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Case Comment: Nokia v. Daimler, Regional Court (Landgericht) of Mannheim

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ABSTRACT

The Nokia versus Daimler conflict arose within the context of an intense and ongoing struggle surrounding connected car technology. Several of Nokia's patents were designated as "standard essential" by the European Telecommunications Standards Institute (ETSI), obligating Nokia, as a holder of Standard Essential Patents (SEPs), to offer patent licenses to third parties on Fair, Reasonable, and Non-Discriminatory (FRAND) terms. The latest car models from Daimler come equipped with a Telematics Control Unit (TCU), facilitating internet connectivity through LTE. Owners of these vehicles can utilize the TCU to access a variety of internet-based services, such as satellite navigation and music streaming, and receive vehicle updates remotely, foregoing the need for in-person dealership appointments. Although Daimler, also termed Original Equipment Manufacturer (OEM) does not produce the TCUs itself, it procures these units from a Tier 1 supplier of Telematic Control Unit (TCU) upstream in the supply chain. Subsequently, this Tier 1 supplier relies on a Tier 2 manufacturer of Network Access Device (NAD) to acquire the necessary subcomponents for the TCUs, and the chips essential for manufacturing these subcomponents are sourced from a Tier 3 supplier of chips manufacturers.

Thus, instead of acquiring licenses itself, Daimler wanted one of its suppliers to be granted these licences. Nokia, on the other hand was adamant not to do the same as the asking price of the SEP would not be same if provided on FRAND terms to Daimler and its suppliers. As expected, Nokia filed multiple infringement suits across Germany primarily in Munich, Mannheim and Dusseldorf. The following case study follows the suit in the Regional Court (Landgericht) Of Mannheim, Germany.

***Keywords**: Standard Essential Patent, Mannheim, Nokia, Daimler, Patent.*

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I. Introduction

The Nokia versus Daimler conflict arose within the context of an intense and ongoing struggle surrounding connected car technology. Nokia, a telecommunications company based in Finland, possessed an extensive patent portfolio encompassing key wireless communication technologies such as 4G and LTE. Several of Nokia's patents were designated as "standard essential" by the European Telecommunications Standards Institute (ETSI), obligating Nokia, as a holder of Standard Essential Patents (SEPs), to offer patent licenses to third parties on Fair, Reasonable, and Non-Discriminatory (“FRAND”) terms.[3]

Daimler, a German automotive manufacturer, is at the heart of this dispute. The latest car models from Daimler come equipped with a Telematics Control Unit (TCU), facilitating internet connectivity through LTE. Owners of these vehicles can utilize the TCU to access a variety of internet-based services, such as satellite navigation and music streaming, and receive vehicle updates remotely, foregoing the need for in-person dealership appointments. Although Daimler, also termed Original Equipment Manufacturer (OEM) does not produce the TCUs itself, it procures these units from a Tier 1 supplier of Telematic Control Unit (TCU) upstream in the supply chain. Subsequently, this Tier 1 supplier relies on a Tier 2 manufacturer of Network Access Device (NAD) to acquire the necessary subcomponents for the TCUs, and the chips essential for manufacturing these subcomponents are sourced from a Tier 3 supplier of chips manufacturers. 4

Thus, instead of acquiring licenses itself, Daimler wanted one of its suppliers to be granted these licences. Nokia, on the other hand was adamant not to do the same as the asking price of the SEP would not be same if provided on “FRAND” terms to Daimler and its suppliers. If for example $15 dollar can be a “FRAND” term if asked from a car manufacturer who is selling cars at $40000 but the same $15 would not be even near to “FRAND” terms if asked from suppliers who are selling their products at $60-$80. Thus, there would be massive loss to Nokia if they accepted the demand of Daimler. As expected, Nokia filed multiple infringement suits across Germany primarily in Munich, Mannheim and Dusseldorf. The following case study follows the suit in the Regional Court (Landgericht) Of Mannheim, Germany.

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[3] “FRAND” was introduced as early as 2005 in “Qualcomm Inc v Broadcom Corp [2005] EWCA Civ 268, [2005] RPC 32”.

