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ARTICLE

It's Unfair! Non-price Exploitation in ICT Patents Licenses

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Abstract This paper analyses controversial patent licensing conditions in the Information Communication Technology (ICT) sector as "unfair trading conditions" under Art. 102(a) TFEU. It argues that the application of the Technology Transfer Block Exemption Regulation does not prevent the assessment of patent licensing conditions under Art. 102 if the licensor is dominant in the market. Hence, the article examines four categories of controversial licensing conditions in the light of the case law of the Court of Justice of the European Union under Art. 102(a): grant-back clauses, no-challenge clauses, portfolio-wide licenses, and contract term decoupled from patent validity. Developing old precedents in new application cases, the abuse-of-dominance analysis finds that each license clause is capable of anti-competitive exploitative effects, as much as offsetting justifications. As a result, the qualification of any such clause as "unfair" needs a case-by-case approach considering the overall content of the ICT patent licensing agreement. Whether the overall efficiencies outweigh the anti-competitive effects is always a question of degree. Nonetheless, this article contributes to legal predictability by identifying the opposing economic arguments of dominant patent licensors and complaining licensees. It concludes that both parties have strings to their bows.

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1 Introduction

Patent licenses are contracts whereby the licensor grants certain rights concerning its patented invention to another party (i.e. the licensee) in exchange for consideration or even for free. In the Information and Communication Technology (ICT) sector, patent licensing is a common practice: it is needed to guarantee device interoperability and ensure compliance with industry standards that either emerge because of market success (so-called de facto standards) or are set collectively (so-called *de consenso* standards) by Standard Development Organisations (SDOs).[1] The advent of the Internet of Things ("IoT"), where different products embed computing capabilities and connect via a common network, spreads the licensing of ICT standards beyond traditional electrical engineering sectors and raises the risks of licensing disputes.[2]

Within SDOs, the holder of patents declared as "essential" for implementing a *de consenso* standard (i.e. Standard-Essential Patents or SEPs) commits to license them to any willing and solvent licensee based on Fair, Reasonable and Non-Discriminatory (FRAND) conditions.[3] The FRAND commitment acts as a contractual limit to SEP holders' licensing discretion, and its breach has contract law implications.[4] In the EU, Arts. 101 and 102 TFEU can also curb the patentee's behaviour regardless of FRAND and so apply to the de facto standards, whose patents are not encumbered by any licensing commitment.[5]

In the aftermath of the *Huawei v. ZTE* ruling,[6] the literature has extensively discussed under what circumstances SEP holders breach their dominant position by requesting a court injunction.[7] In contrast, limited attention has so far been paid to patentees' licensing behaviour as a possible exploitative abuse of dominance, especially for patents that are not SEPs but simply commercially indispensable patents that cover a de facto standard.[8] Unlike Sec. 2 of the US Sherman Act, which focuses on the process of monopolisation by the exclusion of competitors, Art. 102 Treaty on the Functioning of the European Union (TFEU) also proscribes

[1] Larouche and Van Overwalle (2015), pp. 367–393.

[2] Conde Gallego and Drexl (2019), pp. 137–141.

[3] Lundqvist (2017), pp. 719–720; Geradin (2006), pp. 515–516.

[4] "… a FRAND commitment is the result of a voluntary contract between essential patent holders and standards-setting organisation, with the important corollary that the meaning of that commitment must be determined through the legal methods of contractual interpretation." Brooks and Geradin (2011), p. 2.

[5] Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, OJ C-326/1, 26.10.2012, Arts. 101–102. Arguably, the European case law on SEPs started with the *Orange Book Standard* decision of the German Federal Supreme Court that involved a de facto standard; *see* German Federal Supreme Court, case No. KZR 39/06, decision of 6 May 2009.

[6] CJEU, Case C-170/13, *Huawei Technologies* (16 July 2015) EU:C:2015:477.

[7] *See e.g.* Wang (2020); Podszun (2017); Batista and Mazutti (2016); Galli (2016); Grasso (2016); Henningsson (2016); Picht (2016).

[8] Botta (2021), pp. 14 *et seq.*; Geradin and Rato (2007), p. 150.

exploitative practices. Under Art. 102(a) TFEU, a firm abuses its dominant position by “directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions”. As recently recognised by the Paris Court of Appeal in *Google Ads Rules,* excessive pricing and unfair trading conditions represent separate exploitative abuses under Art. 102(a) TFEU.[9] However, in both sub-types of exploitative abuses, the dominant firm exploits its customers, causes them to raise prices, diminish output and deprives them of the commercial rewards and incentives to invest in innovation, thus ultimately harming consumers.[10]

Like any business contract, patent licenses involve sophisticated provisions; licensing agreements may provide for countless “unfair” conditions imposed by the dominant licensor.[11] The present paper analyses several debated non-price provisions of licenses for ICT patents. In particular, the question discussed in the paper is whether and under what conditions specific contractual clauses included in ICT patent licenses may be considered “unfair trading conditions” under Art. 102(a) TFEU. In order to answer the research question, the paper first reviews the case law of the Court of Justice of the European Union (CJEU) concerning unfair trading conditions and discusses how such jurisprudence may fit into the ICT patent licensing context. Secondly, it analyses four types of controversial ICT patent licensing conditions: grant-back clauses, no-challenge clauses, portfolio-wide license grants and clauses limiting the licensee’s ability to ask for early termination of the license.[12] Specifically, the paper assesses such provisions in the light of the CJEU case law, as well as the economic arguments pointing to such clauses’ anti- and pro-competitive effects.

As for limitations, the paper does not discuss the “excessiveness” of the requested royalty rate, nor licensing level discrimination; the article only discusses the “fairness” of the above-mentioned contractual clauses. The selected non-price provisions are important elements of the consideration provided by the licensees other than royalties.[13] Furthermore, pursuing an exploitation case against non-price licensing conditions might have the advantage of avoiding the economic hurdles of applying the *United Brands* two-tier excessive pricing test to royalties.[14]

Secondly, the analysis of potentially exploitative ICT patent licensing provisions inevitably touches upon FRAND licensing issues, since ICT patent licenses may implicate FRAND-encumbered SEPs. However, FRAND and other SDOs’ licensing commitments bind SEP holders as a matter of contract law, irrespective of their

[9] Paris Court of Appeal, 20/03811 *Google* (7 April 2022), para. 127. The text of the ruling in French is available at: https://www.cours-appel.justice.fr/sites/default/files/2022-05/20-03811%20GOOGLE%20contre%20ADLC.pdf.

[10] Botta and Wiedemann (2019), pp. 469–472.

[11] First (2017), pp. 227–229.

[12] Significantly, grant-back, no-challenge and portfolio-wide license clauses are the exemplary licensing practices that Art. 40(2) of the TRIPS Agreement mentions among those capable of hampering competition and so prone to regulatory intervention.

[13] Geradin (2006), p. 519. On licensing level discrimination, *see e.g.* Nazzini (2017).

[14] CJEU, Case 27/76, *United Brands v. Commission* (14 February 1978) EU:C:1978:22, paras. 251–256; Petit (2020), pp. 427–435.

market power, whereas Art. 102 TFEU hangs over all dominant patent holders.[15] In other words, the intervention threshold of Art. 102 TFEU is higher than FRAND licensing commitments, yet the subjective scope of the abuse-of-dominance prohibition is broader than the latter. Accordingly, Art. TFEU can catch unfair licensing practices beyond FRAND-encumbered SEPs, such as for commercially indispensable patents over de facto standards.

