Ireland to have violated the predecessor to Article 102 TFEU in refusing to license IP-protected material that was

26. *See supra* note 7, at 3.

27. *See* Roberto Grasso, *Selected Issues in SEP Licensing in Europe: The Antitrust Perspectives*, *in* COMPLICATIONS AND QUANDARIES IN THE ICT SECTOR 80 (Ashish Bharadwaj et al. eds., 2018).

28. *See* Pitofsky *supra*, note 12; Lao, *supra*, note 12.

29. Joined Cases C-241/91P & C-242/91P, *supra* note 14.

30. *See id.* at ¶ 52.

31. *Id.* at ¶ 91.

"indispensable" to the development of a new product.[32] *Magill* involved copyright[33], not patent, and the reach of Irish copyright as a matter of law seems rather extravagant (in that it was found to protect program listing data).

Magill's specification of the conditions where a duty to license arises lies at the heart of the case. The refusal to license a copyright in these circumstances constitutes the violation of TFEU 102—an actionable abuse of a dominant position. A FRAND-like licensing obligation is the remedy for this violation. In *Magill*, the broadcasters were refusing to provide detailed program listings for a publisher seeking to introduce a comprehensive and comparative weekly television guide. The broadcasters attempted to justify their refusal by invoking their exclusive rights established by national copyright law.[34] The broadcasters were found to enjoy a dominant position in the market for dedicated guides to their own programming.[35] In this context, they could not block the appearance of a new product (a comparative television guide) that would compete with their existing products. The information encased in the copyrighted program guides published by the broadcasters were essential to the production of a comparative television guide. *Magill* is seen as established an IP-oriented "essential facilities doctrine" in EU competition law.

The Commission, in its decision, had ordered the broadcasters to make available by license their copyrighted advance program listings "on a non-discriminatory basis."[36] The imposed remedy does not include much guidance on what is intended by its non-discrimination obligation. Each broadcaster is expressly a beneficiary of the decision, in that it is assured access to the advanced program listings of the others; the Commission-imposed duty-to-license extends to competitors in the broadcast space as well as any publishing firm considering production of a comparative television guide.[37]

The more recent and more telling story of Article 102-based duty-to-license is found in the *Microsoft Corp. v. Commission* [38] decided by

32. *Id.* at ¶ 53.
33. *Id.* at ¶ 7.
34. *Id.* at ¶ 34.
35. *Id.* at ¶ 47.
36. Commission Decision of 21 December 1988 89/205/EEC, 1988 O.J. (L 78) ¶ 27.
37. *Id.*
38. Case T-201/04, Microsoft Corp. v Comm'n of the European Communities, 2007 E.C.R II-1491.

the General Court. *Microsoft* is premised on the presence of de facto standard constructed around Microsoft's Windows operating system.[39] *Microsoft* builds upon *Magill* and its progeny, and it demonstrates the EU's insistence that an IP-license must be offered on a nondiscriminatory basis in situations involving significant competition law concerns.[40] The General Court in *Microsoft* upheld the Commission's finding that Microsoft had violated Article 102 TFEU by refusing to license "interoperability information" (which was covered, in part, by copyright) to its rivals in the Windows work group server market.[41]

The General Court also upheld the Commission's finding that access to Microsoft's interoperability information by Sun and other competitors was "indispensable" for carrying out the development and marketing of work group servers networking Windows-operating computers, satisfying the first *Magill* factor.[42] The General Court further upheld the Commission's finding that Microsoft's refusal to provide the copyrighted interoperability information would tend to exclude all competition in the market for work group server operating systems.[43]

The General Court then evaluated the third "exceptional circumstances" factor established in *Magill*: whether Microsoft's conduct prevented the appearance of a new product.[44] Article 102(b) of the TFEU is given as the source norm generating the circumstances where a refusal to deal may constitute an abuse of a dominant position (where the conduct is found to be "limiting production, markets or technical development to the prejudice of consumers"). The General Court significantly expanded the situations where there may be Article 102 liability for refusal to license from the neatly cabined "new product" test set out in *Magill*:

> The circumstances relating to the appearance of a new product, as envisaged in *Magill* and *IMS Health* . . . cannot be the only parameters which determines whether a refusal to license an

39. *Id.* at ¶ 32.
40. *See id.* at ¶¶ 807-11.
41. *Id.* at ¶ 103.
42. *Id.* at ¶ 436.
43. *Id.* at ¶ 593.
44. *Id.* at ¶ 643-49.