[4] C. Koolen, "Connected cars and “FRAND” licensing traffic jams: The CJEU referral in C-182/21 v Daimler" (blog post, KU Leuven Centre for Legal Methodology, April 7, 2024), https://law.kuleuven.be/ccm/blog/?p=75.

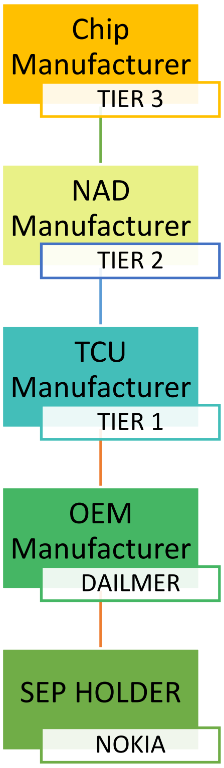

FIGURE 1: SUPPLY CHAIN AND LICENCE HOLDERS IN CONNECTED CAR TECHNOLOGY

(A) Facts

The plaintiff was a constituent of the Nokia Group headquartered in Finland, holds a significant position in the communication services domain, boasting a considerable large portfolio of patents. Among these patents were those deemed essential for various wireless communication standards by the "European Telecommunications Standards Institute (ETSI)". These patents are known as "Standard Essential Patents (SEPs)". The defendant Daimler was a prominent German automobile manufacturer which specializes in the production and distribution of connected vehicles in Germany, utilizing standards developed by ETSI. Nokia's declaration to ETSI regarding the essentiality of a particular patent for the 4G/LTE standard imposed an obligation to provide "fair, reasonable, and non-discriminatory ("FRAND") terms" for its usage. This declaration initiated a series of interactions between Nokia and Daimler, marked by negotiations, disagreements, and legal actions. We shall be dealing on of such cases.

(B) Procedural History

In June 2016, Nokia notified Daimler of its SEP portfolio, presenting a list of all patents and patent applications it considered essential to ETSI. However, the negotiation process faced complexities early on when Daimler proposed licensing its suppliers for the production of "Telematics Control Units" (TCUs) installed in Daimler vehicles, rather than engaging in direct

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licensing with Nokia. On 9th November of the same year Nokia presented its first offer to licence SEP to Daimer. 28 days later it sent details about all the patent portfolio. A week later, on 14th December, Daimer replied that rather than licensing SEP itself, it wanted it suppliers of TLC (Telematics Control Unit) to license the patents.

Despite these initial discussions, due to no agreement on whom to licence SEP, negotiations reached an impasse from January 2017 to February 2019. Nokia's second license offer to Daimler on 27th February 2019 was again met with rejection just three weeks later as Daimler insisted that license fees should be calculated based on parts supplied by its suppliers, not on vehicles manufactured. Subsequently, Nokia pursued legal action, filing infringement suits against Daimler in German regional courts. Throughout the legal proceedings, Daimler presented counteroffers aimed at recalibrating the calculation of license fees. One such proposal on 9th May 2019 suggested using the “average selling price” of TCUs paid to suppliers as the basis for fee calculation which was rejected.

On June 10, 2020, Daimler issued a subsequent counterproposal to Nokia, granting Nokia the authority to independently set licensing fees (pursuant to “Sec. 315 of the German Civil Code”). However, Daimler retained the right to challenge the fee determination in court. This second counteroffer was also declined.

Subsequently, on June 18, 2020, the “German Federal Cartel Office (Cartel Office)” intervened in the ongoing proceedings at the “District Court of Mannheim (Court)” and suggested that the Court refer certain inquiries regarding the “nature of the “FRAND” commitment’ to the Court of Justice of the EU (CJEU). However, the Court did not adhere to the Cartel Office's recommendation.

(C) Issues:

1. Whether Nokia's enforcement of its SEP against Daimler constituted an abuse of dominance under Article 102 TFEU.
2. Whether Nokia complied with the obligations established in the “Huawei Framework” regarding notification of infringement and willingness to license on “FRAND” terms.
3. Whether the calculation of “FRAND” fees based on the selling price of TCUs was appropriate.
4. Whether Nokia's assertion of patent claims against Daimler was discriminatory.