Thirdly, allegedly unfair clauses may also qualify as hardcore or excluded restrictions under the Technology Transfer Block-Exemption Regulation (TTBER), currently under evaluation by the European Commission (EC),[16] and possibly be against Art. 101 TFEU, irrespective of the licensor's dominance.[17] In *Hoffmann-La Roche* and *Ahmed Saeed*, however, the CJEU has clarified that agreements falling within the scope of Art. 101 TFEU can also infringe Art. 102 TFEU so that enforcers may have a cause of action under either or both Treaty provisions.[18] The present paper analyses unfair license clauses under Art. 102(a) TFEU, rather than under Art. 101 TFEU. Finally, while patent ownership does not automatically imply a dominant position, as recognised by the CJEU in *Parke Davis*,[19] the debated issue of patentees' and SEP holders' market power remains outside the scope of the present endeavour.

Historically, competition authorities have rarely sanctioned unfair trading conditions under Art. 102(a) TFEU: competition law investigations concerning unfair non-price conditions are even "fewer" than excessive pricing cases. In this sense, the General Court's 2022 confirmation of the EC's 2019 decisions to dismiss the complaints against Philips for its allegedly exploitative LED patent license conditions is an excellent example of the enforcement history.[20] Three main reasons explain such an enforcement paucity. First, the CJEU has never developed a general test to assess unfair trading conditions comparable to the *United Brands* test, thus denying legal certainty on the issue. Second, in the case of a contractual relationship between the dominant firm and final consumers, the unfair trading conditions may also be sanctioned as "unfair commercial practices" under private law, avoiding the

[15] The prohibition of dominance abuses has a higher applicability threshold yet broader scope than FRAND licensing commitments. It also follows that exploitative licensing dominance abuses likely imply a breach of any applicable FRAND licensing commitment, while the opposite is less likely true; *see* Botta (2021), pp. 7–8.

[16] European Commission (2022a).

[17] Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Art. 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements, OJ L-93/17, 28.03.2014. For an analysis of the older TTBER, *see* Morris (2008).

[18] CJEU, Case C-85/76, *Hoffmann-La Roche v. Commission* (13 February 1979) EU:C:1979:36, para. 116; CJEU, Case 66/86, *Ahmed Saeed v. Zentrale Zur Bekämpfung* (11 April 1989), EU:C:1989:140, paras. 34–37.

[19] CJEU, Case C-24/67, *Parke, Davis and Co. v. Probel, Reese, Beintema-Interpharm and Centrafarm* (29 February 1968) EU:C:1968:11; on the topic, *see e.g.* Layne-Farrar A and Padilla J (2011).

[20] The Commission, in its discretion to set administrative priorities, rejected two parallel complaints by the Polish Association of Lighting Industry and two of its Italian counterparts against Philips's LED Patent Licensing Program, *see Philips LED Lighting* (Case Number AT.39913), Commission Decisions C(2019) 7804 and 7805 final (25 October 2019). Upon appeal, the General Court upheld the Commission's decisions, *see* General Court, Case T-886/19, *Design Light & Led Made in Europe and Design Luce & Led Made in Italy v. Commission* (13 July 2022) EU:T:2022:442.

evidentiary burdens of defining the relevant market and establishing dominance therein.[21] Third, enforcement and remedies against unfair licensing abuses put competition law authorities in the "regulatory shoes". In fact, bringing such exploitative infringements to an end likely implies behavioural remedies or licensing commitments, as the EC did in *Rambus*.[22] Any quasi-regulatory intervention comes with all the controversies of affecting business freedom and property rights under Arts. 16 and 17(2) of the EU Charter of Fundamental Rights while satisfying the test of proportionality under Art. 5 Treaty on European Union (TEU).[23]

This non-enforcement trend is changing, especially in the digital economy, where multiple factors such as consumer behavioural habits, lock-in and network effects pave the way to natural monopolies, which can impose unfair trading conditions on their partners. The current policy mood of competition agencies in Europe displays confidence, paving the way to more enforcement and expanding legal doctrine. For example, in *Apple Store*, the EC is currently investigating the anti-steering provisions imposed by Apple on app developers under Art. 102(a) TFEU.[24] Furthermore, in their recent decisions in *Facebook*,[25] *Google Ads Rules*,[26] and *Google News*,[27] the *Bundeskartellamt* and the *Autorité de la Concurrence* have sanctioned as an abuse of dominance several unfair conditions imposed by dominant digital platforms on their users. Given these latest developments and since information communication technologies are the backbone of the digital economy, it is worth assessing whether and under what circumstances the licensing terms requested by a dominant ICT patent holder from its licensees may be considered "unfair" under Art. 102(a) TFEU.

Against this background, four sections compose the remainder of the paper. Section 2 maps the substantial features of the EU judicial practice on unfair trading conditions as dominance abuses and examines how the ICT patent licensing context fits them. Section 3 starts by focusing the abuse of dominance analysis on those

[21] *See*, in particular, Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 85/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation EC No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), OJ L-149/22, 11.06.2005.

[22] *Rambus* (Case COMP/86636), Commission Decision C(2009) 7610 (9 December 2009).

[23] Charter of the fundamental rights of the EU OJ C364/1.

[24] European Commission press release IP/21/2061 of 30 April 2021 *Antitrust: Commission sends Statement of Objections to Apple on App Store rules for music streaming providers.*

[25] German Cartel Office, decision B6/22/16, adopted on 6 February 2019 (*Facebook*). The text of the decision in German is available at https://www.bundeskartellamt.de/SharedDocs/Entscheidung/DE/Entscheidungen/Missbrauchsaufsicht/2019/B6-22-16.html;jsessionid=C84AB98AE612D2797BCB5142ED3D0A5B.2_cid362?nn=3591568.

[26] French Competition Authority, decision 19-D-26 of 19 December 2019 regarding practices employed in the online search advertising sector (*Google Ads Rules*). The official translation of the decision into English is available at: https://www.autoritedelaconcurrence.fr/en/decision/regarding-practices-implemented-sector-online-search-advertising-sector.

[27] French Competition Authority, decision 21-D-17 of 12 July 2021 on compliance with the injunctions issued against Google in decision No. 20-MC-01 of 9 April 2020. The official text of the decision in French is available at: https://www.autoritedelaconcurrence.fr/fr/decision/relative-au-respect-des-injonctions-prononcees-lencontre-de-google-dans-la-decision-ndeg.

licensing provisions that already raise issues under Art. 101 TFEU, namely the TTBER excluded restrictions of exclusive grant-back clauses and no-challenge clauses. Section 4 concentrates on portfolio-wide licensing and license terms decoupled from the underlying patents as potential unfair trading conditions under Art. 102(a) TFEU. Section 5 concludes by summarising the main findings of the paper.

2 The CJEU Case Law on Unfair Trading Conditions

2.1 The Legal Test to Assess Unfair Trading Conditions

Article 102(a) TFEU sanctions unfair trading conditions imposed by the dominant firm on its "customers". Although Art. 102(a) TFEU does not draw a clear distinction between industrial customers and final consumers, the progressive development of consumer law has de facto limited the scope of application of Art. 102(a) TFEU to unfair contractual conditions imposed by the dominant firm on its "industrial customers".