> intellectual property right is capable of causing prejudice to consumers within the meaning of [Article 102(b) TFEU]. As that provision states, such prejudice may arise where there is a limitation not only of production or markets, but also of technical development.[45]

The "new product" factor found in *Magill* and *IMS Health* constituted an Article 102(b) limitation of production or markets; Microsoft's refusal to deal was determined to work a limitation of technical development, satisfying Article 102(b) in an unprecedented way.[46] *Microsoft* thus demonstrates that the refusal to license category of abusive conduct has been enlarged—and is perhaps capable of further enlargement. The General Court also made clear that consideration of Microsoft's intellectual property rights did not constitute a justification for what was found to be actionable abusive conduct.[47]

The *Microsoft* case ended with a set of remedies imposed by the Commission, including a compulsory license for Microsoft's interoperability information on "reasonable and non-discriminatory terms."[48] That is, a non-consensual FRAND-like obligation was imposed on Microsoft as a remedy for its Article 102 violation. Further proceedings examined whether Microsoft's licenses properly implemented the Commission's decision and whether the royalties charged by Microsoft were excessive.[49] This led to a further challenge before the General Court.[50] Microsoft is currently charging a flat US$10,000 upfront royalty and a 0.4% running royalty in the Patent License Agreement available under the Microsoft Interoperability Program ("MIP") implemented pursuant to the Interoperability

45. *Id*. at ¶ 647.

46. *See id.*

47. *Id*. at ¶¶ 689-91.

48. See the discussion of the Commission remedies, including the compulsory license of interoperability information in Nicholas Economides and Ioannis Lianos, The quest for appropriate remedies in the EC Microsoft cases: a comparataive appraisal, in Luca Rubini (ed.), Microsoft on Trial: Legal and Economic Analysis of a Transatlantic Antitrust Case.

49. Case T-167/08, Microsoft Corp. v European Comm'n, ECLI:EU:T:2012:323, *available at* http://curia.europa.eu/juris/document/document.jsf;jsessionid=08FC5E681DA625D3931574DB4145507F?text=&docid=124434&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=2398685 [https://perma.cc/P7B8-S7BE].

50. *Id.*

Undertaking entered into by Microsoft and the Commission on December 16, 2009.[51]

Microsoft shows the remedial character both in the main proceedings and in the subsequent challenges to Microsoft's compliance with the initial remedial order. *Microsoft* remains one of the most important investigations brought by the Commission for abuses of a dominant position. Access to a SEP in order to practice a standard share some of the "exceptional" context found in *Magill*. A standard may or may not enable a "new product," but the General Court seems to have relaxed the "new product" factor in *Microsoft*.

IV. THE FRAND CEREMONY ENGAGES ARTICLE 102 TFEU

A. The Coexistece of EU Competition Law FRAND and Private Law FRAND

If the imposition of FRAND could be viewed as the result of a contractual undertaking, it would follow that the contracting parties (which includes the SEP holder) would ultimately determine the nature and effects of that undertaking. A court examining the actions of a SEP holder with regard to a FRAND-committed patent will seek in principle to divine the drafting parties' intentions in interpreting the scope of the FRAND commitment.[52] The parties could condition the FRAND obligation; they might subject, for example, an extension of a FRAND license of the SEP to a reciprocating FRAND offer to access technology controlled by the potential licensee. Or the parties might limit the benefit of the FRAND commitment to certain parties; they might restrict FRAND terms to participating members of the SSO sponsoring the relevant standard. If FRAND is essentially contractual in nature, the parties could exercise wide latitude under general notions of freedom of contract (or analogous private law doctrines found in national law).

This posture changes dramatically if the FRAND obligation arises from Article 102 TFEU. In this case, specifying the scope and effects of the FRAND obligation becomes a matter of judicial prerogative (given that Article 102 forms part of the TFEU, the highest order of EU

51. *See* European Commission Press Release IP/07/1567, Antitrust: Commission ensures compliance with 2004 Decision against Microsoft (Oct. 22, 2007)*; see also* Economides & Lianos*, supra* note 48, at 423-24.