5. Whether Daimler's suppliers could raise “FRAND” defences and whether they were willing to obtain licenses based on the value of the patented technology for the end product.

II. Analysis

Issue 1

The first issue in the case revolved around whether Nokia's enforcement of its Standard Essential Patents (SEPs) against Daimler constituted an “abuse of dominance” under “Article 102 of the Treaty on the Functioning of the European Union (TFEU)”. The Court assessed Nokia's actions in light of the “Huawei Framework”.

Let us look into these frameworks in a little detail. In the current legal framework in Europe, the assessment of “FRAND” commitments within the context of standard development is guided by the judgment made by the Court of Justice of the European Union in the case of “Huawei” v. ZTE.[5] This framework sets out obligations for SEP holders and implementers in “FRAND” (Fair, Reasonable, and Non-Discriminatory) licensing negotiations.

These frameworks establish the “willing-licensee test”. While the party accused of infringement must demonstrate more than mere willingness to negotiate, the holder of the Standard Essential Patent (SEP) bears the responsibility of initiating the process and adhering to specific behavioural standards. It falls upon the SEP holder to notify the alleged infringer of the purported violation by identifying the patent in question and detailing the infringement. Furthermore, the SEP holder is obliged to formulate a clear and documented licensing proposal on Fair, Reasonable, and Non-Discriminatory (“FRAND”) terms, including the royalty amount and its calculation methodology.[6]

Conversely, it is the duty of the alleged infringer to promptly and earnestly respond to the offer in line with established commercial practices and in good faith, prohibiting the use of delaying tactics. Should the alleged infringer reject the offer, they must provide a specific counteroffer under “FRAND” conditions within a reasonable timeframe. Upon rejection of this counteroffer by the patent holder, the licensee already utilizing the patent must furnish adequate security, such as a bank guarantee or the requisite monetary deposit. Additionally, the licensee must furnish a detailed account of past instances of use. Failure to comply with these stipulations or engaging in delay tactics exempts the patent holder from allegations of abusing their dominant

[5] “Huawei” Technologies Co Ltd v. ZTE Corp, Case C-170/13, [2015] ECLI:EU:C:2015:477.
[6] *ibid*

position.[7]

Nokia, the holder of the essential patent, notified Daimler of its infringement of SEP and made licensing offers in accordance with the “Huawei Framework”. The Court determined that Nokia's enforcement of its standard patents against Daimler “did not constitute an abuse of dominance”. It opined that the SEP holders are not inherently prevented from enforcing their exclusivity rights but must comply with their obligations under the “Huawei Framework” which Nokia abided. Under the “Huawei Framework”, SEP holders are required to notify implementers of infringement and demonstrate a willingness to license their SEPs on “FRAND” terms. Nokia fulfilled these obligations by providing Daimler with notification of infringement and making licensing offers.

The Court found Nokia's actions to be consistent with the “Huawei Framework”, indicating that it made sufficient efforts to engage in negotiations with Daimler which we have discussed in the facts of the case. Daimler's responses were deemed insufficient to demonstrate a clear willingness to license on “FRAND” terms as they were constantly pushing for the TCU holders to be granted licences. The Court also pointed out the importance of both parties' clear willingness to negotiate in good faith. Daimler's failure to express a clear willingness to license on “FRAND” terms was a key factor in the Court's decision against the implementer. The Court concluded that Nokia's enforcement of its SEPs against Daimler did not constitute an abuse of dominance. Nokia's actions were deemed legitimate under the “Huawei Framework”, while Daimler's lack of clear willingness to negotiate on “FRAND” terms was highlighted as a contributing factor to the Court's decision. This judgment establishes the importance of compliance with “FRAND” obligations in SEP licensing negotiations to ensure fair and reasonable outcomes for both parties[8].