The CJEU has recognised as being in breach of Art. 102(a) unfair clauses "unilaterally" imposed by the dominant firm on its customers rather than as a result of a negotiation process.[28] The customers were forced to accept such clauses since the dominant firm was an "unavoidable trading partner", either de facto (e.g. *United Brands*)[29] or de jure – i.e. due to the existence of a legal monopoly in providing a service (e.g. in *Porto di Genova* and *GVL*).[30] In its recent *Google Ads* decision, the French *Autorité de la Concurrence* has followed a similar approach; according to the French national competition authority (NCA), a dominant firm can de facto become an unavoidable trading partner when

> it holds extremely high market shares … In such a case, the products offered by the dominant undertaking represent all or almost all of what the market has to offer; customers wishing to acquire them will have no choice but to accept the transaction terms determined by the dominant undertaking, however unfair they may be …[31]

In *Sabam,* the Advocate General generally defined unfair trading "conditions" as the "… obligations which are not absolutely necessary for the attainment of the object (of the contract) and which encroach unfairly on the customer's freedom."[32]

[28] CJEU, Case C-247/86, *Société Alsacienne et Lorraine de Télécommunications et d'Électronique (Alsatel) v. SA Novasam* (5 October 1988) EU:C:1988:469, para. 10.

[29] CJEU, Case 27/76, *United Brands v. Commission* (14 February 1978) EU:C:1978:22, paras. 12 *et seq.*

[30] CJEU, Case C-179/90, *Merci convenzionali porto di Genova SpA v. Siderurgica Gabrielli SpA.* (10 December 1991) EU:C:1991:464, para. 15; CJEU, Case 7/82, *Gesellschaft zur Verwertung von Leistungsschutzrechten mbH (GVL) v. Commission of the European Communities* (2 March 1983) EU:C:1983:52, paras. 44 *et seq.*

[31] French Competition Authority, *Google Ads Rules,* para. 357.

[32] AG Mayras, Case C-127/73, *Belgische Radio en Televisie and société belge des auteurs, compositeurs et éditeurs v. SV SABAM and NV Fonior* (12 February 1974) EU:C:1974:11, p. 325.

In its ruling in *Sabam*, however, the Court did not replicate such a general definition.[33] In its judicial practice on Art. 102(a) TFEU, the Court has opted for a case-by-case approach to assess the unfairness of the challenged contractual clauses. Over time, the CJEU has identified as being in breach of Art. 102(a) TFEU various contractual clauses imposed by dominant firms on their industrial customers, such as:

– The automatic increase of the tariff after the expiry of the contract.[34]
– Permanent contracts with no term or valid for an unlimited number of transactions.[35]
– Bundling different services or imposing unrequested ones.[36]
– Imposition of a flat tariff, independent of the service received.[37]
– Product use limitations without objective justifications.[38]

It is worth noticing that the legal test developed by the CJEU to assess unfair trading conditions is based on a purely "legalistic" enforcement of competition rules. If the challenged contractual clause fell within one of the conditions previously sanctioned under the CJEU case law, it was considered per se in breach of Art. 102(a) TFEU. In other words, the CJEU has never assessed in its judicial practice the distortive effects of the unfair trading conditions on competition in the market, both between the dominant firm and its customers, as well as in the downstream market (i.e. between the dominant firm's customers and their competitors).

Such a legalistic approach, however, seems outdated given the recent CJEU case law on Art. 102. In *Intel,* the Court of Justice rejected the notion that practices may be *per se* abusive. In its landmark judgement, the Court emphasised that the EU Commission should assess whether a conduct is "capable" of foreclosing competition to a hypothetical competitor "as efficient as" the dominant firm.[39] In determining the degree of foreclosure, the EU Commission should look at the extent of the dominant position of the firm in the market, the duration and share of the markets affected by the allegedly anti-competitive conduct, as well as the existence of a possible anti-competitive strategy.[40] More recently, in *Servizio Elettrico Nazionale,* the Court emphasised that the competition agency should not be required to quantify the actual foreclosing effect of the abusive conduct, though such an

[33] CJEU, Case C-127/73, *Belgische Radio en Televisie and société belge des auteurs, compositeurs et éditeurs v. SV SABAM and NV Fonior* (27 March 1974) EU:C:1974:25, para. 15.

[34] CJEU, Case C-247/86, *Société Alsacienne et Lorraine de Télécommunications et d'Électronique (Alsatel) v. SA Novasam* (5 October 1988) EU:C:1988:469, para. 10.

[35] CJEU, Case C-127/73, *Belgische Radio en Televisie and société belge des auteurs, compositeurs et éditeurs v. SV SABAM and NV Fonior* (27 March 1974) EU:C:1974:25, para. 15.

[36] CJEU, Case C-179/90, *Merci convenzionali porto di Genova SpA v. Siderurgica Gabrielli SpA.* (10 December 1991) EU:C:1991:464, paras. 18–19.

[37] CJEU, Case C-372/19, *SABAM v. Weareone.World and Wecandance* (25 November 2020) EU:C:2020:959, paras. 24 *et seq*.

[38] CJEU, Case 27/76, *United Brands v. Commission* (14 February 1978) EU:C:1978:22, paras. 130 *et seq.*

[39] CJEU, Case C-413/14 P, *Intel v. Commission* (6 September 2017) EU:C:2017:632, paras. 131 *et seq.*

[40] *Ibid.*

effect should not be purely hypothetical. Although the *Intel* case concerned fidelity rebates (i.e. an exclusionary abuse), in the ruling, the Court referred to “conducts” by thus suggesting a possible general framework of analysis for both exploitative and exclusionary cases of abuse under Art. 102 TFEU. This conclusion seems supported by *MEO*,[41] where the Court of Justice extended the *Intel* framework to analyse a case of discriminatory pricing under Art. 102(c) TFEU (i.e. an exploitative abuse). By analogy to *Intel*, the Court emphasised in *MEO* that an NCA should assess “all the relevant circumstances” before concluding that a discriminated customer indeed suffered a “competitive disadvantage”, and thus the price discrimination strategy implemented by the dominant firm indeed breached Art. 102(c).[42] Contrary to the pre-*Intel* case law, the competitive disadvantage could thus not be presumed, but it should rather be assessed on a case-by-case basis by the competition agency.

In view of *Intel* and *MEO*, we could argue that if the Court of Justice had to assess today a case concerning unfair trading conditions under Art. 102(a) TFEU, it would be unlikely to follow the “old” *per se* approach. A contractual requirement would be considered unfair only if it distorted competitive dynamics in the market: competition between the dominant firm and its customers, or in the downstream market. This approach was followed by the French *Autorité de la Concurrence* in *Google Ads Rules*. In December 2019, the French NCA imposed a fine of EUR 150 million on Google due to the unfair trading conditions imposed on advertisers.[43] The French NCA assessed the potential anti-competitive effects of the Rules unilaterally imposed by Google on digital advertisers that relied upon the services provided by Google. According to the French NCA, a number of Rules were unfair since they had been modified several times by Google – i.e. causing uncertainty for advertisers.[44] In addition, Google applied the Rules in a discriminatory way among the advertisers.[45] The Rules thus increased uncertainty for the advertisers, thus distorted competition among the websites selling digital services.[46] The decision of the French NCA in *Google Ads Rules* was upheld by the Paris Court of Appeal in April 2022. In the judgement, the Paris Court rejected Google’s argument that the Rules were “fair”, since they represented standard contractual clauses in the industry. According to the Court, Google had a special responsibility not to distort competition in the market, given its dominant position in the digital advertising market.[47]

[41] CJEU, Case C-525/16, *MEO – Serviços de Comunicações e Multimédia SA v. Autoridade da Concorrência* (19 April 2018) EU:C:2018:270.