52. *See*, *e.g.*, Unwired Planet Int'l, [2017] EWHC 711, *supra* note 21, ¶ 783.

law). If Article 102 TFEU generates an obligation on the SEP holder to license on FRAND terms, it is for the EU judiciary to define that obligation. The intent or understanding of the parties participating in the standard setting exercise—including that of the SEP holder—are of little importance. They certainly do not have the power to restrict, condition or otherwise limit the scope of any FRAND duty arising under Article 102 TFEU.

In many situations, the FRAND obligation assumed by contract will co-exist alongside a FRAND (or perhaps FRAND-like) set of "special responsibility" duties imposed by EU competition law. Article 102 TFEU is mandatory law, of course, and a firm cannot escape the reach of Article 102 by the expedient of a unilateral declaration. Article 102 FRAND constitutes a minimum obligation; the contract form of FRAND stipulated within the standard setting exercise can only increase the obligation sourced in competition law; it cannot relax it.

In *Unwired Planet*, Justice Birss seems to understand co-existence along these lines. In his discussion of the "fair and reasonable" element in FRAND, he finds that a contract-sourced FRAND obligation provides for a lower single FRAND price that falls below the "excessive pricing" zone set by Article 102 TFEU.[53] In his view, the ETSI-specified form of FRAND imposes a more severe restriction of the royalty rate that can be demanded by the SEP-holder than the avoidance of excessive pricing imposed by Article 102 TFEU.[54] He may or may not be correct as to where an ETSI declarant's royalty must be set in comparison to the maximum royalty rate permitted by competition law. Regardless, Justice Birss makes explicit that the private law obligation to charge no greater than FRAND royalties co-exists with royalty limits resulting from the special responsibility owed by the SEP-holder imposed by Article 102 TFEU.

B. A Change in Status Links EU Competition Law FRAND to Private Law FRAND

Article 102 TFEU is present in both *Huawei* and *Unwired Planet*, but neither the Court of Justice in *Huawei* nor the High Court in *Unwired Planet* give much attention to how Article 102 TFEU is engaged. Perhaps Article 102 attaches according to its own principles

53. *Id.* at ¶ 153.
54. *Id.*

in these cases. That is, each case involves the possession of a dominant position and behavior that satisfies the Article 102 notion of abuse.

In *Huawei*, an Article 267 TFEU referral to the CJEU from the Landgericht Düsseldorf, the referring court stipulates that the existence of Huawei's dominant position "is not in dispute" in the national proceedings.[55] The CJEU addresses an asserted Article 102 TFEU abuse of that dominant position involving *Huawei*'s bringing of an action for a prohibitory injunction, based on the unauthorized practice by ZTE of Huawei's SEP.[56] The CJEU describes the steps by which Huawei notified its patent[57] to ESTI, and *Huawei*'s simultaneous undertaking to grant licenses to third parties on FRAND terms.[58] One may infer then that it is this undertaking—and ETSI's subsequent incorporation of *Huawei*'s into ETSI's Long Term Evolution standard—that establishes *Huawei*'s dominant position from which Article 102 TFEU exposure flows.

It would be helpful to view the engagement of Article 102 TFEU as flowing automatically from the making of a FRAND declaration within the standard setting exercise. The imposition of Article 102 "special responsibility"—duties to avoid abusive conduct—results from the SEP-holder's undertaking. That is, a FRAND declaration has legal consequences beyond the mere establishment of contractual obligations. A FRAND declaration constitutes a shift in legal status—transforming an ordinary patent to one invested with standard essentiality—that calls Article 102 TFEU into play.

A FRAND declaration accompanies an assertion by the holder of a candidate SEP that the concerned patent is essential to the practice of the standard. This is largely a unilateral act; SSOs, at least initially, do not verify these assertions of essentiality.[59] The FRAND commitment "ceremony" is better described as involving both the assertion of essentiality of the SEP and the assumption of the obligation to license

55. *See*, *e.g.*, Case C-170/13, Huawei Technologies, *supra* note 15.

56. Case C-170/13, Huawei Technologies, *supra* note 15.

57. Huawei's patent is identified as EP 2 090 050 B 1, bearing the title "Method and apparatus of establishing a synchronization signal in a communications system." Case C-170/13, Huawei Technologies, *supra* note 15.