Issue 2

The second issue addressed in the case concerned the determination of “FRAND” (Fair, Reasonable, and Non-Discriminatory) royalty fees for Nokia's Standard Essential Patents (SEPs) relating to Daimler's products. The appropriateness of Daimler's proposed method, which relied on the "average selling price of Telematics Control Units (TCUs)" as the basis for royalty calculations, was examined by the Court in light of “FRAND” principles. It was

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[7] Giuseppe Colangelo, "“FRAND” Determinations Under the EU SEP Proposal: Discarding the “Huawei Framework”" (Law & Economics Center, November 15, 2023), https://laweconcenter.org/resources/”FRAND”-determinations-under-the-eu-sep-proposal-discarding-the-”Huawei”-framework/.

[8] Nokia v Daimler, [2020] (Regional Court (Landgericht) of Mannheim, August 18, 2020), https://caselaw.4ipcouncil.com/german-court-decisions/lg-mannheim/nokia-v-daimler (last visited April 25, 2024).

concluded that using TCUs as the reference value for royalty calculations was deemed unsuitable as it failed to adequately capture the value of Nokia's SEPs in the end products, namely, the cars manufactured by Daimler.

While TCUs represent only a portion of the overall value chain, the connectivity facilitated by Nokia's SEPs significantly enhances the value of the end products, encompassing benefits such as additional services offered to customers, cost savings, and optimization of research and development expenditures. The Court dismissed the idea of utilizing the "Smallest Saleable Patent Practicing Unit (SSPPU)" as the basis for royalty calculations, deeming this approach inappropriate as it would preclude Nokia from participating in the value generated at the final stage of the value chain and could potentially result in double-dipping, wherein the same patent is licensed multiple times throughout the value chain. The Court emphasized that "FRAND" terms and conditions are not limited to a single set of licensing conditions and fees but encompass a range of acceptable terms. In principle, SEP holders should receive a share of the economic benefits generated by their technology in the saleable end products[9].

This principle ensures that SEP holders have the opportunity to profit from their inventions. the Court concluded that Daimler's proposal to use TCUs as the basis for royalty calculations did not adequately reflect the value of Nokia's SEPs for the end products. The decision underscores the importance of accurately assessing the value of SEPs in royalty negotiations to ensure that licensing terms are fair and reasonable for both parties involved.[10]

Issue 3

The third aspect of the case focused on whether Nokia's enforcement of patent claims against Daimler was deemed "discriminatory" and whether Daimler's requirement for licenses to be acquired by its suppliers rather than directly by itself was permissible. The Court scrutinized whether Nokia's licensing procedures "violated competition regulations" and if Daimler's preference for "supplier-based licensing" was warranted. Ultimately, the Court concluded that Nokia's enforcement of patent claims against Daimler "did not constitute discrimination". It clarified that patent holders, including those with a dominant market position, are generally allowed to choose the stage of the supply chain at which they assert their rights.[11]

Having been granted this authority, they are enabled to pursue licenses directly from end-

[9] Nokia and Daimler settle all global litigation in connected cars dispute, [2022] Juve Patent, https://www.juve-patent.com/cases/nokia-and-daimler-settle-all-global-litigation-in-connected-cars-dispute/ (last visited April 25, 2024).
[10] Supra note 8.
[11] Nokia Licensing, https://www.nokia.com/licensing/ (last visited April 25, 2024).

device manufacturers, such as Daimler, without being mandated to extend identical terms to all potential licensees. Upon examination, the Court discovered no indications suggesting that Nokia's assertion of SEPs against end-device manufacturers had the potential to “distort competition” or impose restrictions on production, sales, or technological advancement. Daimler's argument proposing that licenses should be acquired by its suppliers instead of itself was dismissed by the Court. It stressed that Daimler's insistence on this arrangement failed to demonstrate a willingness to procure a license from Nokia on “FRAND” terms. Consequently, the Court determined that Daimler's suppliers must exhibit a readiness to secure licenses based on the value of the SEPs for the end products, rather than solely for the components they produce, for Daimler to invoke a “FRAND” defence. The Court concluded that Nokia's assertion of patent claims against Daimler was "not discriminatory," and Daimler's insistence, on licenses being acquired by its suppliers, lacked justification.