[42] *Ibid,* paras. 28–31.

[43] French Competition Authority, The Autorité de la concurrence hands down a €150M fine for abuse of a dominant position. Press release 20 December 2019. https://www.autoritedelaconcurrence.fr/en/press-release/autorite-de-la-concurrence-hands-down-eu150m-fine-abuse-dominant-position.

[44] French Competition Authority, *Google Ads Rules,* para. 409.

[45] French Competition Authority, *Google Ads Rules,* para. 420.

[46] French Competition Authority, *Google Ads Rules,* paras. 439–466.

[47] Paris Court of Appeal, 20/03811 *Google* (7 April 2022), para. 151.

The last step of the analysis of unfair trading conditions under Art. 102(a) is the assessment of possible objective justifications. The latter should be put forward by the dominant firm in an attempt to refute the evidence of abuse. In *United Brands,* the ECJ pointed out that the dominant firm may protect its commercial interest, but in a "proportional manner".[48] The Court of Justice has also recognised the possibility for the dominant firm to put forward some efficiency defences as possible objective justifications, as long as the latter benefit final consumers.[49] However, in practice, no firm has managed to rebut the findings of abuse by putting forward objective justifications. In *Google Ads Rules*, for instance, Google argued that the rules aimed at protecting Internet users by blocking malicious websites which breached the Rules.[50] The Paris Court of Appeal rejected such a claim, arguing that Google had applied the Rules in a "… non-objective, non-transparent and discriminatory way…";[51] by blocking certain websites that did not comply with the Rules, Google de facto limited the choice of websites available to Internet users.[52]

2.2 Unfair Trading Conditions in ICT Patent Licensing: Some General Considerations

Despite the limited CJEU case law on unfair trading conditions, the legal test discussed in the previous section potentially fits the features of the ICT patent licensing context.

First, the CJEU has considered contractual clauses to be in breach of Art. 102(a) TFEU if unilaterally imposed by the dominant company on its customers.[53] In ICT patent licensing, the licensor usually "imposes" contractual clauses on its licensees; since several clauses are "standard", they are generally not subject to negotiations between the parties. In the ICT context, patent hold-up enables the unilateral imposition by the dominant licensor of unfair licensing terms and conditions upon its licensees.[54] In particular, exploitative patent hold-up results from the *terrorem* effect (i.e. fear from threat) of injunctive relief against locked-in and path-dependent alleged patent infringers, facing neither a substitute technology nor design-around options to comply with the industry standard and thus ensuring the interoperability of their devices. The dominant ICT patent licensor held-up licensee image fits particularly well the consumer IoT sectors, recently depicted by

[48] CJEU, Case 27/76, *United Brands v. Commission* (14 February 1978) EU:C:1978:22, para. 189.

[49] CJEU, Case C-209/10, *Post Danmark A/S v. Konkurrencerådet* (27 March 2012) EU:C:2012:172, para. 42.

[50] Paris Court of Appeal, 20/03811 *Google* (7 April 2022), para. 157.

[51] Paris Court of Appeal, 20/03811 *Google* (7 April 2022), para. 249.

[52] Paris Court of Appeal, 20/03811 *Google* (7 April 2022), para. 320.

[53] CJEU, Case C-247/86, *Société Alsacienne et Lorraine de Télécommunications et d'Électronique (Alsatel) v. SA Novasam* (5 October 1988) EU:C:1988:469, paras. 5 and 10.

[54] Lemley and Shapiro (2007), p. 2008; Petrovčič (2013), p. 1364. As a caveat, it must be acknowledged that the mirror image of patent hold-up, that is patent hold-out, also occurs when resourceful implementers avoid and delay licensing as much as possible in order to pressure resource-constrained patentees to settle for suboptimal rates or evade paying any royalties altogether; *see* Tsilikas (2017), p. 163.

the EC's sector inquiry, where a few large technology providers face a myriad of small implementers with no or limited patent licensing experience.[55]

Secondly, although the CJEU has never elaborated a general definition of "unfair" conditions, the Court has considered clauses to be in breach of Art. 102(a) when they appeared to be beyond the contract's core subject and imposed unreasonable restrictions on the customers' business freedom. Besides an element of unfairness, the recent CJEU case law in *Intel* and *MEO* calls for assessing the distortive effect of the challenged conditions on competitive dynamics. Delving into the general anti-competitive effects of unfair ICT patent licensing conditions, these latter not only decrease exploited licensees' innovation incentives but also damage the dominant patentee's competing and complement technology-holders. On the one hand, the magnitude of downstream exploitative effects can be substantial, which itself incentivises dominant ICT patent licensors' exploitative efforts. On the other hand, exploited licensees cannot reward any other upstream licensor appropriately, damaging technology competition. Thus, Art. 102(a) TFEU prohibits exploitative licensing conditions that tilt the balance between the dominant licensor's interest in an appropriate remuneration as a function of technology value, implementers' right to obtain licensing conditions allowing effective downstream competition and other licensor's right to effective technology competition.[56]

Finally, the CJEU has recognised that objective justifications may offset unfairness allegations. Naturally, a dominant patent licensor might advance the protection of intellectual property rights and innovation incentives as objective justifications for the alleged exploitative licensing conditions. However, as the Court of First Instance noted in *Microsoft*, such a defence does not justify otherwise abusive exercises of intellectual property rights.[57] Further, in *Premier League,* the CJEU explicitly stated that intellectual property rights do not guarantee their owners the chance to demand the highest possible remuneration, but rather the "appropriate one".[58]

After having established that, in theory, dominant ICT patentees can coerce upon licensees potentially unfair licensing clauses, which can have distinguishable anti-competitive effects, the following sections address the exploitative issues of individual ICT patent licensing provisions. In sum, the analysis shows that every licensing clause can have distinguishable exploitative effects and redeeming justifications, so its qualification as unfair against Art. 102(a) TFEU remains a controversial factual assessment. Nonetheless, it should be noted that, although a specific clause might be legal if used in isolation, it could still be illegal if combined with other clauses as part of an overall exploitative license.[59] Indeed, the appraisal

[55] European Commission (2022b) Commission Staff Working Document Accompanying the Final Report – Sector Inquiry Into Consumer Internet of Things, COM(2022) 19 final, 20 January 2022, paras. 414 *et seq*.

[56] Leslie (2011), p. 827.

[57] CFI, T-201/04, *Microsoft v. Commission* (17 September 2007) EU:T:2007:289, paras. 688–712.

[58] CJEU, Joined Cases C-403 and 429/08, *Football Association Premier League and others* (4 October 2011) EU:C:2011:631, paras. 108–109; Ghidini and Trabucco (2018), p. 64.

[59] Regibeau and Rockett (2011), p. 47.

of a complex and articulated exploitation pattern rather than a single licensing clause may determine unlawfulness under Art. 102(a) TFEU of a whole unilateral practice enshrined by a contract.[60] In other words, the unfairness of an entire patent license is greater than the unfairness of its individual clauses summed together, or a dominant ICT patentee's license could infringe Art. 102(a) TFEU as a whole because of the several contentious conditions it contains.