58. The relevant 'FRAND ceremony' occurred on March 4, 2009. Case C-170/13, Huawei Technologies, *supra* note 15.

59. *See How To Check The Essentiality Of A Standard Essential Patent*, GREYB (Jun. 26, 2018), https://www.greyb.com/checking-essentiality-sep/ [https://perma.cc/J9Q2-W6SN]. *See also* CYBER CREATIVE INDUSTRIES CO., EVALUATION OF LTE ESSENTIAL PATENTS DECLARED TO ETSI 16 (Jun. 2013).

the SEP on FRAND terms. The FRAND commitment ceremony presumptively satisfies the tests proposed by *Magill* and *Microsoft*. The elements that must be established in order to demonstrate a refusal to license IP as an abuse are (1) access to the IP is indispensable in order to access a market, (2) the refusal to provide access would exclude all competition and (3) "exceptional circumstances."

Indispensability is a primary element in the finding of an Article 102 TFEU violation for failure to license the holder's intellectual property. Whether an asserted SEP is indeed essential to the practice of a standard requires a complex factual assessment, but the owner is likely to have knowledge in its possession as to whether this test is satisfied. Moreover, the mere assertion of essentiality within the FRAND commitment ceremony should be sufficient, at a minimum, to raise a presumption of indispensability to satisfy the test set out in *Magill* and *Microsoft*.

Many if not most standards involving a complex of technologies will occupy a competitive field. The Windows standard developed by Microsoft was the result of a mix of technological prowess, aggressive business practices and good luck. There was no significant market for work group servers that did not involve Windows. Similarly, the 3G and LTE standards promulgated by ETSI (which were the subject of the *Huawei* and *Unwired Planet* cases) completely dominated global telecommunications market. A patent that is essential for commercialization within a standardized market will satisfy the second factor.

Recall that *Microsoft* relaxed the demand in *Magill* that the refusal to license prevent the appearance of a new product. Microsoft was supplying the market of interest (Windows interoperable work group server software) that its rivals wished to enter. Yet Microsoft's refusal to license the copyrights Windows interoperability information was found to be "limiting production, markets or technical developments to the . . . prejudice of consumers."[60] A SEP holder who would refuse to license its SEP to a party wishing to practice the related standard would have an analogous effect. Together, the FRAND commitment ceremony – marked by both the declaration of standard essentiality and the FRAND commitment – provide a basis to directly engage Article 102 TFEU, exposing the SEP-holder to competition law liability for

60. *See* Case T-201/04, Microsoft Corp., *supra* note 38, at ¶ 643.

any failure to license the SEP on FRAND terms defined by competition law.

V. CONCLUSION

Standard-essential patents attract FRAND-like discipline, at least as a matter of European competition law, beyond the private law obligations assumed by their holders. This compounds the dilemma of multiple, and perhaps conflicting, tests applied to any particular SEP license. In addition to the prospect of different national courts applying inconsistent national tests as to whether a particular set of terms is or is not FRAND, there is the further possibility of difference between the FRAND elements autonomously imposed by public law (such as EU competition law) and similar obligations resulting from the operation of a private law undertaking.

Magill suggests the FRAND commitment should not be considered as merely a private, contractual undertaking. Public law, such as EU competition law, may independently impose a duty of license a SEP on FRAND terms. If FRAND is, even in part if not in parallel, a public obligation, then it is more likely to convey public concerns. What then are the public concerns conveyed by *Magill*? The first is the appearance of a new product. This might stretch a FRAND obligation forward into new technologies that lie beyond the standard as currently practiced. Second, access to the patent must be indispensable. This opens an inquiry as to whether "essential" as understood in a private standard setting is the same as "indispensable" within the meaning of *Magill*. *Magill* establishes that "essential facilities" arguments with regard to intellectual property may sound in particular circumstances under Article 102 TFEU and that a remedial award should have FRAND-like characteristics.

The FRAND ceremony provides a bright line marking the taking on of special responsibility under Article 102 TFEU. The making of a FRAND declaration constitutes a profound change in the legal status of a patent, as it transforms from mere patent to SEP and accretes greater market power. The FRAND ceremony's transformational effect is premised on the patent's essentiality (or indispensability) for the practice of a standard that will have substantial market power. Within the technology market corresponding to each SEP, the SEP-holder holds a "dominant position." FRAND or FRAND-like duties attach to the SEP that co-exist—and may exceed—the explicit FRAND commitment contained in the declaration that underlies the FRAND ceremony.