ISSUE 4

The fourth issue in the case revolved around whether Nokia fulfilled its obligation to provide sufficient information concerning its licensing offers to Daimler, and if Daimler's unwillingness to obtain a license could be justified based on Nokia's alleged lack of transparency. The Court examined whether Nokia adequately substantiated the “FRAND” conformity of its licensing requests and whether Daimler had legitimate grounds for not obtaining a license based on Nokia's refusal to provide sufficient information. The Court found that Nokia had indeed provided Daimler with adequate information regarding its licensing offers. Nokia shared relevant documents, including a study on the value of connectivity for vehicles and a licensing agreement signed with another major car manufacturer.

The Court determined that Nokia was not obligated to disclose every detail of its licensing agreements with other parties, particularly those outside the automotive sector. The Court held that Daimler's unwillingness to obtain a license from Nokia could not be justified by alleging insufficient information. While the SEP holder may have a duty to disclose the key provisions of its licensing agreements, this obligation is subject to the scope and level of detail required on “a case-by-case basis”. In this instance, Nokia's provision of relevant information was deemed sufficient for Daimler to assess the “FRAND” conformity of the licensing offers[12]. The Court concluded that Nokia fulfilled its obligation to provide adequate information concerning its licensing offers, and Daimler's unwillingness to obtain a license could not be justified based on the alleged lack of transparency on Nokia's part. These ruling underscores the importance

[12] Supra note 6

of transparency and cooperation between SEP holders and implementers in negotiating "FRAND" licenses, ensuring fair and equitable outcomes for all parties involved.[13]

Issue 5

The fifth issue in the case pertained to whether Daimler and its suppliers could rely on "FRAND" defences against Nokia's patent infringement claims and whether their actions demonstrated adequate willingness to engage in "FRAND" negotiations. The Court assessed whether Daimler and its suppliers met the requirements outlined in the "Huawei Framework" to establish a "FRAND" defence against Nokia's patent infringement claims[14]. Under the "Huawei Framework", as stated hereinbefore, an implementer must express an unambiguous willingness to enter into a "FRAND" license with the SEP holder and engage in licensing negotiations in a target-oriented manner. The Court determined that Daimler and its suppliers did not adequately express willingness to enter into a "FRAND" license with Nokia. Initially, Daimler conditioned the signing of a license on the assertion that its products infringed Nokia's patents, which the Court deemed insufficient to demonstrate willingness. Daimler's counteroffers, particularly the second one granting Daimler the right to contest the royalty rates unilaterally set by Nokia, were considered insufficient signs of willingness. the Court found that Daimler's insistence that its suppliers obtain a license instead of engaging in negotiations directly with Nokia demonstrated a lack of willingness to negotiate in good faith. By insisting on applying "the average selling price of TCUs" as the basis for calculating licensing fees, Daimler failed to adequately recognize the value of Nokia's SEPs for the end products[15].

III. CONCLUSION

Nokia preferred direct licensing, arguing it ensured proper compensation for the value their SEPs added to the final product. Daimler, on the other hand, favoured licensing through suppliers, potentially leading to lower royalty rates for them. The dispute further escalated when German courts issued sales bans on certain Daimler vehicles deemed to infringe upon Nokia's SEPs. This highlighted the potential impact on competition and innovation within the auto industry if disputes over "FRAND" licensing remained unresolved. Daimler also filed an antitrust complaint with the European Commission, accusing Nokia of abusing its dominant position in the SEP market. Before trial started, these two parties settled outside court. While details remained confidential, it signalled a potential shift towards direct licensing between

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[13] Daimler Feels the Pressure after Losing to Nokia Again, [2020] Juve Patent, https://www.juve-patent.com/cases/daimler-feels-the-pressure-after-losing-to-nokia-again/ (last visited April 25, 2024).
[14] Supra note 8.
[15] Supra note 8.

SEP holders and car companies. This could impact how other technology providers navigate the “FRAND” licensing landscape in the connected car space. The unresolved question of royalty rates and specific “FRAND” licensing terms continues to be debated as the case never got any trial. The Nokia-Daimler case serves as a springboard for further discussions and potential legal precedents as the connected car industry evolves and incorporates even more sophisticated technologies. We must only wait for any future cases to resolve these issues.

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