3 The Starting Point When Analysing Licensing Clauses Under Art. 102(a) TFEU: TTBER Hardcore and Excluded Restrictions

The first set of licensing clauses that could be considered exploitative under Art. 102(a) TFEU are those that already pose competitive issues under Art. 101 TFEU (i.e. regardless of the licensor's market dominance), namely the TTBER hardcore and excluded restrictions.

As mentioned above, since *Hoffmann-La Roche* and *Ahmed Saeed* it is clear that an anti-competitive agreement may be sanctioned by both Art. 101 and Art. 102 TFEU. Furthermore, *Tetra Pak I* clarified that not even the block-exemption of an agreement from the application of Art. 101 TFEU discharges the party implementing it from the dominance abuse prohibition.[61] Accordingly, if a patent license by a non-dominant licensor is not block-exempted and deserves individual assessment because it contains a hardcore restriction according to Art. 4 TTBER, the same hardcore restriction, if forced by a dominant licensor as a condition of receiving the license, could constitute an exploitative abuse, unless duly justified.

The TTBER hardcore restrictions focus on downstream product competition. The applicable hardcore restrictions depend on the parties' functional value chain relationship. They are stricter for reciprocal licenses concerning substitute patents than non-reciprocal licenses over non-competing patents, such as one-way licenses or cross-licenses for complementary, unrelated or blocking patents. Between competitors in either the relevant technology or product market, Art. 4(1) TTBER prohibits clauses that fix prices except for fixed royalty rates, unilaterally limit the licensee's output, allocate markets or customers except for non-reciprocal exclusive licenses, and restrict the parties' own-IP exploitation or R&D efforts except if necessary to keep know-how secrecy. Between non-competitors, Art. 4(2) TTBER prohibits clauses that fix prices except for maximum resale-price maintenance, restrict passive sales in non-exclusive licenses and constrain sales of selective distribution licensees.

The specific exceptions to the hardcore prohibitions recognise that certain licensing restrictions to the intra-technology competition between the contract

[60] CJEU, Case C-413/14 P, *Intel v. Commission* (6 September 2017) EU:C:2017:632, paras. 50–57; CFI, Case T-83/91 *Tetra Pak v. Commission* (6 October 1994) EU:T:1994:246, paras. 135–136 confirmed on appeal CJEU, Case C-333/94 *Tetra Pak v. Commission* (14 November 1996) EU:C:1996:436; Italian Council of State, judgment 1673/2014 *Coop Estense* (8 April 2014).

[61] CFI, Case T-51/89, *Tetra Pak v. Commission* (10 July 1990) EU:T:1990:41, paras. 41 *et seq.*

parties are indispensable to encourage both licensors to out-license and licensees to invest in the licensed patents to bring products to markets.[62] Accordingly, when imposing any of the aforesaid TTBER hardcore restrictions on their licensees, licensors dominating a technology market should rely on the same TTBER exceptions as objective justifications to fend off exploitative abuse claims.

The second targets for anti-exploitative licensing scrutiny are TTBER excluded restrictions. Art. 5 TTBER lists three types of clauses restraining licensees' *ex-post* innovation incentives that individually do not benefit from the block exemption and are possibly unenforceable and severable from the rest of the license. One excluded restriction replicates for non-competitors the hardcore restriction of the parties' own-IP exploitation or R&D efforts, which again does not exclude the block-exemption if it is necessary to keep the licensed know-how secret. The other two restricted provisions need individual assessment under Art. 101 TFEU, irrespective of the parties' functional value chain relationship and correspond to exclusive grant-back and no-challenge clauses, analysed in Sects. 3.1 and 3.2 respectively.

3.1 Exclusive Grant-Back Clauses

Exclusive grant-back clauses compel the licensee to cede to the licensor rights to either improved or new applications of the licensed technology by either assignment or exclusive license.[63]

Example of exclusive grant-back clause:[64]

> Subject to the terms and conditions of this Agreement, Licensee, on behalf of itself and each of its Affiliates, hereby grants a personal, non-transferable, worldwide, exclusive, fully-paid, and royalty-free license, with the right to sublicense, under Licensee's patent portfolio, to Licensor, and each of its respective Affiliates, to make (and have made), import, use, offer to sell, sell, lease, and otherwise dispose of otherwise infringing products.

Licensees are natural candidates for enhancing the licensed technology, since they implement it, acquire market insights and receive customers' feedback. Hence, through exclusive grant-backs, the dominant licensor can exploit its licensees insofar as the latter give up differentiating competition and surrender innovation incentives, just because of the licensors' market power leverage.[65] Licensors can pursue equivalent effects of grant-back clauses by imposing new product disclosure obligations on licensees. For example, suppose licensees must report any innovation or improvement to existing licensed products without delay. Then licensors can apply for patent protection over such inventions disclosed by licensees or pre-emptively publish novelty-destroying prior art. For example, the EC's LED patent

[62] European Commission (2014), TTG, paras. 194 and 212–215.

[63] Padilla and Wong-Ervin (2019), pp. 47–48.

[64] The exemplary licensing clauses draw from the authors' legal experience. For a practical perspective on drafting patent licensing agreements, *see e.g.* Contreras (2022); Meiselles and Wharton (2018); Goldstein and Kearsey (2004).

[65] Braun (2009), pp. 107–109.

licensing proceedings against Philips involved a new product reporting issue.[66] Even before the opening of an in-depth investigation, Philips stated its willingness to amend all its standard LED patent licensing agreements to delay reporting thirty days after the launch of new products, to enable licensees to seek prior patent protection.[67]

Notably, for FRAND-encumbered SEPs, the very nature of FRAND licensing commitments rejects the possibility of exclusive grant-backs since access to the SEPs must be granted on a non-discriminatory basis to all those affording a fair and reasonable license. In other words, SEPs can never be granted-back (nor licensed) on an exclusive basis without breaching FRAND commitments and, if the licensor was dominant, Art. 102(a) TFEU would be applicable.

As mentioned in the previous section, the CJEU has recognised in its case law that contractual clauses that impose product use limitations may be considered "unfair" under Art. 102(a). In *United Brands,* the CJEU pointed out that contractual clauses whereby United Brands prohibited its customers from reselling non-ripped bananas were "unfair" under Art. 102(a).[68] According to the Court, such prohibition was "unfair" since it consolidated United Brands' dominant position; such clause restricted the ability of United Brands' customers to compete with United Brands in the market of green bananas – i.e. the prohibition distorted competition in the market.[69]

By analogy to *United Brands*, grant-back clauses may be considered "unfair" contractual clauses that limit the product use by the customer. Such clauses, in fact, limit the licensee's ability to use the patented technology. Even if non-exclusive, grant-backs beyond patents related to the licensed technology effectively turn licenses into cross-licenses that enable dominant licensors to further raise market entry barriers by achieving cost advantages against patent-poorer complementary and competing licensors.[70] In this sense, dominant licensors can impose upon licensees broad grant-back obligations without remuneration, which patent licensors without market power cannot obtain.

However, labelling grant-back clauses as objectively unfair would risk Type two errors, which is over-enforcement of Art. 102(a) TFEU, since dominant licensors could advance several justifications against exploitation claims.[71] First, the patentee could show that the license adequately remunerates the grant-back, either through balancing payments or license-fee reductions and so restores the licensee's innovation incentives by guaranteeing him an innovation outlet and by distributing future innovation risks among the parties. Second, grant-backs could prevent moral hazard and cannibalistic competition by licensees against the licensor. Without the

[66] *Philips LED Lighting* (Case Number AT.39913), Commission Decision C(2019) 7804 final (25 October 2019), paras. 63–68.

[67] *Philips LED Lighting* (Case Number AT.39913), Commission Decision C(2019) 7805 final (25 October 2019), para. 78.

[68] CJEU, Case 27/76, *United Brands v. Commission* (14 February 1978) EU:C:1978:22, para. 130.

[69] *Ibid*, para. 135.

[70] Dolmans (1998), pp. 465–466.

[71] Sobel (1984), p. 688.

grant-backs, licensees could build on the in-licensed patents and develop innovations that grow into competing alternatives to the licensors' technology.

As a third objective justification, the grant-back could limit itself to inventions related to initially licensed patents that could not be used without the licensor's acquiescence, such as dependent or complementary patents. Such a defence mirrors a distinction between so-called severable improvements, namely exploitable without infringing the licensed patents, and non-severable ones, reading on the licensed patents, which was in place under the previous two technology transfer block-exemption regulations. Before the 2014 TTBER, only exclusive grant-backs concerning severable improvements were excluded restrictions, while the TTBER safe harbour applied to exclusive grant-backs for non-severable improvements.[72] Similarly, since all SEPs for a given standard are necessary complements, several SDOs' IPR policies justify grant-back obligations by permitting the subjecting of FRAND licensing commitments to reciprocal licensing of potential licensees' SEPs.[73] However, as the EC acknowledged in *Motorola*, grant-backs are not indispensable for fulfilling FRAND reciprocity conditions, because separate unilateral licenses remain a viable alternative.[74]

Last, the dominant licensor could argue that the grant-back determines one-stop-shop licensing efficiencies if coupled with sub-licensing rights (the so-called "feed-on clause") that transform the licensor into a hub that coordinates and disseminates advancements of the licensed technology from and towards licensees-spokes.[75] If a patentee imposes grant-backs and feed-on clauses vis-à-vis all holders of complement patents, then its licensees avoid royalty-stacking. In fact, implementers of a given technology can access all patents they implement through the one-stop-shop license of the feeding-on patentee instead of negotiating individually with each complement technology holder.

3.2 No-challenge Clauses

Example of no-challenge clause:[76]

> Licensee covenants to Licensor that during the license term it, or its affiliates, will not in any country commence, threaten in writing to initiate or otherwise voluntarily determinate to participate in any action or proceeding challenging or denying the enforceability, validity or standard-essentiality of any claim within an issued patent or patent application of the licensed patent portfolio,

72 Belgian Supreme Court, Case C.11.0719.F/1 *Meura/Boccard v. Berewtec/Anheuser Busch Inbev.* (18 October 2013).

73 IEEE-SA Standards Board Bylaws, Rule 6.2 Policy (Approved by the IEEE-SA Board of Governors; February 2022. https://standards.ieee.org/wp-content/uploads/import/documents/other/sb_bylaws.pdf; ETSI Rules of Procedure, 30 March 2022 Annex 6 IPRs Policy, rule 6.1. https://portal.etsi.org/directives/45_directives_jun_2022.pdf.

74 *Motorola – Enforcement of GPRS Standard Essential Patents* (Case Number AT.399985), Commission Decision C(2014) 2892 final (29 April 2014), paras. 456–464.

75 European Commission (2014) TTG, para. 131; Stedman (1966), pp. 209–215.

76 *Supra* note 64.

nor direct, support or actively assist any other person in bringing or prosecuting any such an action or proceeding.

Example of termination upon challenge clause:[77]

Licensor may terminate this license by giving written notice to Licensee if Licensee commences legal proceedings or assists any third party to commence legal proceedings to challenge the ownership, enforceability, validity or standard-essentiality of any licensed patent.

No-challenge clauses constrain the licensees' ability either to invalidate *ex post* the licensed patents or dispute the standard essentiality of SEPs. As pointed out by the CJEU in *Windsurfing International*, the ability to challenge the patent validity is a public interest that licensees are in the best position to advance.[78] Indeed, licensees can assess patentability requirements or standard-essentiality of the in-licensed patents through their experience of the state of the art. Termination clauses share the effects of no-challenge clauses, as they provide the licensor with the right to terminate the license if the licensee initiates legal proceedings against the licensor.[79]

Unlike no-challenge clauses, termination clauses within exclusive licenses are not an excluded restriction under the TTBER, recognising that exclusive licensees have remote interests to invalidate the licensed patents, risking opening their paid-for monopoly to free competition.[80] However, the TTBER lenience towards termination clauses within exclusive contracts is of limited use for ICT patents, whose licenses are often non-exclusive, mainly when FRAND-encumbered SEPs are at stake. Regarding SEPs, in *Motorola,* the EC recognised that termination clauses preserve licensing revenue against reductions due to invalid, non-infringed or non-essential patents with a detrimental effect on both actual and potential licensees.[81] In *Huawei v. ZTE*, the Court's stance was less stark than the EC's. For the CJEU, alleged infringers, in order to avoid SEP-based injunctions, do not necessarily need to accept dominant licensors' no-challenge or termination clauses settling ongoing patent challenges and foregoing later ones.[82]

In *Sabam,* the CJEU ruled that contractual clauses whereby an artist was forced to assign any "present and future rights" to the (dominant) collective management society in the context of a permanent contract (i.e. the artist could not terminate it), were considered unfair under Art. 102(a) TFEU.[83] According to the Court of Justice, such clauses were "unfair" since they were not "… absolutely necessary for

[77] *Supra* note 64.

[78] CJEU, Case C.193/83 *Windsurfing International v. Commission* (25 February 1986), paras. 87–94; European Commission (2014) TTG, paras. 133–141.

[79] Charles River Associates (2002), pp. 94–95; Regibeau and Rockett (2011), pp. 38–40 and 48–66.

[80] Padilla and Wong-Ervin (2019), p. 48; Lawrence (2009), p. 807.

[81] *Motorola – Enforcement of GPRS Standard Essential Patents* (Case Number AT.399985), Commission Decision C(2014) 2892 final (29 April 2014), paras. 59 *et seq*.

[82] CJEU, Case C-170/13, *Huawei Technologies* (16 July 2015) EU:C:2015:477, para 69.

[83] CJEU, Case C-127/73, *Belgische Radio en Televisie and société belge des auteurs, compositeurs et éditeurs v. SV SABAM and NV Fonior* (27 March 1974) EU:C:1974:25, para. 4.

the attainment of its object and which thus encroach unfairly upon a member's freedom to exercise his copyright …".[84] By analogy to *Sabam*, we could argue that the object of a patent licensing agreement is to allow the licensee "to use" the patented technology, rather than to limit the licensee's right to challenge the patent validity in court. Following the language of the Court in *Sabam,* we could argue that no-challenge clauses and termination-upon-challenge clauses "encroach unfairly" on the licensee's freedom to challenge the patent validity in court. Thus, they could be considered potentially unfair under Art. 102(a).

Although it is reasonable that any proprietor wishes not to have its property invalidated by contract partners so as to ensure that its business will thrive, no-challenge clauses and the almost equivalent termination clauses pose higher exploitative risks within non-exclusive ICT patent portfolio licenses than in single patent ones. In the recurrent chemical or pharmaceutical case of single patent licenses, the licensee can avoid license fees and achieve freedom to operate thanks to one successful patent challenge.[85] However, in the usual ICT patent portfolio case, the licensee must successfully challenge all claims of all licensed patents to remove the undue license's competitive disadvantage. Further, let us assume that even just one challenge fails and the dominant licensor terminates the ICT portfolio license. The licensee must then design around all upheld patent claims. Yet, design-around may either cost possibly far more than the terminated license fees or be simply impossible vis-à-vis SEPs for unavoidable standards. In this sense, the more extensive the licensed portfolio and the more SEPs it includes, the higher the exploitative risks that no-challenge clauses raise. Not least, licensees' freedom to challenge unchecked SEPs tackles the strategic incentive to over-declare SEPs to enhance patent portfolio value.

As for grant-back obligations, banning no-challenge clauses within non-exclusive licenses as "unfair" against Art. 102(a) TFEU could lead to Type two errors because of the admissible justifications. Above all, a dominant licensor might pro-competitively require such a restriction to settle ongoing litigation and avoid future disputes.[86] The no-challenge obligation could also avoid wasteful litigation over patents that already survived litigation or at least bore a strong validity case because of an extensive licensing history or inclusion in a patent pool or standard. Furthermore, the imposition of the no-challenge clause could juxtapose the countervailing bargaining power of licensees. Indeed, between a "David" licensor and a "Goliath" licensee, the no-challenge clause could be indispensable to avoid patent hold-out by resourceful licensees agreeing to a license first, avoiding injunctive relief and then challenging the licensed rights.[87]

Non-price exploitation could reside in many ICT patent licensing conditions other than grant-backs and no-challenge clauses. The following sections analyse portfolio-wide license grants and contract terms decoupled from the validity and infringement of the licensed patents. Again, potential justifications could balance

[84] *Ibid*, para. 15.

[85] Sidak (2016), p. 206.

[86] OECD (2019), pp. 22–24; European Commission (2001), pp. 37–38.

[87] Padilla, Ginsburg and Wong-Ervin (2019), pp. 32–35; Lind et al. (2003), pp. 74–76.

such clauses' anti-competitive effects, therefore, warranting against their broad-brush qualification as "unfair".

4 Analysis of Other Potentially "Unfair" Licensing Clauses

4.1 Coercive Patent Portfolio Licenses as Exploitative Tying

A constant feature of licenses for ICT patents, SEPs included, is their portfolio scope.[88] ICT patent holders do not license their vast collections of patents on an individual right basis. Instead, they license their entire patent portfolios as a package for a bundle price. Apart from foreclosing substitute technologies, dominant patentees can use portfolio licenses to increase license fees and exploit licensees by tying patents these latter need to the tied patents they do not demand. When distinct demands exist for individual patents or subsets of patents, coercing portfolio licenses also precludes licensees from switching to tied alternatives vis-à-vis increased royalties for the tying patents.[89] Like in any form of tying, the larger and more unreplaceable the bundle of patents within the portfolio, the larger the competition troubles. Tying demanded SEPs to unneeded patents, either non-SEPs or optional SEPs, tying SEPs of different standards together, or tying patents of countries where the licensee operates to others where it does not are all examples of potentially exploitative portfolio licensing.[90] Patent portfolio coercion could easily hide behind licensees' acknowledgements, such as in the example below.

Example of license acknowledgement:[91]

> The Licensee acknowledges that the acceptance of licenses under the Licensor's non-SEP portfolio is not a condition for the Licensor's grant of licenses to the Licensee under its SEPs portfolio. The licensee further acknowledges that before entering into this license, the Licensor provided Licensee with the option to negotiate a license under its SEP portfolio separately from any license under its non-SEP portfolio, and Licensee voluntarily chose to take the licenses hereunder for both the Licensor's SEPs and non-SEPs.

The Court of Justice has pointed out on several occasions that the dominant firm would breach Art. 102(a) by imposing on its customers the purchase of not-requested products/services.[92] In particular, collective management societies'

[88] German Federal Supreme Court, *Sisvel v. Haier* decision of 5 May 2020 – KZR 36/17 (FRAND Defence I), para. 78; *Unwired Planet v. Huawei* [2020] UKSC 37, paras. 48 and 60; Slowinski (2021), p. 1493.

[89] Grasso (2018), pp. 84–86; Leslie (2011), pp. 836 and 843–846.

[90] Bing Li (2016), p. 343; European Commission (2017), pp. 7 and 11.

[91] *Supra* note 64.

[92] CJEU, Case C-127/73, *Belgische Radio en Televisie and société belge des auteurs, compositeurs et éditeurs v. SV SABAM and NV Fonior* (27 March 1974) EU:C:1974:25, para. 15; CJEU, Case C-179/90, *Merci convenzionali porto di Genova SpA v. Siderurgica Gabrielli SpA*. (10 December 1991) EU:C:1991:464, paras. 18–19.

practice of licensing their entire copyright repertoires for a flat rate, instead of individual musical works, was the subject of several CJEU rulings under Art. 102(a) TFEU.[93] In *Sabam 2*, the CJEU ruled that a dominant collective management society would abuse Art. 102(a) by imposing flat-rate pricing models for their repertoire licenses unless "more granular" pricing methods were unfeasible without a disproportionate increase in transaction and monitoring costs.[94] By analogy to the existing CJEU case law, we could argue that coercive patent portfolio licensing could be considered an unfair trading condition under Art. 102(a). In particular, in the light of *Sabam 2*, the patent holder should calculate the royalty rate based on the value of the individual patents included in the licensing package.

The anti-competitive effects of coercing portfolio licenses are even more visible than those of non-compete clauses.[95] Both non-compete clauses and portfolio licensing limit licensees' ability to use third-party technologies. However, portfolio licenses also suppress licensees' incentives to home-grow alternative technologies to the licensed portfolio. Moreover, refusing to publish online or provide lists of the patents licensed within the portfolio exacerbates the exploitative effects; it impairs the possibility of checking for patent exhaustion, defuses invalidity challenges and conceals the licensing of expired patents.

In line with the CJEU judicial practice in the collective management cases, dominant ICT patent licensors can likely refute anti-competitive exploitation allegations by showing that their portfolio licenses have pro-competitive justifications. First, portfolio licensing saves transaction costs for both licensees and licensors. On the one hand, licensees spare the resources needed to determine the property boundaries and value of many patents included in a portfolio. On the other hand, ICT patent licensors avoid individually tailoring patent packages to cover the needs of diverse manifold licensees and monitor their implementation. More granular licensing would significantly raise such transaction and monitoring costs.

Second, licensing portfolios of only complement patents, namely those patents from distinct yet related markets whose price-demand relationship is negative, can reduce royalty stacking. Such efficiency is the same beacon that guides the Commission in assessing patent pools licensing patents aggregated from different owners.[96] However, the larger the patent portfolio, the harder the complementarity argument is to prove.

Third, patent portfolio licenses spare litigation costs providing broad freedom to operate over untested patents of evolving patent portfolios. In other words, both contracting parties enjoy peace of mind thanks to portfolio licenses. Fourth, portfolio licensing ensures quality standards by the patented products because of

[93] CJEU, Case C-395/87, *Tournier* (13 July 1989) EU:C:1989:319; CJEU, Case C-52/07, *Kanal 5 and TV 4* (11 December 2008) EU:C:2008:703; CJEU, Case C-372/19, *SABAM v. Weareone.World and Wecandance* (25 November 2020) EU:C:2020:959.

[94] CJEU, Case C-372/19, *SABAM v. Weareone.World and Wecandance* (25 November 2020) EU:C:2020:959, operative part.

[95] For an analysis of non-compete clauses, *see* GC, Case T-216/13, *Telefónica v. Commission* (28 June 2016) EU:T:2016:369 and GC, Case T-208/13, *Portugal Telecom v. Commission* (28 June 2016) EU:T:2016:368.

[96] European Commission (2014) TTG, paras. 250 *et seq.*

synergies among the licensed technologies.[97] Last, the patentee could impose a full portfolio license yet reduce the license fee if the licensee asks for a subset of patents. Such a license fee discount need not be proportional to the number of licensed patents since patent value is skewed, and the entire portfolio license price reflects transaction cost savings passed on to licensees.[98]

4.2 Patent Licensing Term Decoupled from the Licensed Patents

The term of licensing agreements is another area prone to unfairness if it prolongs licensees' obligations irrespective of the validity and infringement of the patents being licensed. Such a detachment of licensing obligations from the object of the contract can be reached through either an initially permanent term or automatic renewals at constant conditions (see examples below).[99]

Example of license term:[100]

> The term of this patent portfolio license shall commence on the Effective Date and shall continue perpetually without any right of termination or revocation for any reason. Licensee further acknowledges and agrees that it is not paying royalties for any expired claim of Licensor's patent portfolio.
>
> Or
>
> The license will take effect on the Effective Date and will last for ten (10) years from the Effective Date unless earlier terminated by express written agreement of the Parties. By a written notice given to Licensor, Licensee may elect to renew this agreement on or before the tenth (10th) anniversary of the Effective Date, on the same terms and conditions for an additional ten (10)-year period. If Licensee does not provide a renewal notice to Licensor on or before the initial term expiration date and continues to sell licensed products after such date, this license will automatically renew for an additional ten (10)-year period on the same terms and conditions as the initial term.

As mentioned above, the CJEU has emphasised in its case law that the imposition of a "permanent" contract by the dominant firm on its customers may breach Art. 102(a).[101] The Court has achieved similar conclusions in the context of Art. 101 cases, in *Kai Ottung* and *Genentech*.[102] By analogy to this judicial practice, we could argue that a dominant licensor may not impose license payments beyond a patent's life term or for patents later found to be invalid or non-infringed without

[97] Layne-Farrar and Salinger (2018), p. 38.

[98] Gambardella et al. (2005). The value of European patents: evidence from a survey of European inventors. European Commission report, pp. 43–45.

[99] Cappuyns and Vanherpe (2016), p. 284; Binns and Walles (2017), p. 28.

[100] *Supra* note 64.

[101] CJEU, Case C-127/73, *Belgische Radio en Televisie and société belge des auteurs, compositeurs et éditeurs v. SV SABAM and NV Fonior* (27 March 1974) EU:C:1974:25, para. 4.

[102] CJEU, Case C-320/87, *Kai Ottung* (12 May 1989) EU:C:1989:195, para. 13; CJEU, Case C-567/14, *Genentech* (7 July 2016) EU:C:2016:526, paras. 39–43.

recognising licensees’ right to terminate the license upon reasonable notice. Provided such termination right is foreseen, the obligation to pay *post*-expiration royalties or royalties before establishing patent validity or infringement cannot be considered exploitative because it pro-competitively allows licensees to amortise the patent price over a longer license term and to remove patent infringement risks.

Similarly, dominant ICT patent licensors could justify constant long-term licensing fees, regardless of both the licensed patents’ emerging or declining technological phase and the fluctuating patent portfolio composition, since the fees can account up-front for long-term technology depreciation or appreciation and addition or removal of patents to the portfolio. In other words, the usual ICT patent portfolio licenses lasting beyond individual patent validity or non-infringement are not unfair, provided that the applicable royalties reflect the “actual” licensed portfolio composition. To that effect, dominant licensors should at least routinely share with their licensees updated patent lists throughout the contract term. Instead, exploitative risks loom large when dominant patent licensors unlink the license term to patent validity or infringement without providing for any price-adjusting mechanism, and refuse to share their patent portfolio composition.

5 Conclusions

The present paper has discussed whether and under what conditions certain patent licensing conditions, typical in the ICT sector, may be considered “unfair trading conditions” under Art. 102(a) TFEU. Unfair trading conditions may be defined as non-price contractual conditions, unilaterally imposed by the dominant firm on its customers; it is a separate category of exploitative abuse alongside excessive pricing.

Traditionally, patent licensing conditions have been assessed under the TTBER – i.e. under Art. 101 TFEU. In the present paper, however, we have argued that the TTBER does not create an obstacle to applying Art. 102. In other words, a technology transfer agreement block-exempted under the TTBER could still be subject to Art. 102 scrutiny. Contrary to Art. 101, the latter provision is applicable only if the firm enjoys a dominant position within the relevant market. Although holding a patent does not automatically cause the patentee to have market dominance, holding a patent over a commercially indispensable de facto standard or SEP increases the likelihood of market dominance findings. True and non-optional SEPs are “essential” for the implementation of the applicable industry standard. Implementers must comply with both *de consenso* and de facto standards in order to ensure the interoperability of their devices with those of competitors. In such a context, the patentees can become “unavoidable trading partners” for the licensee, and thus the patent licensing conditions should be subject to Art. 102(a) scrutiny.

As argued in previous pages, ICT patent licenses by dominant patentees can fit the CJEU judicial practice on unfair trading conditions pursuant to Art. 102(a) TFEU. In fact, dominant ICT patentees can coerce “unfair” license clauses upon locked-in and path-dependent implementers thanks to the threat of injunctive relief. As a result of the danger of market exclusion because of interim remedies, held-up alleged infringers accept licensing obligations reflecting not the value of the underlying ICT patents but the opportunity cost of not taking a license.

Nonetheless, qualifying exclusive grant-back clauses, no-challenge clauses, portfolio-wide licenses, or contract term decoupled from patent validity as "unfair" is not a clear-cut exercise, since dominant licensors can substantiate objective justifications in support of each examined clause. As the analysis shows, exclusive grant-back obligations or new product disclosure obligations imposed without consideration by dominant ICT licensors deprive licensees of innovation incentives. However, the patentee could prove that either the grant-back or reporting obligation is limited to technologies that are either dependent or complementary to the out-licensed technology and thus could not be used without its acquiescence. Likewise, dominant licensors may also impose license obligations beyond the term or validity of any licensed patent, showing that the applicable consideration reflects the actual portfolio composition.

The necessary case-by-case assessment of allegedly unfair ICT licensing clauses should adopt a holistic approach and consider the whole patent license at issue. Even if a specific ICT licensing clause might appear justified and lawful under Art. 102 TFEU, multiple questionable clauses together might reveal an overall articulated exploitative pattern of the entire licensing agreement. Multiple conditions together might create an imbalance between the rights and obligations of licensees and provide the licensor with an advantage that is disproportionate to the granted license. Whether the justifications outweigh the anti-competitive exploitative effects is always a question of degree, whereby competition law enforcers and defendants both have "strings to their bows".

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